



# STRENGTHENING DOMESTIC PUBLIC RESOURCES BY THE ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC (ESCAP) | BANGKOK, THAILAND

## Key messages

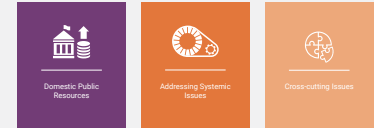
- Rationalized tax structure, strengthened tax administration and reduction in wasteful tax exemptions played a central role in tax revenue enhancement in several developing Asia-Pacific countries. In particular, the adoption of digital solutions in tax administration contributed to swift and robust tax revenue enhancement.
- Revenue potentials of income and wealth taxes remain under-tapped in developing Asia-Pacific countries, while the public demand for fairer tax systems and continued improvements in tax administration capacity may have created new opportunities for bolder actions.
- Weak property taxation is probably the greatest missed opportunity of public revenue mobilization for developing Asia-Pacific countries. Additionally, land value capture, which is more front-loaded in revenue flows and less visible to taxpayers, can potentially complement traditional recurrent property taxes.
- For sustained public revenue enhancement in the longer term, broader socioeconomic progress and improvements in the quality and accountability of public governance are equally indispensable as revenue mobilization itself.
- Despite some encouraging progress, equal representation of poorer and smaller developing countries in international tax cooperation and norm-setting processes remains an unfinished job. The United Nations system can and should play a more prominent role on this front.

## Problem statement

### Lessons from recent successes in tax revenue enhancement

Several Asia-Pacific countries have achieved remarkable progress in tax revenue mobilization since 2000, with regional average tax-to-GDP ratio increasing from 13 per cent in 2001 to 18.4 per cent in 2022. Three main factors contributed to this positive development: i) rationalized tax structure and tax rates to streamline taxation processes and unlock the revenue potential of broad-based tax handles; ii) strengthened tax administration to ensure compliance and collection efficiency; and iii) reduction in wasteful tax exemptions to broaden the tax base. In many instances, these factors mutually reinforced each other.

## RELEVANT ACTION AREAS



## ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

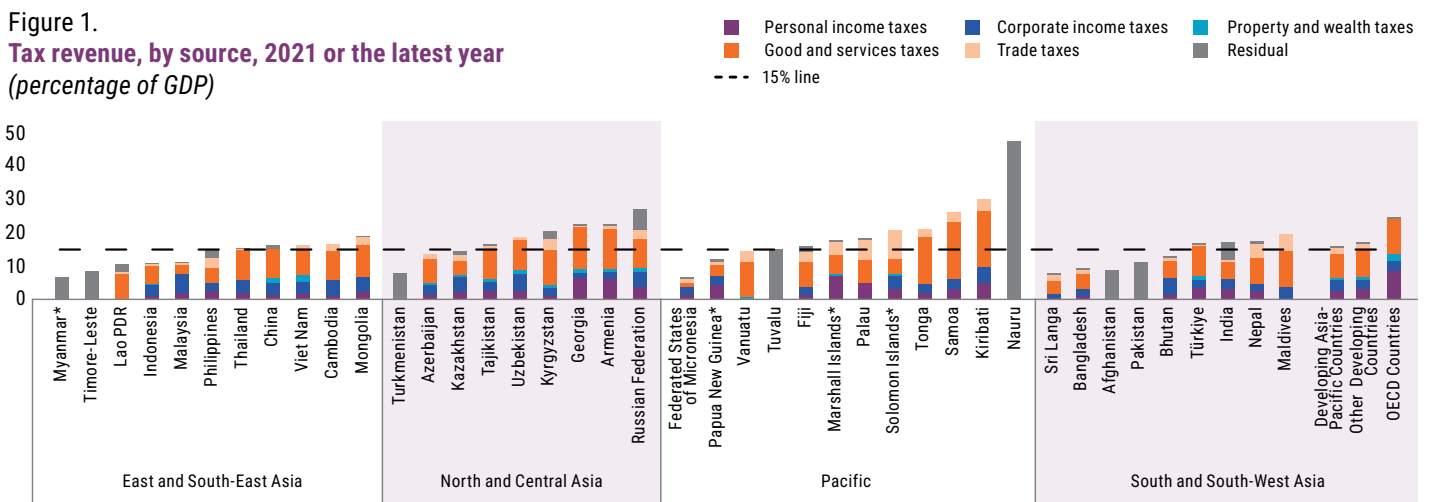
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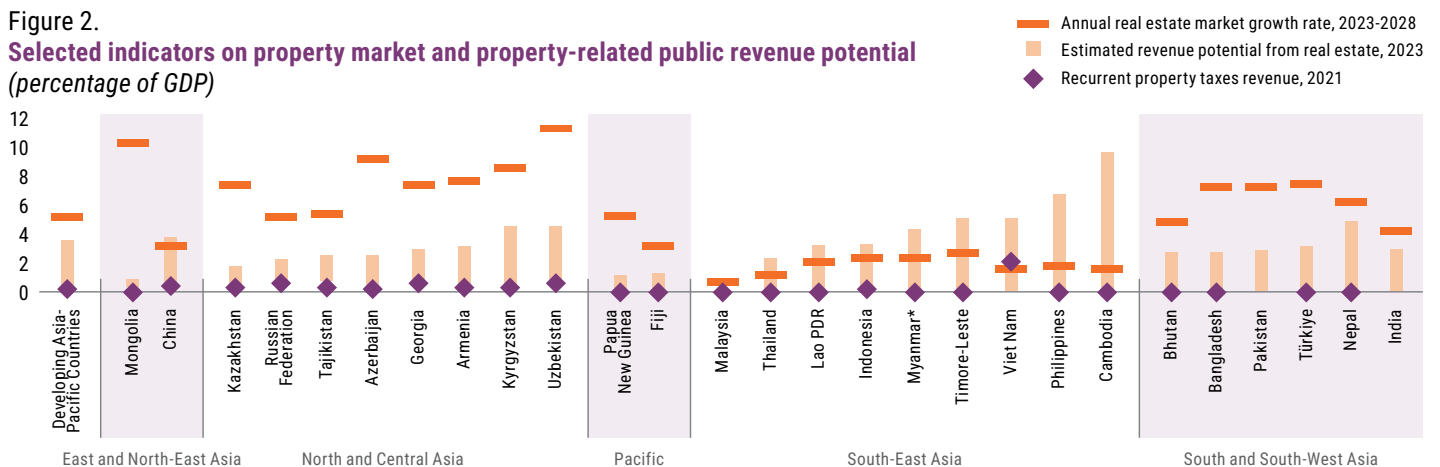
## Gaps in personal income taxes (PIT) and property and wealth taxes (PWT)

Despite such progress, tax revenue mobilization in some developing Asia-Pacific countries remains low in comparison to members of Organization for Economic Co-operation and Development (OECD) countries (figure 1). If economies in the region were to match their revenue performance on PIT and PWT with that of goods and services taxes (GST) relative to OECD countries, they would be able to mobilize an additional 4.4 per cent of GDP annually and reduce the total tax revenue gap by about half.

In particular, the fertile tax base of the region's booming property markets remains under-tapped to date. Assuming a recurrent property tax rate of 0.5 per cent without exemptions, about 3.5 per cent of GDP, on average, can potentially be added to the public coffer every year (figure 2). Yet, as of 2022, government revenue from various property taxes exceeded 0.5 per cent of GDP in only five countries and stayed close to zero in half of the countries where data is available.



Source: ESCAP, based on the IMF World Revenue Longitudinal Data set.



Source: ESCAP, based on the IMF Government Financial Statistics database and Statista estimates on real estate market values.



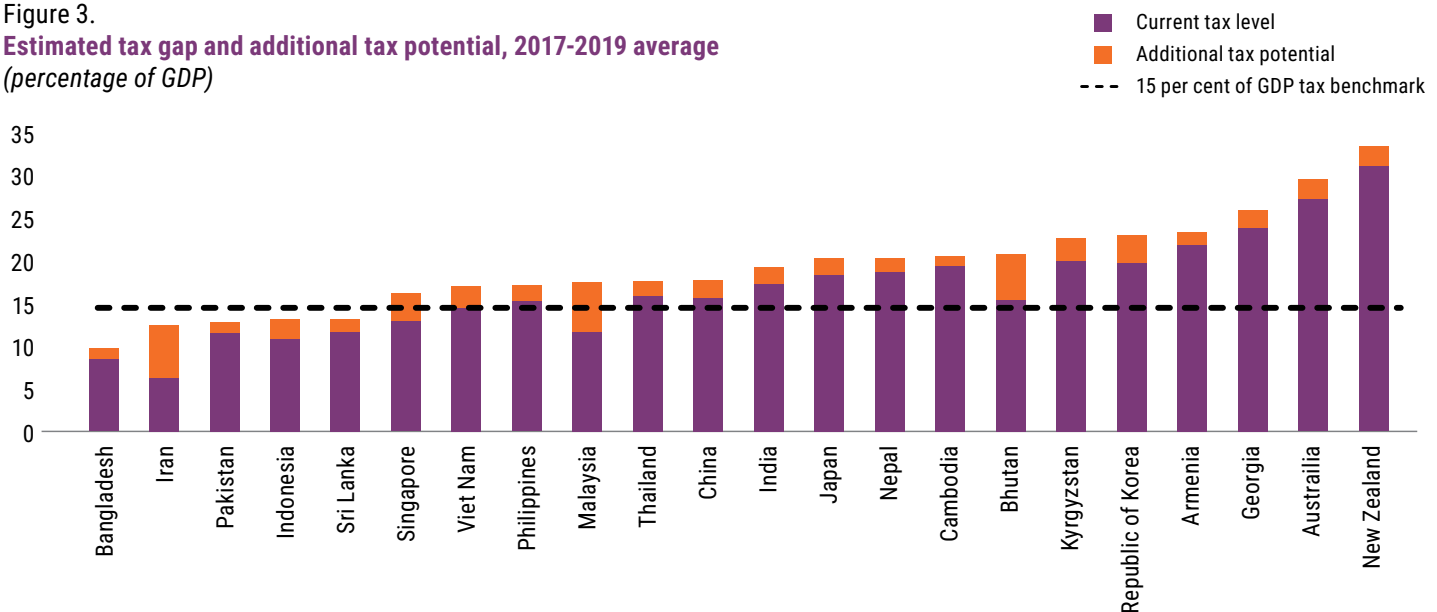
### Tax potentials and the underlying forces affecting it

ESCAP estimates, based on a stochastic frontier analysis, suggest significant variations in tax potentials<sup>1</sup> across Asia-Pacific countries (figure 3). It also reveals that low tax-to-GDP ratios do not automatically imply high tax potentials. For instance, estimated tax potential in Bangladesh, Pakistan and Sri Lanka is capped at modest levels by their socioeconomic and governance constraints, despite low revenue collection. In these cases, improved tax policies and tax administration alone may have limited revenue impact if broader improvements in socioeconomic fundamentals and governance quality are absent. Sustained economic development, social progress, such as better education and higher economic equality, and improved public governance may have greater contribution to tax revenue enhancement in the long run than additional tax effort in the short run.<sup>2</sup>

### Tax potentials and the underlying forces affecting it

Truly equal representation and effective participation of developing countries in the ongoing reforms of international taxation will be key for a successful transition towards an effective and fair international tax regime suitable for digitalized economies. Although expansions of country coverage in headline norm setting processes, such as the creation of Base Erosion and Profit Shifting (BEPS) Inclusive Framework, has improved inclusiveness in international tax cooperation, poorer and smaller Asia-Pacific developing countries continue to be left behind due to capacity constraints and uncertain or limited revenue payoffs of the proposed solutions. The United Nations in contrast provides an ideal platform for inclusive deliberation for all.

Figure 3.  
**Estimated tax gap and additional tax potential, 2017-2019 average**  
(percentage of GDP)



Source: ESCAP analysis based on the IMF World Revenue Longitudinal Data set.

1. Tax potential is defined as the gap between actual tax collection and estimated maximum tax capacity.

2. *Economic and Social Survey of Asia and the Pacific 2024: Boosting Affordable and Longer-term Financing for Governments* (United Nations publication, 2024).



## ✿ Policy solutions

- 1. Strengthen tax administration with support from digitalized tax systems.** Digital solutions are increasingly emerging as a key ingredient of effective and efficient tax administration for swift and robust tax revenue enhancement. Well-designed electronic tax filing and payment as well as digitalized collection, storage, analysis and sharing of tax data can lead to substantial time and cost savings for both taxpayers and tax authorities, much more effective tax auditing and enforcement, and greater transparency and accountability of the whole tax system.
- 2. Adopt a holistic approach to enhance tax revenue mobilization.** Strengthened tax effort is only one channel for revenue enhancement and may suffer from diminishing returns when countries approach the maximum tax levels their socioeconomic fundamentals and public governance quality can support. This calls for a new holistic thinking on tax revenue mobilization, where governments should not only ask how taxes can be raised but also focus on how these resources are spent as part of a coherent medium-to-long-term revenue strategy.
- 3. Explore potential of income and wealth taxes.** Growing public pressure for a fairer sharing of economic prosperity and swift progress in digitalization are creating new opportunities for overcoming traditional political and practical obstacles for broader adoption and better enforcement of income and wealth taxes. Comprehensive and accountable financial documentation, government access and accountable use of such data, and improved capacity of tax authorities in tax data analysis will be key enablers in this process.
- 4. Tap into the region's booming property markets through land value capture.** The under-performance of property taxes is a major missed opportunity. Land value capture (LVC)<sup>3</sup> may serve as a viable temporary alternative to recurrent property taxes, given its

advantages of being more front-loaded in revenue streams and less visible since it is the land developers who are taxed rather than homeowners.

- 5. Enhance regional tax dialogue and cooperation.** The next few years are expected to witness several milestones in international tax cooperation, given that the “zero draft” of the terms of reference of the new *United Nations Framework Convention on International Tax Cooperation* has been released in June 2024. In this context, it would be useful to strengthen dialogue, coordination and capacity support for Asia-Pacific developing countries at the regional level. ESCAP can facilitate such deliberations at the regional level. Expanded collaboration between subregional tax bodies, key partner organizations, such as multilateral development banks, and the United Nations system will also be desirable.

## ✿ Specific recommendations for FFD4

- Put an emphasis on strengthened capacity support for developing countries on tax administration, especially the digitalization of tax services, monitoring and data processing.
- Promote the adoption of a holistic approach for domestic public revenue mobilization which extends the focus to the quality and accountability of public expenditures and overall public governance.
- Encourage developing countries to explore revenue potentials of personal income and wealth taxes and land value capture to further strengthen revenue mobilization.
- Achieve tangible progress in intergovernmental tax cooperation on the United Nations platform, potentially with a focus on identifying low-hanging solutions for developing countries with capacity and resource constraints and on strengthening capacity support to developing countries for their effective participation in norm-setting negotiations on international tax reforms.

3. Land value capture refers to policies and mechanisms that enable governments to recover for reinvestment part of the increase in land value generated by public investments in infrastructure and services.