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Taxation and the Sustainable Development Goals (SDGs)

Note by the Secretariat

Summary

This paper provides background information on Tax and the Sustainable Development Goals (SDGs), for consideration by the Committee in establishing their work programme. The Secretariat is seeking a decision by the Committee on the modalities for continuing the work on Tax and the SDGs in the 2021-2025 Mandate.

Given the cross-cutting and fundamental nature of the topic, taxation and the SDGs can be seen as a lens through which the Committee can identify, prioritize and assess its work. The Committee contributes directly to the achievement of SDG 17 (partnerships for the goals) through the promotion of international tax cooperation and the support to developing countries in the revenue mobilization area, owing to their approach which aims to involve multiple stakeholders, and to balancing the interests of all stakeholders in tax systems. Additionally, many of the Committee's previous workstreams have a strong practical relevance for country efforts to achieve the SDGs, for example work on environmental and extractive industries taxation; tax exemptions of government-to-government aid; and "core" international tax cooperation topics such as double tax treaties and transfer pricing. The Committee has been considering specific tax cooperation issues through the Tax and SDGs lens since 2018, including also through updates provided by the Secretariat on developments in the wider context of financing for sustainable development. The next step is to fully internalise a tax and SDGs approach to every aspect of fulfilment of the broad committee mandate, thereby also contributing to the implementation of the UN Secretary-General's strategy set out in his report, "Our Common Agenda".

The Committee has identified, over multiple sessions, additional Tax and SDG-related topics that were not yet covered in its work programme, but are pressing for developing countries. Most of these topics (e.g. wealth taxes, health taxes) are addressed in separate, specific issue notes prepared as background for this Committee session, and some are discussed below (i.e. gender and taxation; taxation and the informal sector).

Given the cross-cutting nature of the Tax and SDGs work, the Committee may consider keeping the topic as a recurrent agenda item, and request the Secretariat to provide updates at each session. The Committee could also conduct (through the Secretariat) a public consultation to gather views on how to prioritize this work.

Background

Taxation and the Sustainable Development Goals

1. In 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development (2030 Agenda) as the agreed framework for international development. It is a plan of action for people, planet, and prosperity which builds on the success of the Millennium Development Goals (MDGs). The 2030 Agenda sets out 17 objectives, known as the Sustainable Development Goals (SDGs), and 169 targets on issues ranging from ending extreme poverty and hunger to education, health, gender equality, water, energy, the economy and employment, biodiversity and ecosystems, and peaceful and inclusive societies, including a fundamental commitment to leave no one behind. These targets are integrated and indivisible and balance the three dimensions of sustainable development: economic, social, and environmental.

2. The Addis Ababa Action Agenda (Addis Agenda), adopted the same year by world leaders at the Third International Conference on Financing for Development, establishes a strong foundation to support implementation of the 2030 Agenda. The Addis Agenda provides a comprehensive set of policy actions by Member States, with a package of over 100 concrete measures to achieve the SDGs by promoting inclusive economic growth, protecting the environment, and promoting social inclusion. The Action Agenda draws upon all sources of finance, technology and innovation, promotes trade and debt sustainability, harnesses data and addresses systemic issues.

3. The mobilization and effective use of domestic resources are central to the pursuit of sustainable development. The Addis Agenda and the 2030 Agenda have emphasized the need for countries to mobilise resources to enhance development and meet the required goal. Several agencies have been set to monitor countries' progress in this field, and the UN itself produces frequent reports on countries' initiatives for resource mobilization.

4. Taxation is a powerful tool to help finance achievements of the SDGs, however it can also spur inclusive and sustainable development in other ways. In fact, fiscal policies can simultaneously achieve a resource mobilization objective, reduce inequalities, and promote

sustainable consumption and production patterns, as in the case of tobacco taxation, or in the elimination of fossil fuel subsidies, among others.

5. As highlighted in the key findings of the 2018 Development Cooperation Forum, these objectives should be aligned both in policy and in capacity building terms, by providing relevant guidance to developing countries: "Policy advice and capacity-building in relation to domestic resource mobilization must not focus exclusively on increasing domestic revenues but also take into account equity issues".

6. In the wake of the adoption of the 2030 Agenda, other parallel initiatives promoted by smaller country groupings, donor agencies, and regional associations have emerged, also with the objective of fostering the Sustainable Development Goals. The Addis Tax Initiative (ATI), for example, is one such approach. It was initiated by the Netherlands, Germany, United Kingdom, and the United States to enhance the mobilisation and effective use of domestic revenues and to improve the fairness, transparency, efficiency, and effectiveness of countries' tax systems. It is an important tool to stimulate capacity building and policy development, particularly in developing countries.

7. The 2021 Report of the Secretary-General "[Our Common Agenda]" report looks ahead to the next 25 years of recovery and sustainable development, calling for strengthened global cooperation and inclusive, networked, and effective multilateralism. Among the tools available to the international community to achieve a greener, safer and better future, the Secretary-General highlights a reformed international tax system and improved digital cooperation, as well as the broader inclusion of women and youth.

Previous work of the UN Tax Committee

8. The Committee started specifically addressing work on Taxation and the SDGs as an agenda item at its 17th Session, and discussed the relevance of this workstream based on a Secretariat paper "*The Role of Taxation and Domestic Resource Mobilization in the Implementation of the Sustainable Development Goals*". The paper provided the Committee with an overview of how their work could help realize the commitments related to taxation as a source of domestic resource mobilization, within the framework of the 2030 Agenda for Sustainable Development and the Addis Agenda.

9. The paper highlighted that taxation affects the achievement of the SDGs both in financing terms, including through effective domestic resource mobilization, and in helping reducing inequalities, within the broader objective of leaving no one behind. Within this context, the paper identified several items that were already on the Committee's agenda, which had potential to support the achievement of the SDGs; among others, work on taxation of the digitalized economy (including administrative aspects), and on tax exemptions of government-to-government aid.

10. Additionally, the paper suggested inequality as a priority area, including the role of taxation in addressing gender inequality, within the framework of the United Nations gender mainstreaming efforts.

11. Six Committee members volunteered to work closely with the Financing for Sustainable Development Office and constitute an Advisory Group on Tax and the SDGs, with the task to further define, draw and communicate the links between the tax cooperation mandate of the Committee and sustainable development, including the SDGs. Meetings of the Advisory Group were held at the margins of in-person Committee sessions.

12. At the 18th Session, a Follow-up note built on discussion during the Committee session and within the Advisory Group, and identified three additional topics: taxation and environmental protection; gender and taxation; and taxation of the informal economy.

13. Periodic briefings were provided by the Secretariat at the subsequent Committee sessions (including most recently the 22nd Session), on current topics related to taxation and the SDGs, including on the role of taxation in achieving the SDGs in the wake of COVID-19. This format allowed for broad consultation with a variety of stakeholders, including feedback from Member State observers, international and regional organizations and other top tier experts in the field from academia, civil society and the private sector.

Committee's work on Taxation and the SDGs within the broader UN intergovernmental work

14. The Tax Committee guidance also forms the basis of discussion at the annual ECOSOC Special Meeting on international cooperation in tax matters (most recent meeting on 29 April 2021), aimed at advancing intergovernmental discussion on tax matters in context of efforts to implement the 2030 Agenda and the Addis Agenda (among other international agreements),

engaging all UN Member States and members of UN Tax Committee, international and regional organizations and other top tier experts in the field from academia, civil society and the private sector.

15. The ECOSOC Special Meeting, through the years, has addressed Taxation and SDGs topics, such as taxation and inequality, environmental taxation, and taxation to support health systems. It has also addressed cross-cutting topics such as taxation of the digitalized economy and the taxation of government-to-government aid. All of these issues were approached from a developing country perspective, considering both domestic resource mobilization aspects, and the role that taxation can play in the advancement of sustainable development in its economic, social and environmental dimensions.

Issues

16. Given the cross-cutting and fundamental nature of the topic, taxation and the SDGs can be seen as a lens through which the Tax Committee identifies, prioritizes and assesses its work. The Committee contributes directly to the achievement of SDG 17 (partnerships for the goals) through the promotion of international tax cooperation and the support to developing countries in the revenue mobilization area, owing to their approach which aims to involve multiple stakeholders, and to balancing the interests of all stakeholders in tax systems. Additionally, many of the Committee's previous workstreams have a significant practical relevance for country efforts to achieve the SDGs, including but also going beyond domestic revenue mobilization, for example:

- the Handbook on Carbon Taxation contributes to environmental-related goals, which are particularly salient for developing countries;
- the Guidelines on the Tax Treatment of Government-to-Government Aid and the work on the taxation of the digitalized economy help developing countries in raising revenues necessary for sustainable development;
- the Handbook on Taxation of the Extractive Industries supports countries in making informed decisions that help form more responsible consumption and production patterns, as well as in meeting environmental goals. For example, the work on decommissioning (i.e. ending extractive operations and returning the ecosystem to its initial conditions) supports countries in establishing tax rules that ensure the availability of funds to conduct environmental restoration work when extractive activities are completed.

17. The Committee, during multiple discussions at its sessions, also identified additional topics that they have not directly or yet fully addressed in their workstreams:

- Wealth taxation to address inequality in capital and income
- Tax policies to address climate change and environmental degradation
- Health taxes
- Reducing harmful tax incentives and subsidies
- Expenditure policies that favour redistribution and social protection
- Gender and taxation

- Formalizing the informal sector

18. Several of the topics above are covered in separate issue notes or conference room papers (CRPs) prepared as background for this Committee session or in work done in the past, in particular:

- *Wealth taxation to address inequality in capital and income*: addressed in CRP 33.
- *Climate and environmental taxation*: addressed in CRP 26.
- *Health taxation*: addressed in CRP 35.
- *Reducing harmful tax incentives and subsidies:* some guidance has already been developed, for example the Platform for Collaboration on Tax published a report on Options for Low-Income Countries' Effective and Efficient Use of Tax Incentives for Investment
- *Expenditure policies that favour redistribution and social protection*: Cross cutting issue, already covered in other workstreams when relevant (e.g., when discussing how to employ revenues deriving from carbon taxes, in cases where earmarking is allowed).

19. Topics which were identified as priorities, but have not been covered in the past, are listed below, and a brief discussion of their relevance is provided.

Tax and gender

20. The pandemic has been impacting women disproportionately more than men, and tax policy in most countries include either implicit or explicit biases that disadvantage women, by placing a heavier tax burden on them, or by (de facto) excluding them from the formal job market. In this sense, the pandemic has exacerbated gender inequality and widened the gender gap, placing many countries in a worse position to achieve SDG 5.

21. Tax policy can contain explicit and implicit gender bias, that place women in a disadvantaged position to contribute to the formal economy and to reap the benefits of their work. Explicit gender bias occurs when tax systems treat men and women differently such as when allowances, deductions or property-derived income are allocated to specific members of households. On the other hand, implicit gender bias refers to situations where tax legislation intersects with gender relations, norms and economic behavior. For example, because gender norms allocate a greater portion of unpaid care work to women than to men, women tend to use larger portions of their income on basic consumption goods such as food and clothing. Systems that impose a tax on the consumption of basic goods and services may therefore place a heavier tax burden on women.

22. Reviewing tax policy to correct implicit and explicit gender bias is a crucial step in reversing some of the trends set in motion by the pandemic. Additionally, tax expenditures can be used to support women's inclusion in the formal job market and in entrepreneurship, for example by providing childcare.

23. Some expert guidance on how to reduce implicit and explicit gender bias in tax and expenditure has been published by UNDP and UN Women, [1] and FSDO is working with the Platform for Collaboration on Tax to advance a workstream on gender and taxation.[2]

24. Specific topics for further analysis could include issues such as how PIT and CIT can be reformed to promote gender equality; how consumption-based taxation can be revised to place a lower tax burden on women; and how to improve tax collection and administration (e.g. tax filing requirements) to address implicit gender bias.

Taxation and the informal economy

25. According to a recent report by the World Bank, the informal economy accounts for up to one third of the world's GDP, and up to 70% of global economy. 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.

26. The pandemic has worsened conditions for workers and small firms in the informal economy; the ILO estimated that informal workers in lower-income countries could see their earnings shrink by almost 90% overall, a situation which is worsened by the absence of safety nets and lack of access to public services that affects these workers. They were also left behind by governmental aid, as stimulus packages in many countries consisted of tax relief, extended unemployment benefits or cash transfers, all measures that were often not available to informal workers.

27. Before the pandemic, many governments in developing countries have channeled efforts into taxing the informal economy, even though evidence often shows low yields, high collection costs and enforcement challenges. However, the pandemic has shown that the primary issue is not how to ensure that the informal economy is taxed – rather, the question is how to formalize informal workers to make sure they can access the same safety nets as formal workers. In other words, the focus on the informal economy shifted from revenue collection, to inequality reduction; for this reason, tax policy may currently play a somewhat reduced role in the discourse on the formalization of the informal economy, while expenditure policies (and incentives) might be more relevant.

28. It should also be noted that the issue of the informal economy is inextricably linked with gender equality: women are the majority of informal workers, especially in developing countries.[3]

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[1] See for example the 2018 Discussion Paper by UN Women: Gender, Taxation and Equality in Developing Countries, and the 2010 Issues Brief by UNDP: Gender Equality and Poverty Reduction.

[2] The Platform for Collaboration on Tax recently started a workstream on gender and taxation, within its broader work on tax and the SDGs. The Platform organized a webinar on the role of taxation in achieving gender equality in June 2021, which provided an overview of the work of Platform Partners and of the measures taken by selected developing countries.

[3] According to UN Women, 59% of employed women in Latin America and the Caribbean are in informal employment; this figure varies widely across the world, to reach a staggering 89% in Sub-Saharan Africa and 95% in South Asia.

29. While the topic of taxation and the informal economy has not been directly addressed by the Committee in the past, this cross-cutting issue can be indirectly addressed through other workstreams (e.g., indirect taxation, digitalization of tax administration, etc.).

Recommendation

In light of the above, the Committee may wish to consider continuing to discuss Taxation and SDGs issues regularly during sessions (i.e., to keep the topic as a recurrent agenda item), and request the Secretariat to provide regular updates, as a way to: (i) preserve this important focus for the Committee work; (ii) identify any gaps in guidance that can be addressed in their Membership's term; and (iii) regularly establish, and keep under review, priorities for technical work to be carried out by the Secretariat. This format would also continue ensuring a broad discussion with a variety of stakeholders, including Member State observers, international and regional organizations, civil society, academia and the private sector.

Prior to the 24th Session, the Committee could also request the Secretariat to conduct a public consultation process (through submission of written inputs, and discussion during the meeting) to receive feedback about what Tax and SDG-related topics are highest on the agenda of developing countries, in order inform the Committee's work priorities and workplan.