Chapter III.A

Domestic public resources

1. Key messages and recommendations

Financial and economic stress, high debt burdens and tight fiscal space have stretched public finances in most countries; domestic public resources remain the main way that governments can support the Sustainable Development Goals (SDGs). People's well-being and livelihoods are linked to the ability of the State to raise resources from domestic taxation and spend them effectively. The vast sums mobilized and spent by governments worldwide and the minutiae of domestic policymaking or international tax norm setting often obscure the impacts on people's welfare. Domestic public resources contribute directly to the achievement of the SDGs through the financing of public goods and services. They also contribute by reducing inequality via redistribution, changing the behaviours of households and businesses by setting incentives, and smoothing the macroeconomic cycle through countercyclical policy. The fiscal system is an essential tool of sustainable structural transformation.

Tax system capacity and the broader capacity of the public sector generally reinforce each other, strengthening the social contract. Domestic tax systems are foundational to the social contract in which taxpayers contribute to society and governments provide valuable public goods and services. A virtuous circle can be sustained: investment in tax capacity supports increased spending on public goods and improved services, which contributes to voluntary compliance by taxpayers. By building trust through effective governance of revenue and expenditure systems, governments will also be better able to realize other public policy goals. For example, efforts to deliver on sustainable structural transformations, as discussed in chapter II, will be advanced by effective public sectors with strong capacity. These efforts take time and sustained political will to bear fruit.

Recent changes to the global environment, particularly the spike in energy prices, may suggest adaptations to revenue policies. High fossil fuel prices, driven by the war in Ukraine, are creating windfall profits.

- Given the imperative to tackle climate change, governments should allow high energy prices to incentivize a reduction in fossil fuel use while compensating poorer households;
- Windfall profit taxes can be part of effective tax systems; realized resources can help to address equity challenges from high prices, including by assisting the vulnerable.

Tax systems and public spending are powerful instruments to incentivize and support sustainable development, including inclusive sustainable industrial transformation. Accomplishing a sustainable structural transformation will require active public policies and interventions. Most tax instruments impact behaviour; the challenge is to align incentives with sustainable development and national goals.

- Budgets and tax policies should be aligned with sustainable development priorities with coherence across policy areas to be achieved, for example through the use of integrated national financing frameworks;
- Transparency in tax expenditures, procurement and budgets can contribute to accountable public finance and enhance the effectiveness of public resources towards the SDGs;
- Tax expenditures can be used strategically but should be tied to performance, time-bound and re-evaluated regularly and in light of new global minimum taxes;
- Procurement policies should aim to promote SDG achievement and include effective monitoring and enhanced governance to prevent corruption.

Countries should continue to strengthen efforts on gender-responsive budgeting, while also developing gender-responsive tax systems, including analysing the implicit gender biases of their tax policies and systems.

Tax systems have significant gendered impacts. The fiscal system should be analysed in its entirety to understand the full gender impact of fiscal policy.

- Given gendered wealth gaps, capital income should be taxed at least at the same rate as labour income;
- The international system can be called upon to develop methodologies and guidelines for analysing implicit gender bias in tax policies and systems, which can be incorporated in planning tools;
- Fine-grained studies of specific taxes, the tax mix and tax administration can help to identify gender-specific barriers and gender-responsive approaches;
- Taxpayer information should be collected in ways that allow disaggregation to facilitate more comprehensive analysis of gender impacts of tax systems and specific tax policies.

Policymakers should address the tax-related risks and opportunities of digitalization across three different dimensions to maximize effectiveness and fairness.

- Digital technology can simplify and improve tax administration, for example through compliance-by-design approaches, easier e-filing and e-payment, and strengthening risk identification and analysis;
- Tax policy should be coherent with national approaches to digital assets, including coordinating with central banks on the design of central bank digital currencies (CBDCs) to enhance information available to revenue administrations for tax compliance while respecting desired privacy levels;
- Each country should decide on its approach to taxing digitalized business models, which could include using automated digital service taxes or adopting Organisation of Economic Co-operation and Development (OECD)/G20 Inclusive Framework Pillar One, based on their national context and the potential revenue and economic impact.

The international tax system and financial integrity policies should serve all countries. To remedy the challenge of developing countries being left out and suffering from illicit financial flows (IFFs):

- International tax and financial transparency instruments should focus on the needs and realities of developing countries, with mechanisms to ensure that the least developed can benefit from international cooperation such as more capacity-building and non-reciprocal information exchange;
- All countries should come together to consider good mechanisms to enhance fully inclusive and effective international tax cooperation;
- States should speedily adopt tools that can assist all to prevent and combat IFFs, such as creating verified registries of beneficial ownership information for all legal vehicles.

Continued progress in domestic resource mobilization requires investment in improved tax administration and consistent efforts to build citizen trust in the State. The cost of administrative improvement is not very high and has large financial returns; donors can increase support in this areas for the poorest countries.

- Governments should ensure that tax administrations have sufficient resourcing, autonomy and independence from political interference;
- Tax administrations should institute accountability and transparency practices, particularly in providing services to taxpayers and executing enforcement; a rules-based decision-making framework with high levels of integrity is needed;
- Administrations need effective managers, agile management models and sound organizational designs for effective delivery of strategies, and sound results-based management approaches;
- Sustained political will is needed for successful tax reform.

2. Revenue mobilization trends

The challenging global economic context underscores the importance of long-term efforts to mobilize domestic public resources, which can also strengthen the social contract. In 2021 and 2022, fiscal deficits fell sharply from their peak in 2020 in most countries but remain larger than pre-pandemic levels. Fiscal space shrank as global financial conditions tightened (see chapter I), especially for high-debt countries where responses to the COVID-19 pandemic exhausted their fiscal space.[1] Yet investment needs are large. Increasing domestic revenues by several percentage points of GDP usually takes several years of dedicated reforms but it remains the most sustainable way to raise public resources.

2.1 Taxation trends

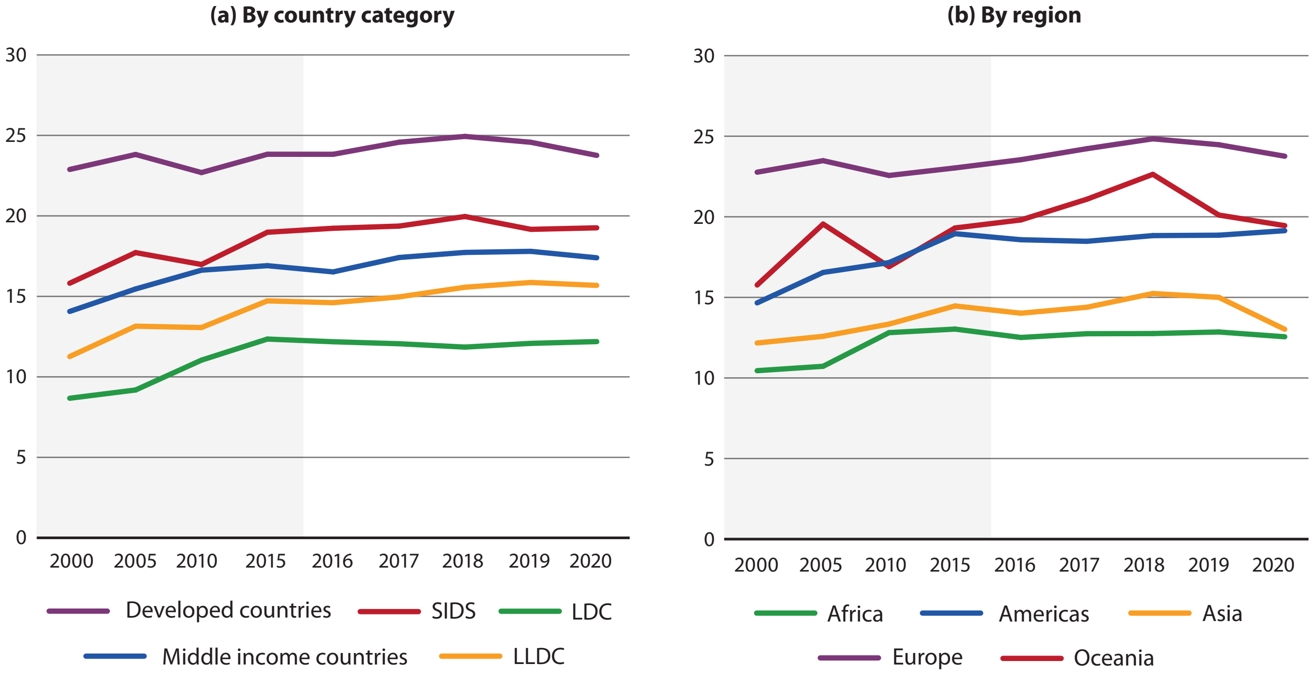
While the COVID-19 pandemic hit tax revenues in 2020, the impact on tax-to-GDP ratios was mixed. Comprehensive administrative data shows that about 70 per cent of countries saw declines in their tax-to-GDP ratios in 2020, with almost 50 per cent experiencing declines of more than 0.5 percentage points. Nominal taxes fell even more as GDP also declined in most countries. Three quarters of least developed countries (LDCs) saw declines in their tax-to-GDP ratios from 2019 to 2020, though, as a group, LDCs saw a small increase in the median ratio, reflecting the greater decline in GDP than in taxes. Similarly, 60 per cent of small island developing States (SIDS) saw declining tax-to-GDP ratios, while the median ratio for the group increased slightly. The median ratios fell in all geographic regions except the Americas (see figure III.A.1).

There were large disparities in how countries' tax collection recovered after the pandemic, with some African countries and SIDS lagging behind. While full global data for 2021 is not yet available,[2] for the majority of European and Asian countries, tax-to-GDP ratios recovered in 2021, with ratios higher in 2021 than in 2019 (see figure III.A.2). However, for 40 per cent of the 30 African countries where data is available, 2021 tax-to-GDP ratios remained below 2020 levels. Similarly, for 36 per cent of SIDS (only 11 countries with data), tax-to-GDP ratios were more than 1 percentage point below their 2020 ratios. Structural differences in tax systems, with SIDS being more reliant on indirect taxes and revenue from tourism and less reliant on personal income taxation, may partially explain this pattern.[3] Most countries have long-term tax buoyancy ratios larger than 1, which implies that a 1 per cent increase in GDP will lead to more than a 1 per cent increase in revenue.[4] Conversely, falls in GDP may lead to even larger falls in revenue, which will not recover until growth increases. Additionally, many of the revenue mobilization challenges facing countries before the pandemic remain unresolved and, if anything, have only been exacerbated by lockdowns and the stop-start aftermath of pandemic control measures.[5]

Figure III.A.1

Median tax revenue, by country groups, 2000–2020

(Percentage of GDP)

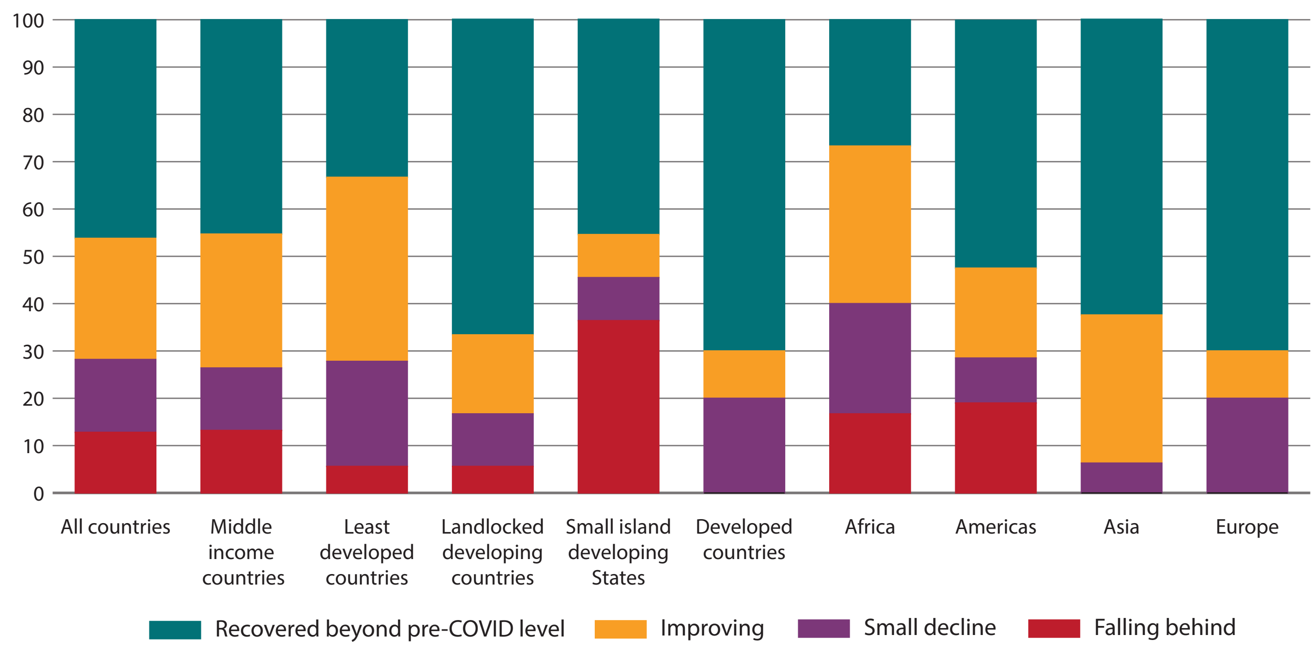


Source: UN/DESA calculations based on IMF WoRLD.
Note: General government tax revenue as a percentage of GDP, M49 geographic groupings.

Figure III.A.2

Post-COVID-19 recovery of tax-to-GDP ratios, by country groups, 2021

(Percentage of countries)



Source: UN/DESA calculations based on IMF WoRLD.
Note: In the 78-country sample, countries listed as: "Recovered" have 2021 tax-to-GDP ratios higher than in 2019; "Improving" have 2021 ratios greater than 2020, but not yet at 2019 levels; "Small decline" have 2021 ratios less than 1 percentage point below 2020 levels; "Falling behind" have 2021 ratios more than 1 percentage point below 2020 ratios.

2.2 Tax administration trends and challenges

As part of the social contract, States and their citizens have reciprocal obligations; citizens provide resources through taxation and the State delivers public goods. In the Addis Ababa Action Agenda, Member States committed to "a new social compact", including social protection for all and high-quality services supported by the improved fairness, transparency, efficiency and effectiveness of their tax systems. Tax administrations, a key governmental contact point for citizens, thus play an essential role in the citizen-State relationship. Perceptions of the legitimacy of the tax administration appear to have a significant impact on willingness to pay tax.[6] Willingness is influenced by a combination of trust in the tax administration, ease of compliance, quality of taxpayer service, the risk of audit and enforcement activities, taxpayers' perceptions on whether others are paying their fair share, the effectiveness of public spending and government transparency.[7]

Tax administrations can act to improve taxpayers' perceptions of fairness. Strengthening fairness, equity, accountability and reciprocity can lead to greater compliance and higher revenues as well as build state capacity.[8] To build a positive relationship with taxpayers, a number of administrations have launched communication, public awareness and education campaigns. These include events to celebrate compliance, teaching students about the concept of the social contract, and initiatives to explain how participation in the tax system can facilitate access to support and benefits from the State.[9] Risk-focused tax policy decisions can complement the efforts of tax administrations to cultivate the feeling that the tax system is fair, such as creating simplified regimes for small taxpayers.

Increasing trust and improving communication were identified as the most important factors for building voluntary compliance, especially from large businesses. There is evidence of relatively low levels of trust between tax administrations and businesses.[10] While a number of businesses have committed to voluntary tax compliance principles in recent years, there is little empirical evidence on compliance improvement. Discussions between tax administrations and businesses identified potential solutions in four categories: i) introducing and strengthening compliance and audit strategies (e.g., cooperative compliance and risk-based approaches to audit); ii) setting expectations/accountability for behaviour (e.g., guidelines, taxpayer charters); iii) improving communication between the administration and taxpayers (e.g., increasing use of local languages); and iv) building capacity in both tax administrations and businesses.[11]

Building tax capacity, including effective use of data, is critical to ensuring an efficient tax system and coping with shocks such as COVID-19. Tax capacity refers to the State's capacity to collect tax revenue compared to potential revenue. It comprises policy, institutional and technical abilities, including tax administration, well-staffed tax policy units, third-party information availability and increased efficiency from reliance on digitalization. Although greater standardization can increase efficiency, revenue administrations must adopt a tiered (differentiated) approach to mitigate tax compliance risks. This could include dedicated units for large taxpayers and mandatory audits or other actions based on business size, type of economic activity or professional occupation. Identifying and managing risks and tailoring actions based on specific compliance risks requires effective use of data. Revenue administrations need broad powers to compel information, in whatever form, from taxpayers and third parties (e.g., financial institutions, e-commerce platforms) to assist in the determination of tax liability and the collection of tax. They also need the means to safeguard the data collected.

To increase the efficiency of service delivery, countries need to strengthen the institutional structure based on a holistic approach to service provision and compliance management. Revenue administration encompasses both tax and customs administrations, with the institutional relationship between the two varying by country. Modern tax administrations perform enforcement actions and instigate cooperative compliance. They must combine and balance preventive, detective and corrective actions. Among other elements, tax and customs administration requires appropriate legislation on administration and procedures. Routine or primary functions require clear policies for managing core tax and customs obligations, which are the proper assessment and collection of taxes and duties.

Administrations should work to simplify registration and other aspects of compliance to help encourage timely filing and payment. They should build automatic compliance into the taxation system through "compliance-by-design" approaches. The filing of tax returns by the due date is one of several indicators of levels of voluntary compliance. The on-time filing rates reported by tax administrations in developing countries lag behind those in developed countries, especially in respect of corporate and personal income taxes (see figure III.A.3).

Many tax administrations have introduced electronic service channels, particularly electronic filing and payment, which can reduce the compliance burden, simplify tax administration and improve voluntary compliance. There has been consistent growth in the uptake of electronic channels by both individual taxpayers and businesses. Average electronic filing rates across tax types among countries participating in the International Survey on Revenue Administration (ISORA) was over 90 per cent in 2019, while electronic payment rates neared 75 per cent in 2020 (see figure III.A.4 for specifics on personal income tax). Tax administrations are also increasingly using third party data to pre-fill tax returns, another technique to reduce the tax compliance burden and thus encourage voluntary compliance. Pre-filling returns is currently mostly practiced in developed countries, although there has been growth in pre-filling of personal income tax returns among administrations in developing countries. One side effect of the pandemic has been the acceleration of digitalization in tax administration, though developing countries remain less advanced in enacting full digital transformations where taxation becomes embedded in financial processes, making compliance largely effortless for the taxpayer.[12] As administrations digitally transform, they should continue to include those who struggle to use digital services.

The speed of the digital transition has created opportunities for tax administration. In addition to increasing the efficiency of tax administration, digitalization can assist in speedier and easier detection of tax evasion, as the revenue agency can use software to automatically cross-check accounts and information to find misreporting.[13] The Inventory of Tax Technology Initiatives—created in 2022 by the OECD in partnership with the IMF, the ADB and regional tax administration organizations—contains information on technology tools and digitalization

Figure III.A.3
Average on-time tax filing rates, ISORA reporting countries by country groups, 2020
(Percentage of expected tax returns)

Source: UN/DESA calculations based on ISORA data.
Note: Unweighted average of country rates. CIT = corporate income tax, PIT = personal income tax, VAT = value added tax.

solutions implemented by tax administrations worldwide.[14] An Executive Program on Tax and Digital Transformation—created in 2021 by the World Bank, Asian Development Bank, 10 tax administrations and leading technology firms—provides training in digital change management efforts.[15]

2.3 Emerging trends and risks affecting taxation

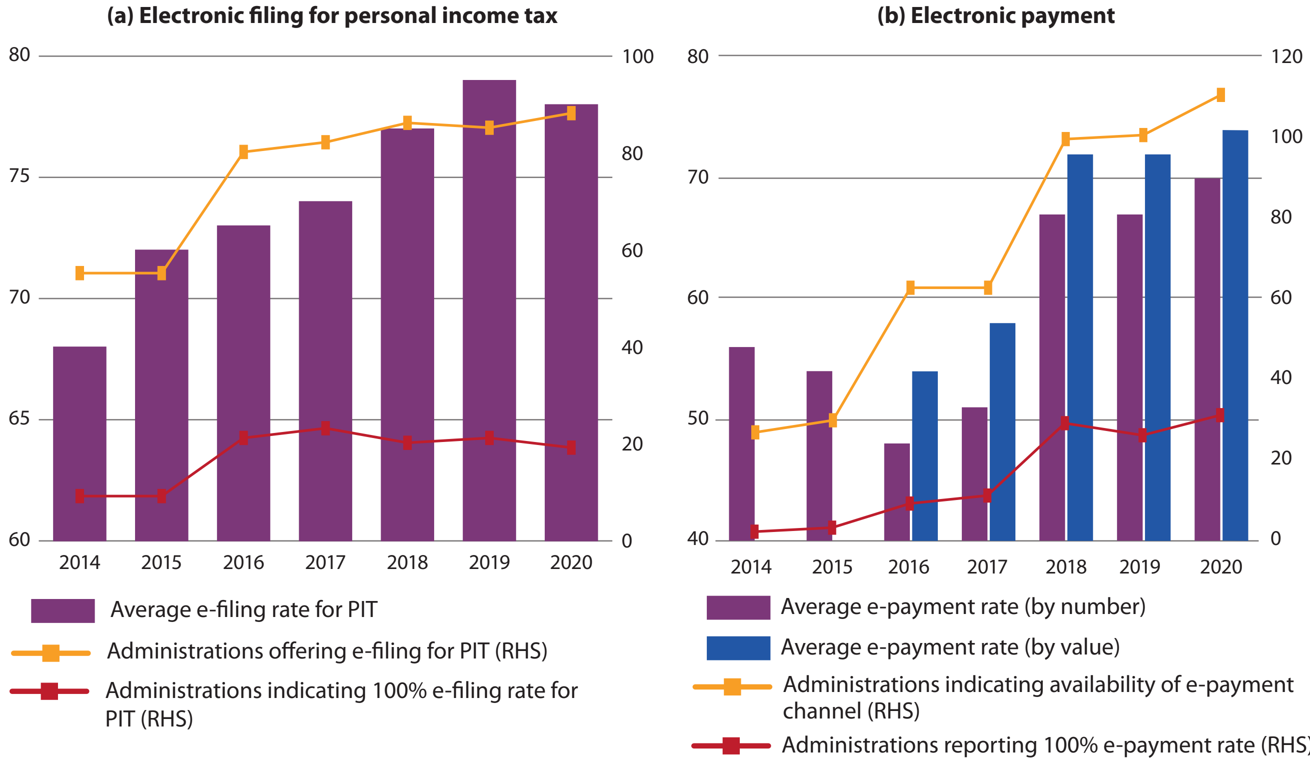
2.3.1 Digitalization of money

The increased importance of digital transactions and digital assets has created new challenges for tax policy and tax administration. Digital transactions that flow through public and private payment systems typically provide ample sales data that can assist tax administrations that are seeking to verify tax filings. However, the types of transactions are becoming more varied, as peer-to-peer digital transfers proliferate, and the medium of exchange is also diversifying as traditional central bank money is being complemented by other types of e-money (e.g., private mobile money) and cryptoassets. Cryptoassets have particularly broad implications for tax policy because of their potential to be used both as speculative investments and a means of payment.[16]

Cryptoassets create challenges for how tax administrations ensure compliance with reporting and tax payment obligations, including for international cooperation purposes. Cryptoassets can be transferred and held without interacting with traditional financial intermediaries and without any public body having visibility on the transactions or the location of cryptoasset holdings. The anonymity of accounts and weak oversight make cryptoassets attractive tools for those seeking to avoid tax obligations,[17] and the low visibility on activities makes it difficult for policymakers to verify whether tax liabilities associated with cryptoassets are appropriately reported and assessed.

Countries should consider clearly defining how tax laws and policies apply to private cryptoassets. Policymakers may choose to implement new laws and policies for cryptoassets or provide guidance on how existing tax laws and policies apply to these assets. Among other issues, tax policymakers may want to define the tax accounting of cryptoassets, including tax treatment of the creation of cryptoassets (whether through mining/forging, token offerings, forks or other mechanisms), whether gains or losses are defined as capital income or other income, how valuation should be assessed for reporting, whether any transaction or indirect taxes apply, and whether losses may be deducted.[18] A key consideration is whether countries should consider cryptoassets as similar to other financial assets (such as securities) or foreign currencies for tax purposes. Policymakers should take this decision in line with both the existing use of cryptoassets in their jurisdiction, their public policy goals related to the development of financial innovations (see chapter III.G) and anti-money-laundering requirements. That decision should influence how governments apply or adapt the reporting requirements that they apply to other financial institutions, such as banks or securities dealers. Domestic reporting regimes have important international implications, and countries are working to implement new international reporting frameworks (see section 5). Regardless of the approach to cryptoasset taxation, policymakers should continually review the technological and market developments in their jurisdictions and adapt or update policies.

Figure III.A.4
Average electronic filing and payment rates, ISORA reporting countries, 2014–2020
(Percentage, number of tax administrations)



Source: IMF calculations based on ISORA 2016, ISORA 2018, ISORA 2020 and ISORA 2021; CIAT, IMF, IOTA and OECD, https://data.rafit.org
Note: PIT = personal income tax.

The development of CBDCs will also have both compliance and incentive implications for tax administrations. Central banks around the world are increasing their work on CBDCs, with some having already rolled out a CBDC (see chapter III.F). While there has been significant discussion on the macroeconomic and financial stability effects of CBDCs and their compatibility with anti-money-laundering compliance regimes, relatively less work has been done on the implications for revenue authorities. Models tend to assume that CBDCs will displace cash transactions, which could lower the probability of tax evasion.[19] There is scope for tax administrations to be able to better audit businesses that accept CBDCs for payment. However, the exact implications of a CBDC will depend on the CBDC design, such as the degree of anonymity or pseudonymity that a CBDC provides to users, the amount of information that authorities can access, the use of intermediaries, and incentives provided to CBDC users (such as interest provided on CBDC balances).[20]

Central bank authorities should work with tax policymakers to design CBDCs so that they appropriately balance privacy considerations with potential revenue gains. Authorities can consider designing CBDC frameworks with a variable level of privacy based on the size of transaction or other characteristics. This could allow small-scale transactions and peer-to-peer transactions with high levels of anonymity, while progressively more of the transaction details (e.g., sender, recipient, location, purpose) could be visible to tax authorities as the transaction value increases. The level of transaction anonymity could also depend on the model of the CBDC's involvement of financial intermediaries, either as transaction service providers or account opening agents. Particularly for the purposes of compliance of retail businesses with goods and services taxes, such as value-added taxes, the tax administration may wish to have access to additional data on transaction volumes and values without information on the identity of the sender. Managing the anonymity over time, for example by adjusting thresholds or increasing the data available to authorities for those taxpayers with a history of poor tax compliance, could allow authorities to ensure that CBDCs are contributing to efforts to reduce tax evasion.

2.3.2 Tax policies to address high energy costs

The surge in fossil fuel prices in early 2022 generated substantial windfall profits in the energy sector. The scale of extraordinary profits is only becoming clear in early 2023 as publicly listed companies file earnings reports (though extraordinary profits are likely to be temporary as fuel prices have declined). While higher prices, driven by disruptions in energy markets primarily due to the war in Ukraine, were paid by all energy users worldwide, the gains mostly went to fossil fuel companies. Firms that extract fossil fuels were the primary beneficiaries, but, in some cases, profits increased elsewhere in the energy sector, such as oil refining and power. Windfall profits, which refer to profits that arise from an unanticipated event that is unaffected by the actions or decisions of investors or managers, are a form of economic rent.

Windfall profits from fossil fuels should be taxed fairly to support equitable outcomes and align the response to high fuel prices with the SDGs. High fossil fuel prices provide incentives to reduce fuel use, which can have positive effects for climate change mitigation and energy security. Many countries have responded to the potential negative effects on people's well-being by regulating prices or cutting or suspending fuel duties. Instead, countries can allow high fuel prices to curb fossil fuels while using policies to ensure improved access to sustainable energy through direct financial support to households. This may entail fiscal costs, which governments may be able to offset by taxing the excess profits being generated in the energy sector. A well-designed tax on economic rents in the energy sector can provide governments with additional revenue.[21]

Windfall profits taxes should be part of the permanent tax mix. Windfall profits taxes aim to raise revenue without reducing investment or increasing inflation because they target economic rents, rather than economic activity.[22] Governments should consider introducing well-constructed permanent taxes on windfall profits, not only from fossil fuel extraction but from all sectors where external shocks might lead to higher prices on consumers and affect productivity while generating windfall profits (as defined above) for a small number of firms. There are multiple instruments and design considerations for windfall taxes (see table III.A.1 for examples in the fossil fuel industry). Predictability is important to investors; thus it is preferable to have rent-targeting fiscal instruments in place in advance of investments. While windfall profits can be easily defined in economics, it is challenging for tax administrations to practically differentiate windfall profits from profits due to ordinary price fluctuations in commodity markets. Authorities need to consider project-level versus entity-level taxation. For the energy sector, taxes may aim to target the upstream extraction rather than downstream products and services—such as electricity, refined petroleum products or distribution—as taxes on those may be more readily passed on to consumers and may include non-fossil-fuel-related providers that are not reaping the windfall gains. Windfall profits taxes can be tied to public goals, for example linked to achieving improvements in energy access and development of clean energy.

There are international legal barriers to overcome in designing and implementing windfall profits taxes, and countries should take measures to align their legal environments with SDG-related policy priorities. The design of a windfall tax needs to consider the tax and investment treaty environment. As windfall taxes could take different forms in different countries, there is a risk of double taxation, which may or may not be relieved by tax treaties. Many concession agreements between developing countries and private sector extractive companies contain a "stabilization clause" which prevents the host State from unilaterally changing the regulatory or tax environment. If countries implement policies that adversely affect investors, the companies can usually recoup losses or forgone earnings through mandatory binding arbitration (see chapter III.D). In the past, companies have used these clauses to successfully challenge the taxation of excess profits.[23] Extractive industries have also been cited as highly prone to profit shifting (see section 5), complicating efforts to impose rent-targeting taxes in developing countries.[24] The *UN Handbook on Selected Issues for Taxation of the Extractives Industries by Developing Countries* provides guidance on navigating these constraints and successfully implementing windfall taxes.[25]

While windfall profits taxes help to redistribute the gains from external shocks, such as the impact of the war in Ukraine on energy prices, receipts are not necessarily realized in locations facing the greatest burdens from energy price increases. The ability to raise windfall taxes is not evenly distributed, as extraordinary profits are usually generated in commodity-producing countries but booked in investment hubs or the home nations of extractive companies. In some countries, extractive industries are dominated by state-owned enterprises, meaning windfall profits ultimately accrue to the public sector and windfall taxes may be less relevant. Elsewhere, extractive industries are privately run or only partially state owned, and profit shifting often leaves relatively low levels of profit in commodity-exporting countries. Given the complexity of applying the instruments, the success of windfall profits taxation also depends on the capacity of the State.[26] In response to the 2022 price spike, one developed region has already coordinated across borders to agree to implement windfall taxes. The energy price spike has left developing countries that do not produce energy commodities with higher costs and no windfall profits to tax; their poorest households are typically the worst affected. Developed countries that are putting in place windfall taxes could consider channelling resources to those countries that cannot raise taxes on windfall profits, for example through development assistance.

Table III.A.1
Overview of rent-targeting fiscal instruments applied to fossil fuel extraction

Tax type	*Ability to target rents*	*Administrative complexity*	*Scope*
Cumulative-rate-of-return-based cash flow tax	**High**, taxes only rents (i.e., investment-neutral) if the uplift rate is at or above the investor's required return. The cash flow tax delays payments until rent is realized, making it slightly more efficient than the uplift-on-capital expenditure option	**Medium**, requires oversight and auditing of project-level revenues and costs; uplift rate is contentious. The uplift-on-capital-expenditure option requires determination of which capital cost categories quality for uplift	**Project level**, difficult to apply to existing projects
Project-level tax with uplift on capital expenditure			**Project level**, more easily applied to existing projects
R-factor-based progressive "profit oil" sharing	**Medium**, the R-factor does not take into account the time value of money so is not a direct measure of rents and makes setting the minimum threshold more difficult		**Project level**, difficult to apply to existing projects
Supplementary tax rate on corporate profits	**Low to medium**, loss-making and non-extraction activities remove a portion of project-level rents from the tax base	**Low**, calculated and audited using existing corporate income tax return information	**Corporate level**, applies to existing projects
Variable royalty rate linked to commodity prices	**Low**, does not take into account the project's cost structure and increases the variable cost of production so can trigger early project cut-off	**Low**, calculated and audited using existing royalty information	**Project level**, easy to apply to existing projects

Source: Vernon and Baunsgaard. 2022. "Taxing Windfall Profits in the Energy Sector". IMF Notes.

3. SDG alignment of tax systems

Well-designed tax policy and administration promote inclusive and sustainable development. Mobilizing sufficient tax revenue to finance public goods and services and provide social protection is the fundamental way tax systems promote achievement of the SDGs. Because the tax system also sets incentives for the whole economy, it is one of the most important tools available to governments as they seek to promote sustainable development. The *2022 Financing for Sustainable Development Report* discussed in depth, specific tax instruments to address health, inequalities and environmental sustainability. Economic growth and the creation of jobs can also hinge on the effectiveness of the tax system.

3.1 Building gender-responsive tax systems

It is increasingly clear that the fiscal system must be analysed in its entirety to understand gender impacts and potential levers for gender-responsive fiscal policy. Improving the gender responsiveness of economic policies is embedded in international agreements. Human rights laws and international treaties prohibit discrimination against women and oblige governments to ensure substantive equality in all government policies.[27] This is reinforced by the 2030 Agenda for Sustainable Development, the SDGs and the Addis Ababa Action Agenda. As reported by the Task Force over the years, the majority of countries are working on systems to ensure that public expenditure promotes gender equality and women's empowerment through some form of gender budgeting. Yet the Task Force has also reported the relative lack of progress on the revenue side of the fiscal accounts. The Addis Agenda commitment to improve the fairness, transparency, efficiency and effectiveness of tax systems warrants action to ensure that tax systems contribute to the achievement of gender equality. While explicit biases in tax exist in a few countries, all taxes—direct and indirect—can have differential impacts on women and men, meaning that in most countries the major issue is addressing implicit gender bias. These implicit biases arise because of underlying gender inequality.

Countries need to conduct both micro- and macro-analyses of implicit gender bias to build understanding of these biases and the aggregate impact of tax systems on women and men. Many policymakers are not sufficiently familiar with the gender aspects of the tax system and how the system may have implications for a range of economic activities, such as female labour force participation, entrepreneurship and the empowerment of women and girls. There is often an assumption that the introduction of value-added tax exemptions for certain products, such as sanitary products, will remedy the differential impacts of taxes on men and women. However, in practice, tax exemptions may not be well targeted towards the poor[28] or towards women, due, in part, to occupational segregation. Further, evidence shows that indirect tax exemptions are not always passed through to consumers and can benefit manufacturers or retailers,[29] depending on market structures such as competition and local production.[30] To date, analyses of implicit bias have primarily focused on micro-level assessments of individual tax policies or systems. While this analysis is important, it does not provide a comprehensive understanding of the aggregate impact of a country's fiscal system on gender equality. The composition of tax systems has shifted over the last several decades, with rising exemptions, credits and tax breaks, reductions in corporate income and capital income taxation, and for many developing countries, falling trade tax revenues and significantly increased rates of consumption tax.[31] To illustrate the potential differential gender impacts of shifting tax composition, capital income in most countries has a very unequal gender distribution, with women even more strongly underrepresented at the top of the capital income distribution than the labour income distribution.[32] Thus, setting capital income tax rates below income tax rates benefits men as a group, due to their higher levels of capital income,[33] and is implicitly biased against women. By applying a gender lens to examine individual taxes and exemptions as well as the tax mix, implicit gender biases can be identified and policy options to address them can be developed.

Fine-grained, country-level analysis is essential to identify gender inequalities, the specific needs of women as taxpayers and gender-differentiated impacts of taxes on different groups of people. For example, targeted studies with communities focused on different types of tax policies and administration can gather information on gendered differences, including related to financial access, levels of labour informality, education and control of property.[34] One such study found that differential tariffs for inputs related to livestock and crops had gendered impacts on employment and earnings due to occupational segregation.[35] It is also important to go beyond studying the incidence of formal direct taxes and also focus on the incidence of presumptive taxes, land and agriculture taxes. Political economy analysis can identify how gender and other dimensions of inequality affect power and resources in a specific context. Taken together, these analyses can inform the design of interventions and policy options to meet the needs of women and men as taxpayers and address systemic gender inequalities.

The lack of disaggregated data and insufficient use of existing data are barriers to gender analysis of taxation. While many richer countries seem to have access to some sex-disaggregated tax data, particularly on income, there are significant gaps in data availability in developing countries and concerns about the usability of data for policy-making.[36] Disaggregated data is often "not fit for purpose" or only covers certain areas of tax. Areas of taxation that have received relatively limited gender analysis to date include trade taxation, property taxes, corporate taxation, capital income taxation, and tax administration and compliance. Governments should work to improve the use of existing data, including by combining tax administrative data, with information from surveys or other sources outside the tax administration to determine implicit gender biases in the tax system. One step in developing sex-disaggregated tax datasets for direct taxes is to introduce a field to identify the sex of a personal income taxpayer where there is not already such data. For survey-based data and estimates, for example in relation to property holdings, the poorest governments may need capacity support to gather sex-disaggregated data for analysis. Additionally, the process of digitalizing tax systems holds the potential to produce/gather more sex-disaggregated data without significant extra cost.

Available data and analysis show significant gender differences in trust of tax administrations. Tax administrations themselves may also have an impact on the gender bias of the tax system, regardless of tax policies. Gender biases in administration and compliance activity is relatively understudied.[37] Because of gender disparities in wealth and entrepreneurship, the allocation of resources within tax administrations among different types of compliance and audit activities may have a gendered impact—for example, focusing compliance resources on micro-enterprises such as market traders will result in more poor women paying tax, while allocating resources to auditing self-employed professionals will impact a greater proportion of high-income men. Depending on cultural norms, the diversity of staff in the tax administration and the availability of electronic channels of communication may also impact on the perceptions of and access to tax service functions for male and female taxpayers. To remedy gender inequalities, tax administrations may consider proactive communications policies to ensure that female taxpayers are aware of and utilizing available tax credits. Tax administrations should also have gender-equitable human resources policies to ensure gender-balanced hiring and equitable treatment for female staff.

The relative lack of international attention to the gendered impact of tax systems has held back progress; more cohesive and standardized efforts are needed. There is a need for more analytical support and capacity-building to assist countries in building gender-responsive tax systems. International work on methodologies and guidance for analysing implicit gender bias in tax policies and systems could assist all States. The introduction of an internationally agreed methodology for gender-responsive budgeting via SDG indicator 5.c.1, enhanced standardization and provided incentives for adoption of the methodology. A similar agreement on a methodology for gender-responsive tax systems could be beneficial. Meanwhile, by ensuring planning tools and their guidance, such as for integrated national financing frameworks and medium-term revenue strategies, mainstream gender analysis can help to support greater impact.

4. Expenditure and budgeting for the SDGs

The national budget has an enormous impact on prospects for achieving the SDGs. Budgeting needs to look at overall expenditure as well as sectoral allocations, ideally with mechanisms and processes to enable governments to track progress during the budget cycle and make necessary adjustments. While there are agreed standards for classification of the functions of government, there is currently no standard methodology for tracking expenditures on the SDGs. Developing an approach to SDG budgeting can help policymakers to allocate and track resources aligned with the SDGs.[38] A number of countries have adopted a variety of budget coding and tagging systems to track either all or some of the SDGs. Experience is also growing with using technological tools rather than manual reviews to try to SDG-code budgets, as in Egypt (see box III.A.1).

4.1 Budget credibility

Budget credibility refers to the ability of governments to accurately and consistently meet their expenditure and revenue targets. Credibility is impacted by both actual budget execution and the perception of many stakeholders, including parliamentarians, line ministries, taxpayers and financial market participants. Considerable evidence indicates that budget credibility challenges are widespread and particularly relevant for the achievement of the SDGs—especially in low-income and conflict-affected countries where the need for effective investment is greater. More than two thirds of countries that undertake evaluations under the Public Expenditure and Financial Accountability program struggle to maintain the planned composition of their expenditure throughout the fiscal year.[39]

The availability of high-quality disaggregated budget execution data can help governments to monitor variations between allocations and expenditure. Budget execution challenges differ in relation to specific sectors and are often greatest for social-sector and capital spending.[40] Agricultural budgets, for example, tend to have lower execution rates, with a recent report on 12 African countries showing that, on average, 21 per cent of their agricultural budgets were left unspent.[41] There can also be disparities within a sector, for example between current expenditure and capital expenditure within education budgets.[42] Because many countries have large urban-rural disparities and federal systems, geographic disaggregation of budget execution data is also important. Disaggregated data by programme can lead to better performance monitoring and early identification of budget credibility issues. Programmatic tracking can be further improved by integrating tags, such as for the SDGs, climate, gender or children, in financial management information systems.

Budget deviations should be explained; evaluations of deviations are helpful to enhancing accountability and building trust in the budget process. A review of government budget documents in 23 countries showed that government budget reports often do not clearly explain, or provide reasons for, budget deviations, meaning that chronic shifts can go unaccounted year after year.[43] Analysing deviations from approved budgets is important for identifying whether some sectors are spending at lower rates of budget execution compared to others.[44] Well-designed budgetary information systems can increase opportunities to address bottlenecks and challenges as well as better explain deviations or adjustments, offering the potential to improve both performance and accountability.

4.2 Public procurement

Public procurement can be used as a strategic tool to reinforce sustainable development, as noted in the Addis Ababa Action Agenda. Public procurement is a large component of national budgets in most economies. Government procurement spending was estimated to reach $13 trillion worldwide, or around 15 per cent of world gross product, in 2019.[45] The public procurement market has been used to empower women,[46] target geographic areas, encourage the development of micro-, small- and medium-sized enterprises, foster innovation, promote sustainability, increase employment, expand financial inclusion and support local business and content to boost national competitiveness.[47] For example, procurement tools can contribute to the SDGs by stimulating demand for suppliers and their upstream supply chains, and mandating standards that incorporate social values such as “green” or “fair trade” goods. A recent survey showed that developed countries are increasingly integrating responsible business conduct into their public procurement processes, including applying labour and human rights standards to the supply chains of their suppliers.[48] Guidance has also been developed on how governments and public buyers can use their purchasing power to promote gender equality and encourage suppliers to improve their performance on gender equality and women’s empowerment.[49] However, procurement has also been associated with corruption risks, emphasizing the importance of

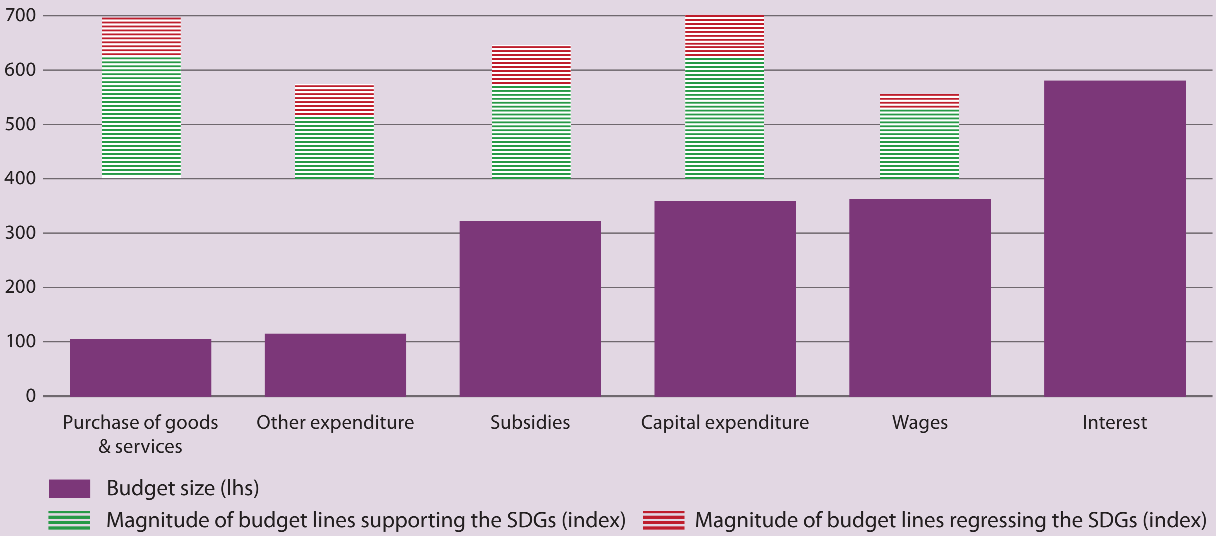
Box III.A.1
SDG budgeting through machine learning and the experience of Egypt

The United Nations Economic and Social Commission for Western Asia (UN ESCWA) has developed an integrated Budget Intelligence Toolkit (BIT) that uses machine learning to provide a fiscal incidence analysis and assessment of the impacts of budget expenditures on the 17 SDGs and more than 100 measurable indicators.

The BIT aims to improve public financial management at all stages (planning, expensing, delivery, monitoring and evaluation) and enhance budget confidence. It can guide policymakers to optimize the allocation of public revenues by identifying budget lines with a proven positive influence on advancing SDG progress. It also captures SDG interlinkages, both directly and indirectly, which can guide policymakers on how to increase the SDG impact of public spending.

The BIT was applied to the Arab Republic of Egypt's budget as a pilot country. It revealed the existence of 295 direct and indirect links between Egypt's general government expenditures and SDG performance. The positive links between the different budget lines and SDG performance largely outweigh the negative ones (three times higher than the trade-offs), suggesting that the country is well positioned to achieve SDG progress with respect to its public spending patterns (see figure III.A.5).

Figure III.A.5
Egypt's SDG budget incidence
(Billions of Egyptian pounds, index)



Source: ESCWA's estimates based on BIT using data from the Egyptian Ministry of Finance.

The BIT corroborates several findings advanced in the literature, such as those that link social protection expenditures with poverty reduction. It also shows that subsidies that reduce out-of-pocket health expenditures are associated with improved health outcomes. On the other hand, infrastructure asset expenditures, for example, did not in themselves improve educational outcomes.

The BIT also breaks spending down into dimensional factors. More than a quarter of Egypt's budget is prioritized to support "people" and promote "prosperity" (18 and 14 per cent of GDP, respectively). The exercise found that in the fiscal year ending in 2020, budget allocation patterns prioritized infrastructure, utilities and economic growth (48 per cent of the budget is allocated to public services; 23 per cent is geared to housing, health and education). This resulted in better delivery on SDG 7 (energy), SDG 6 (water and sanitation), SDG 4 (education), SDG 8 (growth) and SDG 3 (health). On average, 34 per cent of government expenditures were impacting progress on social protection related to SDGs 1, 2, 3, 4 and 11.

complementary public governance reforms: transparency throughout the whole public procurement cycle, open competition and accountability.

Policymakers should consider building strategic public procurement regimes that align with the SDGs. Setting a whole-of-government procurement strategy could be part of integrated national financing frameworks or other planning tools. Such strategies align with sustainable development priorities while being cognizant of industrial structures, trade and business relationships, human capabilities in the private sector and public service, existing inequalities and environmental priorities. Governments should measure and monitor the effectiveness of their approach, making adjustments as needed. Greater transparency can mitigate corruption risks, and governments can facilitate the disclosure of data and documents throughout the procurement cycle to enable internal and external monitoring by using voluntary international norms such as the Open Contracting Data Standard. Ultimately, accountability and integrity can be further enhanced by strong and effective oversight, such as through impartial evaluations, independent parliaments and effective supreme audit institutions. Use of digital tools can assist in both monitoring and in transparency aims.[50]

4.3 Ensuring tax expenditure effectiveness

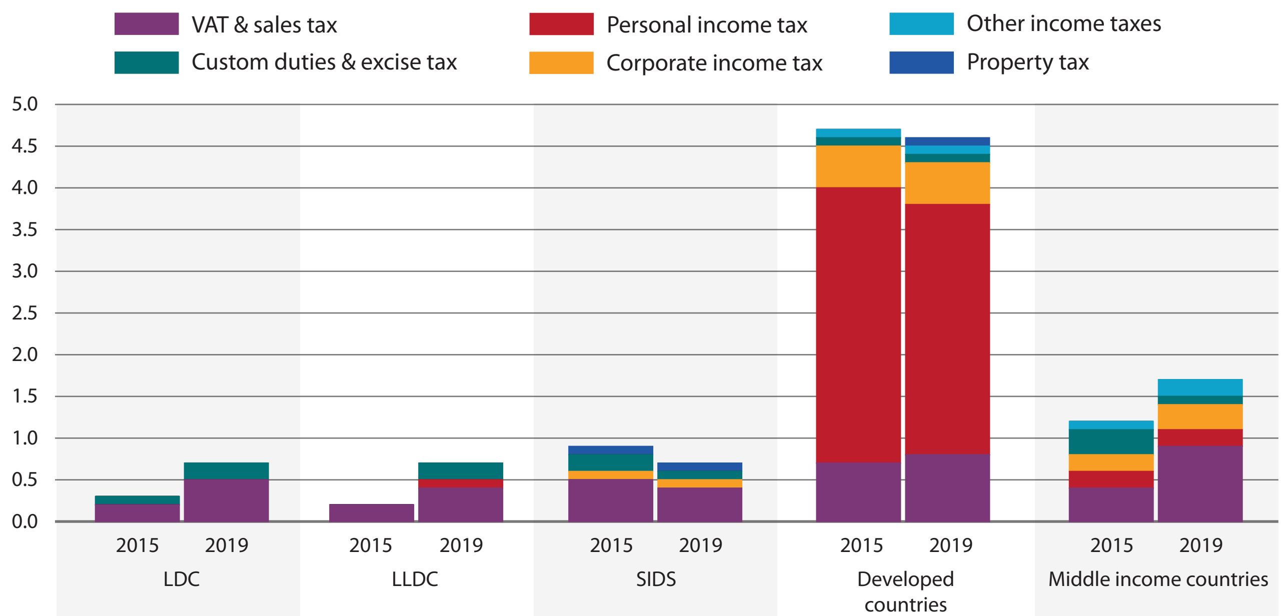
Tax expenditures are widely used public finance instruments that can contribute to the achievement of public goals, such as sustainable industrialization, but can also be sources of harmful tax competition, inefficiency and corruption. Tax expenditures, often called tax incentives, are deviations from a benchmark tax system to provide financial support or benefits to individuals, companies and other entities, including non-government organizations.[51] Tax expenditures have equivalent incentive effects as direct subsidies or transfers to individuals, households or businesses. The budgetary impact of these measures is similar to direct spending, as after the support is provided, less money is available to fund other government priorities. As with other tax policies and spending, the design of tax expenditure policies can have important implications on fiscal balances, efficiency, inequality and achieving sustainable development. As illustrated in figures III.A.6 and III.A.7, which are based on those countries that provide public reports on tax expenditures, they can be sizeable across all country groups.[52] In developing countries, corporate income tax exemptions are widely used, reduced rates and tax allowances are used less extensively, and tax credits are rare.[53]

Countries should work to ensure that tax expenditures align with the SDGs and national priorities, including in promoting sustainable industrialization and green technologies. Given that some countries are forgoing more than 10 per cent of GDP on the preferential tax treatment of specific sectors, firms and/or individuals, careful management of these expenditures is important.[54] Tax expenditures, like direct subsidies and other expenditure, can play a role in sustainable structural transformation, but governments should work to ensure coherence with an overall strategic approach (see chapter II). Like other fiscal measures, they should be part of medium-term planning processes, for example medium-term revenue strategies and integrated national financing frameworks, which would provide a platform for mapping out intended results and targets in advance of implementation. Policymakers should consider both the costs and benefits of an incentive.

The beneficiaries have a strong incentive to prolong tax expenditures regardless of whether they are efficient or effective in achieving the intended public policy aim. The potential rewards to beneficiaries creates corruption risks. Policymakers and tax administrations should be prepared to reduce or end the benefits to specific beneficiaries that fail to meet relevant performance targets as well as restructure or end tax expenditure policies that are ineffective or no longer serving the SDGs and policy aims. This may require close coordination across ministries and government agencies as well as between legislatures and the executive/tax administration.

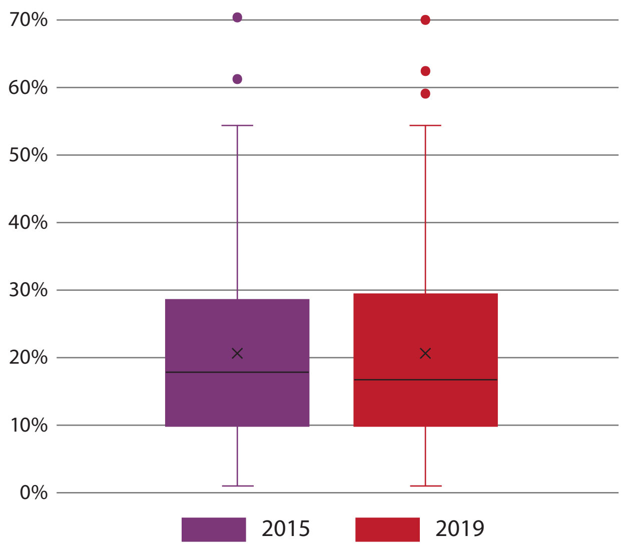
Transparency about expenditures should be a priority. Understanding and transparently reporting on the revenue impact of tax expenditures should be the starting point for any policy debate on the appropriateness

Figure III.A.6
Aggregate tax expenditures, by country group, 2015–2019
(Percentage of GDP)



Source: UN/DESA calculations based on Global Tax Expenditures Database.
Note: Aggregates based on countries with public tax expenditure assessments in the given year: 76 countries (12 LDCs, 9 LLDCs, 5 SIDS, 33 developed countries, 36 middle-income countries) in 2015, 83 countries (14 LDCs, 11 LLDCs, 6 SIDS, 33 developed countries, 40 middle-income countries) in 2019.

Figure III.A.7
Tax expenditures as a share of revenue, distribution, 2015–2019
(Percentage of revenue)



Source: UN/DESA calculations based on Global Tax Expenditures Database.
Note: Box plots show median line, 25th and 75th percentiles and range, plus outliers. Countries with public tax expenditure assessments in the given year, coverage may be inconsistent across years.

of a specific incentive or exemption. More than 100 countries are now providing some public information on related costs, albeit with varying coverage and quality.[55] In the most transparent cases, countries publish a full list of beneficiaries above a low threshold. Enhancing transparency on the design and revenue impact of tax expenditures, while a useful starting point, does not by itself ensure that the funds are well spent. During the design phase, tying the receipt of incentives to specific performance targets can help to ensure that they are effective. Expenditure-based tax incentives can be a more easily administered alternative, though they may be subject to inefficiency and poor targeting.

Countries should aim to consistently re-evaluate the effectiveness of tax incentives and avoid permanent tax expenditures that are not aligned with the SDGs or tied to specific public policy objectives. Like any spending, tax expenditure may not be the most economically efficient way to achieve a certain public goal. Systematic evaluations can guide informed decision-making and provide the opportunity to assess or reassess the alignment of tax expenditures with national priorities and the SDGs.[56] Evaluations assessing the justification, costs and benefits of tax incentives are an important tool for better policymaking. Although evaluation efforts can be challenging and resource intensive, even comparatively simple analyses are preferable to ceding the discussion to the benefiting stakeholders. While lessons can be learned from countries' evaluation processes, there is no single best-practice approach to replicate. Embedding review into the initial design of tax expenditures by making them both temporary for beneficiaries and subject to legal sunset clauses, can help. So far, data shows that tax exemptions are more often provided on a temporary basis (most often for five or 10 years), while reduced corporate income tax rates are as often permanent as they are temporary.[57] With limited resources, countries should initially focus evaluations on the most important tax expenditures and then gradually expand their evaluation mandate.[58]

Use of tax incentives will still be allowed with a global minimum corporate tax, though their effectiveness may be curtailed. Work at the OECD-housed Inclusive Framework on Base Erosion and Profit Shifting (BEPS) to establish a global minimum tax (see section 5) is prompting many countries to re-evaluate their tax expenditure policies.[59] The global minimum corporate tax rules will enable countries to continue to use the tax system to offer incentives to large firms, especially those incentives related to real economic activity in a given country, though their impact may be more limited. The form of tax and non-tax competition to attract foreign investment may shift as a result. Tax incentives that are better targeted are likely to be less affected by the proposed global rules than broadly based incentives. Tax incentives that are applied based on corporate expenditures on payroll or tangible assets may be less affected than income-based tax incentives. Tax incentives that allow faster recovery of the cost of investment in tangible assets, e.g., accelerated depreciation, will be unaffected by the proposals. Incentives that apply to businesses with no foreign presence or that have less than €750 million in consolidated revenues will also be unaffected.

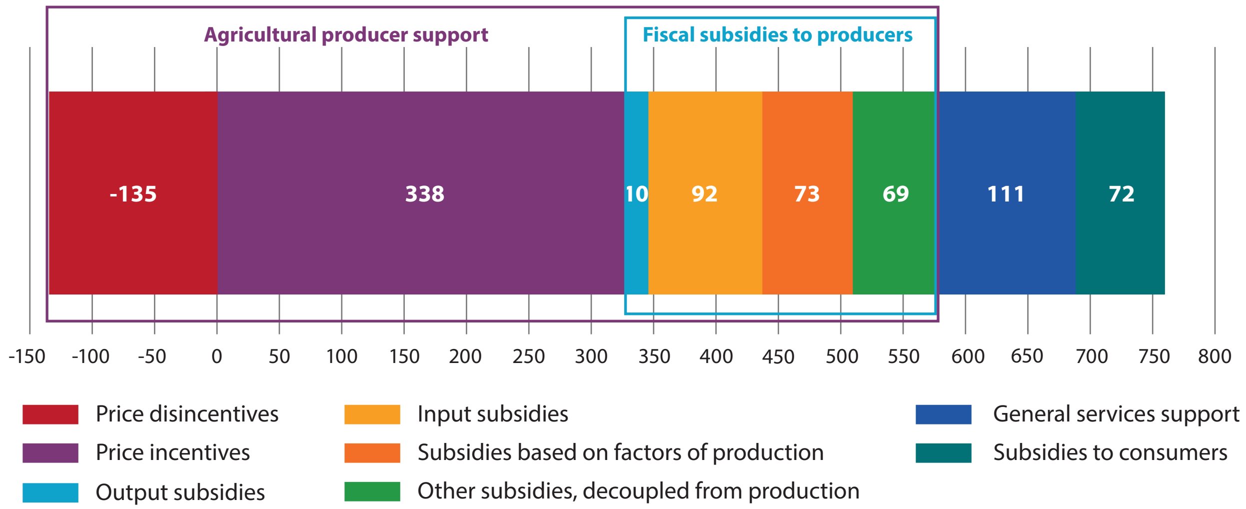
4.4 Aligning agricultural subsidies with the SDGs

Spending on agriculture subsidies is large and its effectiveness could be substantially improved. Around 87 per cent of support to agricultural producers is through measures that are often inefficient, inequitable, distort food prices, hurt people's health and degrade the environment. This equates to approximately $540 billion per year in harmful support, based on 88 countries which have data. If current trends continue, this harmful support could reach $1.8 trillion by 2030.[60] Agricultural producer support makes up the lion's share of all agricultural support and represents around 15 per cent of total agricultural production value in the years 2013–2018 (see figures III.A.8 and III.A.9). Of this, about $294 billion was provided in the form of price incentives and around $245 billion as fiscal subsidies to farmers, with the majority (70 per cent) tied to the production of a specific commodity. Only $110 billion was used to fund transfers to the agriculture sector collectively, in the form of general services or public goods. If farm support is thought of solely as a means to provide transfers to farmers, its implied transfer efficiency would be only about 35 per cent.[61]

Current agricultural subsidies have negative effects on several SDGs. Most of the agricultural producer support is concentrated on either emissions-intensive commodities (e.g., rice, milk and beef) or on unhealthy products, such as sugar. In the future, of the almost $2 trillion in global support to farmers in 2030, 73 per cent ($1.3 trillion) would be in the form of border measures, which affect trade and domestic market prices. The remaining 27 per cent ($475 billion) would be in the form of fiscal subsidies that support agricultural producers and could continue to promote the overuse of inputs and overproduction.

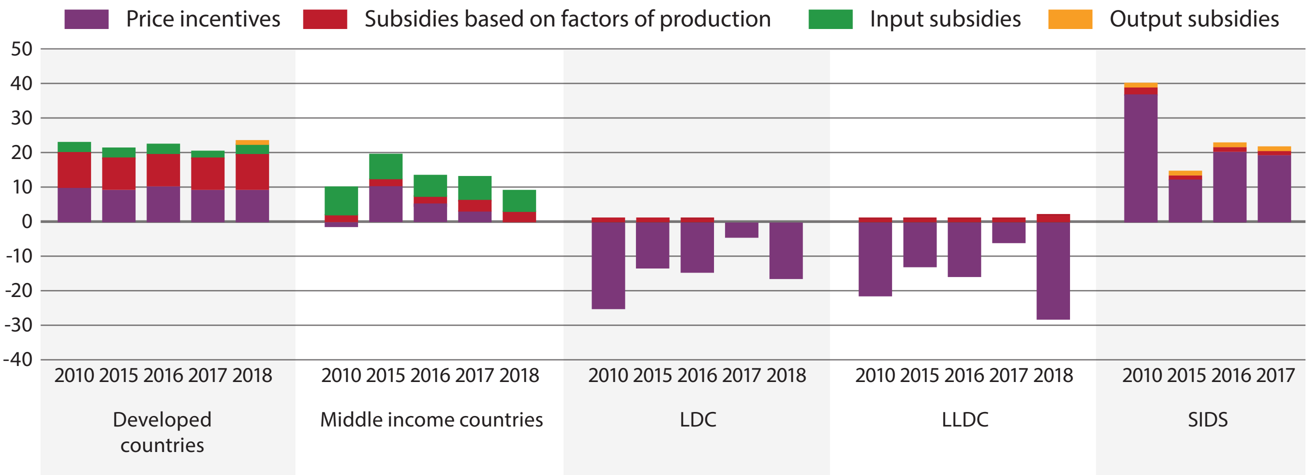
Far better outcomes could be achieved with improved spending on food and agriculture, including a shift away from farmer subsidies and towards public goods. Models show that removing the support to farmers, with no alternative measures, would lead to sharp decreases in crop and livestock production, farm employment as well as greenhouse gas emissions. Instead, a gradual transition to optimized

Figure III.A.8
Nominal rate of agricultural assistance, by type of support, 2013–2018
(Billions of United States dollars)



Source: FAO based on data from Ag-Incentives.

Figure III.A.9
Nominal rate of assistance to agricultural producers, by country grouping, 2010–2018
(Percentage of country group production value)



Source: FAO based on data from Ag-Incentives.

public budgets (in terms of commodities and types of spending) could create jobs, lower poverty, reduce hunger and malnutrition and increase agricultural productivity.[62] Countries can shift spending away from commodities that damage the environment and towards those that foster sustainable resource use, poverty reduction and improved nutrition. In terms of functional composition, there is a need to spend more on public goods, including agricultural extension, infrastructure, and research and development, to align with poverty reduction and nutrition improvement outcomes. Evidence indicates that input subsidies may have poor returns[63] and mainly reach better-off farmers,[64] and therefore need to be more effectively targeted at subsistence, smallholder and family farmers who lack the resources to independently buy certain inputs that could lead to better productivity and adaptive capacity. Spending more on public goods could enhance the nutritional quality of foods while increased spending on agriculture-related infrastructure could enhance the efficiency of markets.

Countries at different development levels should repurpose their agricultural subsidies taking into account their specific circumstances, including by strengthening social protection schemes. Developed countries could aim to shift to more nutrition-sensitive subsidies and nature-based solutions. Middle-income countries could focus on increasing the use of nutrition-sensitive agricultural support strategies and combining the removal of harmful agricultural subsidies with strengthening social protection schemes and nutrition-related consumer subsidies to ensure that the poorest can access and afford sufficient nutritious food. Mitigation measures such as cash transfer schemes are needed to address the short-term negative implications of repurposing agricultural producer support for poor producers and consumers. Developed and middle-income countries could also aim to decouple subsidies from production, which distort incentives for farmers, and shift spending to public goods. In the poorest countries, governments can aim to minimize the use of distorting policies and focus on the coherence of different fiscal instruments in a way that increases fiscal efficiency. Donors can support increased spending on agriculture-related public goods. In all countries, a multi-stakeholder approach can ensure the inclusion of certain key actors, for example women farmers, who produce most of the food consumed locally in developing countries despite female-headed households having smaller farms on average.

5. International tax cooperation

5.1 Progress on tax transparency and exchange of information

No country can eliminate tax evasion on its own and thus international cooperation is essential. Tax administrations generally have the right to demand information from their taxpayers. However, taxpayers committing evasion often exploit gaps and mismatches in tax rules to artificially shift profits, assets or income to low- or no-tax locations where there is little or no economic activity. They may also obfuscate the ownership and origin of taxable assets and income. International cooperation is essential to exchange information and reveal tax evasion and enable enforcement. Table III.A.2 shows participation in a range of international forums and instruments for tax cooperation.

The exchange of information for tax purposes has returned to pre-COVID-19 levels, allowing significant resources to be recovered. The OECD-housed Global Forum on Transparency and Exchange of Information for Tax Purposes—a venue for cooperation on tax transparency—reports that over 25,000 requests for information were sent in 2021 to support ongoing tax investigations.[65] As of the end of 2022, over 100 jurisdictions were automatically exchanging information on the financial accounts of non-resident taxpayers, according to the Common Reporting Standard (CRS). Information on over 111 million financial accounts was exchanged automatically in 2021, covering total assets of almost €11 trillion. From 2019 to 2021, almost €2.6 billion of additional revenue (tax, interest and penalties) was identified due to exchange of information on request, almost €2.4 billion from automatic exchange and over €2.5 billion from voluntary disclosure programmes and other offshore initiatives. These figures are underestimates because not all jurisdictions track the revenue associated with exchanges.

The automatic exchange of information system is being effectively implemented in participating countries, but many developing

Table III.A.2
Participation in international tax cooperation instruments, 2022
(Number of jurisdictions)

Legal instrument/ Intergovernmental body	*Background*	*Purpose*	*Total membership/ parties*	*Middle-income countries*	*Least developed countries*	*Small island developing States*	*Africa*
Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC)	Developed jointly by OECD and Council of Europe in 1988 and amended in 2010	Multilateral instrument for administrative cooperation	146 (+2)	62 (-3)	9 (+1)	33 (+1)	23 (+1)
MCAA Common Reporting Standard	Agreement requested by G20 and approved by OECD in 2014	Specifies details of exchange of financial account information for tax purposes	119 (+7)	40 (+3)	2 (+1)	31 (+2)	9 (+1)
Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum)	OECD-housed intergovernmental body restructured by G20 in 2009	Reviews implementation of transparency and exchange of information standards, both on request and automatic	165 (+2)	75 (-2)	18	37 (+1)	34
Automatic Exchange of Information Standard (AEOI)	Standard developed in 2014 under Global Forum	Automated exchange of financial account information for tax purposes	122 (+2)	42 (-2)	2	31 (+2)	10 (+1)
Inclusive Framework on BEPS (IF)	OECD-housed intergovernmental body originating from the 2013 OECD/G20 BEPS Project	Implementation of the 2015 BEPS Action Plan and the follow-up work to combat tax avoidance by MNEs	142 (+1)	62 (-3)	12	30 (+1)	26
Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI)	Negotiated within the framework of the OECD/G20 BEPS Project, adopted in 2016	Implements the minimum standards of 2015 BEPS Action Plan on tax treaty abuse, dispute resolution, hybrid mismatch arrangements and permanent establishment status	100 (+4)	41 (+1)	3 (+1)	10	14
MCAA on the exchange of country-by-country (CbC) reports	Agreement based on BEPS Action Plan 13, first exchanges began in 2018	Sets out the terms for the exchange among jurisdictions of CbC reports prepared by MNEs to facilitate transfer pricing risk assessments and audits	93 (+1)	28 (-1)	2	16 (+2)	9 (+1)

Source: OECD.
Note: Figures as of 31 December 2022. Parenthesis denotes change in the number of countries or jurisdictions in 2022 compared to the 2022 Financing for Sustainable Development Report, which may reflect something other than participation in the instrument, i.e., movement of countries into or out of designated status, changes in data availability, or changes in implementation of classification criteria. MCAA: Multilateral Competent Authority Agreement. MNEs: multinational enterprises.

countries are still not benefiting. The large majority of jurisdictions peer reviewed on automatic exchange of information have implemented complete administrative frameworks to ensure compliance and are exchanging information effectively in practice.[66] Some jurisdictions are still in the relatively early stages of developing and implementing their frameworks. Another 11 jurisdictions have announced plans to commence automatic exchanges in the coming years.[67] As of December 2022, there were over 5,000 bilateral exchange relationships activated for exchanges under the CRS, but developing countries continue to miss out on information (see table III.A.3). No LDCs are receiving information, and only five African countries were receiving information as of end-2022, accounting for fewer than 500 of the relationships.[68] The most significant challenge to receiving information is compliance with confidentiality requirements. Assistance on the implementation of the automatic exchange standard is one of the largest areas of ongoing technical assistance work by the Global Forum.[69]

Countries are moving forward on reviewing and expanding reporting frameworks for financial assets. In August 2022, the OECD Committee on Fiscal Affairs, a body for OECD members and invited guests, approved a Crypto-Asset Reporting Framework (CARF), which provides reporting of tax information on transactions in cryptoassets in a standardized manner.[70] Over the following months, the OECD will work on the legal and operational instruments to facilitate the international exchange of information collected on that basis of the CARF. Accompanying the CARF, the OECD Committee also agreed to a revision of the existing CRS for automatic exchange of information on financial account information to bring new financial assets, products and intermediaries (such as e-money) within its scope. The Global Forum Plenary held in November 2022 agreed to ensure widespread implementation of the amended CRS and the CARF.

Progress on the transparency of corporate income tax information has been slow but steady. Country-by-country reporting refers to annual reports by large multinational enterprises submitted to the authorities in the jurisdictions where they are headquartered, detailing data on their activities in each tax jurisdiction in which they do business. The reports enable high-level risk assessments that can help to prioritize further investigation. The OECD-hosted Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports facilitates the exchange of country-by-country reporting.

The data shows evidence of misalignment between the location where profits are reported (and taxes are paid) and the location where economic activities occur. In 2022, aggregated country-by-country reporting statistics were published covering reports by over 7,000 corporate groups filed in 47 jurisdictions up to 2018. The data tracks the distribution across jurisdictions of employees, tangible assets and profits. The median value of reported revenue per employee was six to eight times higher in jurisdictions with no corporate income tax, which is a strong indicator of profit shifting.[71]

Developing countries lag behind in access to country-by-country reporting. As of December 2022, the system for exchanging country-by-country reporting information among tax administrations had evolved to have over 3,300 bilateral exchange relationships (see table III.A.3). Despite some LDCs and African countries signing up to the convention for exchange of country-by-country reports, no LDCs currently receive these reports, and only four African countries are receiving any information through just 331 activated bilateral relationships. Meeting the required confidentiality standards is a key challenge. An agreement to move away from the strict confidentiality requirements would allow more developing countries to access the reports.[72] Alternatively, requiring public transparency on country-by-country reports from multinational enterprises above a threshold could provide a solution that would level the playing field and support the efforts of all countries to combat illicit financial flows, though this would place costs on businesses. Some countries and regions have already moved towards publication of a limited form of country-by-country reporting.

There is growing recognition among governments that information exchanged for tax purposes may be valuable for tackling other types of illicit financial flows. In November 2022, three Latin American members of the Global Forum signed a pilot project for the use of information exchanged under a tax agreement to fight non-tax illicit practices, allowing wider use of the information. This practice was also recognized by the General Assembly, which invites countries to consider allowing information exchanged for tax purposes to be used for other purposes.[73] The General Assembly also invited the United Nations Economic and Social Council to update and strengthen the United Nations code of conduct on cooperation in combating international tax evasion[74] in response to new international agreements.

Table III.A.3
Inclusion in bilateral exchange relationships for tax information, 2022
(Number of exchange relationships)

	Country-by-country reporting for MNEs		*Common reporting standard for financial accounts*	
Number of bilateral relationships	3489		4981	
	From:	*To:*	*From:*	*To:*
Middle-income countries	1382	1406	2275	2175
Small island developing States	879	384	1974	950
African countries	334	331	373	487
Least developed countries	0	0	0	0

Source: OECD.
Note: Figures as of 31 December 2022.

5.2 International corporate taxation norms

Despite many reforms and significant progress since the 2008 world financial and economic crisis, the international tax system remains under stress, with outdated standards. There is a consensus that the system is characterized by significant vulnerabilities that allow large corporate groups to pay little tax, significant inequalities in the ability of countries to tax corporations and high levels of tax competition. Taxpayers have many strategies to engage in domestic tax abuses, but the largest companies and high-net-worth individuals also use international tax avoidance strategies to remain outside the tax base altogether, notwithstanding the many actions taken since 2008. Ideas for far-reaching reforms have been under discussion in multiple international venues and forums, and some countries have undertaken unilateral measures to try to protect their tax base and raise additional revenue. For example, developing countries may consider improving withholding tax mechanisms to collect taxes on activities by multinational enterprises within their territories.

5.2.1 Governance of tax norm setting

Global tax reform should proceed according to the principles already committed to by Member States, while the appropriate governance arrangements are a matter for countries to decide. In the Addis Ababa Action Agenda, Member States stressed that efforts in international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries. In 2021, the United Nations Secretary-General set out global tax reform as a key plank for a peaceful, sustainable future in his report on *Our Common Agenda*.[75] In December 2022, the United Nations General Assembly adopted a resolution by consensus on "Promotion of inclusive and effective international tax cooperation at the United Nations" which recognizes the timeliness and importance of strengthening international tax cooperation to make it fully inclusive and more effective.[76] During the next General Assembly session at United Nations Headquarters in New York, intergovernmental discussions on ways to strengthen the inclusiveness and effectiveness of international tax cooperation will be informed by a comprehensive report of the Secretary-General. The report and discussions will take into full consideration existing international and multilateral arrangements. Other multilateral and regional platforms will also continue their work on setting tax norms.

5.2.2 Taxation of the digitalized economy

Issues raised by digitalization of the economy are at the centre of discussions on the future of international corporate taxation. The increasing use of digital technologies and the emergence of new business models increase the possibilities for companies to be highly profitable yet pay relatively little tax anywhere. Intangible assets have become more important. Companies may not need a physical presence to do business, and it is increasingly unclear where value addition occurs, especially for digital services. Yet some developing country tax administrations have relatively low capacity and need simple, easily administered rules to prevent them from leaving revenue on the table.[77] As previously reported by this Task Force, work is ongoing at the United Nations Committee of Experts on International Cooperation in Tax Matters and on the OECD/G20 Inclusive Framework Two Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, which has the stated political support of 137 jurisdictions. There remains great uncertainty about how many countries will adopt either of the proposed solutions. As countries consider adopting these tax measures, policymakers should include a thorough analysis of the implications for domestic revenue mobilization and wider economic activity.

The UN Tax Committee is developing a fast-track instrument (FTI) for speedier adoption of key UN Model Tax Convention provisions regarding taxing the digitalized and globalized economy. In 2021, the UN Tax Committee agreed to introduce new provisions into the UN Model Treaty on Double Taxation which would preserve the right of countries to tax automated digital services (known as Article 12B). In its October 2022 session, the committee decided to prioritize work on an FTI, a mechanism to update bilateral tax treaties to adopt provisions recently introduced in the UN Model, including those regarding taxation of the digitalized and globalized economy, more quickly and efficiently. The committee discussed the design features of an FTI, and work will proceed on drafting an instrument covering article 12B as well as other recently introduced provisions in the model treaty, for consultation with committee members, Member States and other stakeholders in 2023. It is difficult to make revenue estimates from implementing taxes on automated digital services, as protected by Article 12B, and other digital services provided over the internet with minimal human involvement because of the range of assumptions that would need to be made. Modelling by the South Centre[78] shows a range, depending on tax design choices, of $2.0–$11.4 billion in revenue if such policies were implemented by its 54 developing country members, and $0.4–$1.4 billion for implementation by the 55 members of the African Union.[79]

A convention to implement the OECD/G20 Inclusive Framework's Pillar One is expected to open for signature in mid-2023. Pillar One proposes to reallocate taxing rights over a portion of large multinational entity profits to the market jurisdictions where those profits are generated, allowing taxation of some profits, for example from digital service delivery, regardless of whether a company has a physical presence. A Multilateral Convention (MLC) is required for implementation of Pillar One. Public consultations have been completed on the rules pertaining to the reallocation of taxing rights, including on the MLC provisions that require the removal of digital services taxes. The MLC is planned to be finalized, the final text published and the document opened for signature in mid-2023. The OECD estimates that taxing rights on $200 billion of profits would have been reallocated in 2021 if the rules had been implemented.[80] The IMF estimates similarly suggested a net global increase of $12 billion in corporate income taxation based on reallocation of $150 billion in the tax base, though noted this would be offset by a loss of revenue from digital service taxes that would be discontinued.[81]

Pillar Two sets a global minimum tax to limit tax competition and is expected to have larger impacts on revenue raised. It also provides a means for countries to retain source taxation rights over certain base eroding payments such as interest and royalties. It would provide a disincentive to continue inefficient tax incentives (see section 4), as undertaxed profits could now be taxed elsewhere. The model rules for the global minimum tax under Pillar Two were agreed in 2021, an implementation package released in December 2022 and agreed administrative guidance published in February 2023. Public consultations on some implementation measures—the information return (covering the amount and type of information that MNE groups should report to tax authorities) and tax certainty (including dispute prevention and dispute resolution)—are now closed. While Pillar Two's "subject to tax" rule and a related multilateral instrument to assist in its implementation is still being finalized, some countries are beginning the process of bringing Pillar Two into domestic legislation. OECD estimates, using 2018 data, show potential gains of $175 billion to $261 billion globally from implementing Pillar Two.[82] The IMF estimates aggregate 5.7 per cent higher corporate taxation, plus an extra 8.1 per cent boost to global corporate tax revenues from reduced competition over tax rates.[83]

5.3 Capacity-building for domestic revenue mobilization

While capacity-building related to domestic public revenue mobilization has increased dramatically since 2015, it fell in 2021 compared to 2020. Disbursements of official development assistance (ODA) by OECD donor countries coded as being for the purpose of domestic

Box III.A.2
Implications of new tax norms in the Arab world[a]

Over the past four decades, international tax competition ushered a race to the bottom that reduced headline corporate tax rates and resulted in Arab economies forfeiting an estimated $50 billion in potential tax revenues.[b] To compensate, the more diversified Arab middle-income economies resorted to indirect taxation, often with regressive effects, while Arab high-income and resource-rich countries relied on windfalls and rents from hydrocarbons. Fiscal and tax incentives, awarded to attract multinational corporations (MNCs), have effectively undercut corporate tax revenues in the region by 60 per cent on average.[c] The region saw an estimated $77 billion of annual losses due to undeclared illicit trade and indirect tax revenues, including from oil and natural resources.[d]

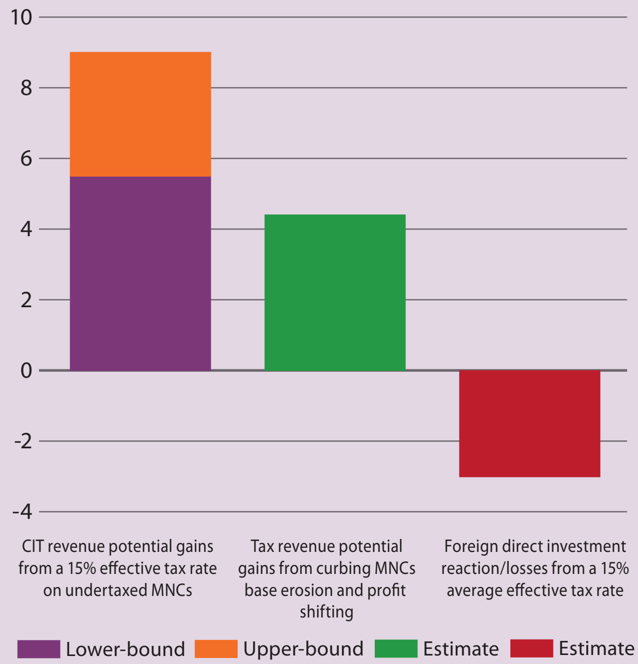
The Arab region hosts more than 5,000 foreign majority owned MNCs, generating 5 per cent of their global profits or around $600 billion annually. Complex tax planning, involving round tripping investments and shifting profits, enabled MNCs to reduce their tax liabilities. For every dollar the region gained in foreign direct investment (FDI) inflows, there was $1.6 in outflows,[e] including 78¢ in repatriated untaxed corporate passive income (dividends, debt repayments and stock buybacks).[f]

In 2019, one third of MNCs in the Arab region were taxed below the proposed global minimum effective tax rate of 15 per cent, representing $2.3 billion in potentially lost annual revenue.[g] Increasing average effective corporate tax rates to 15 per cent for all corporations could mobilize up to $9 billion worth of annual tax revenues.[h]

In the Arab region, estimated potential gains from the G20/OECD proposed two-pillar solution remain modest in absolute terms (see figure III.A.10). The impact of global tax reform on the Arab world could be altered by adjusting the thresholds, profitability ratios and reallocation percentages in the two-pillar solution. Arab countries may wish to explore regional tax dispute resolution mechanisms and means to preserve the "right to regulate" the delivery of automated digital services. Reforms that go beyond corporate income tax will be needed to fully address the region's diverse sustainable development financing needs.

a Based on ESCWA. 2023. "Arab Policy Choices and Financing Opportunities in a New World Tax Order".
b ESCWA calculations based on IMF. 2014. "Spillovers in international corporate taxation".
c ESCWA calculations based on Tax Foundation, 2019, and Orbis database accessed in November 2021. This estimate covers the following Arab countries: Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, and Tunisia.
d ESCWA. 2018. "Illicit Financial Flows in the Arab Region".
e Ibid.
f Ibid.
g ESCWA based on data from Orbis.
h ESCWA. 2022. "Arab Policy Choices and Financing Opportunities in the New World Tax Order".

Figure III.A.10
Estimates of Arab region gains and losses in tax revenues and FDI
(Billions of United States dollars)



Source: ESCWA estimates based on MNC reported profits in 2020 sourced from Orbis, IMF BOP, IMF CDIS, and UNCTAD FDI data.

revenue mobilization declined significantly, to $284 million in 2021 (or 0.23 per cent of total ODA to developing countries), from $411 million in 2020 (see figure III.A.11). This drop was driven primarily by an unusually large volume ($171 million) of loans in 2020. Grants rose in 2021 to $258 million, from $240 million in 2020. The long-term picture may be better, as commitments reached a record $387 million in 2021, the highest volume of commitments since measurement started in 2015, beating the previous high of $362 million in 2019.

6. Illicit financial flows

Combating IFFs is a commitment in international agreements and can provide resources for sustainable development finance. IFFs reduce the availability of resources for financing the SDGs and recovery from the COVID-19 pandemic. Combatting IFFs effectively requires a whole-of-government approach, as sources of IFFs can be varied and enforcement will require efforts by a number of public actors.[84]

6.1 Advances on volume estimates and IFF statistical measurement

Knowledge on the precise scale and nature of IFFs is lacking because of their essentially clandestine nature, but progress is being made to measure these flows.[85] Comparable and reliable statistics on IFFs can help to shed light on the activities, sectors and channels most prone to illicit finance, pointing to priorities for enforcement resources.

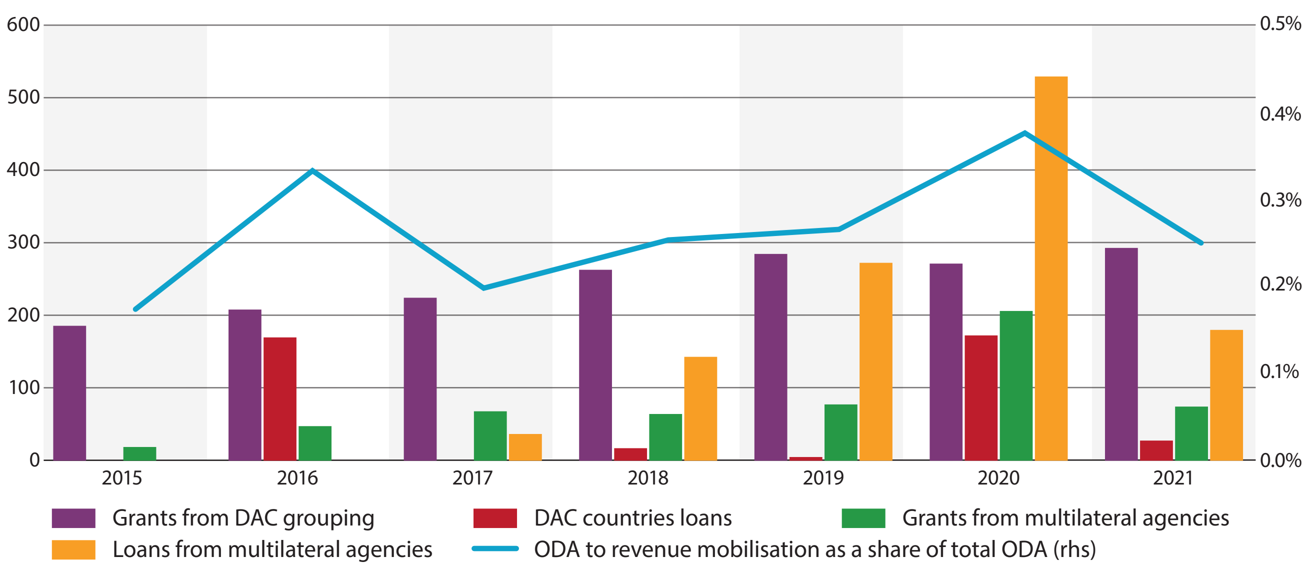
Pilot testing of the SDG indicator methodology was completed in three regions; countries should use the methodologies to develop IFF estimates. As co-custodians of SDG Indicator 16.4.1, the United Nations Office on Drugs and Crime (UNODC) and the United Nations Conference on Trade and Development (UNCTAD) defined the globally agreed statistical concepts and a statistical definition of IFFs, disseminated in the October 2020 Conceptual Framework for the Statistical Measurement of Illicit Financial Flows[86] and endorsed by the United Nations Statistical Commission in March 2022.[87] Methods to measure selected types of IFFs were developed by the co-custodians and tested between 2018 and 2022 by 22 countries mainly in Africa, Asia and Latin America. The offshore wealth methodology showed $3.5 billion to $5 billion in tax-related IFFs from one of the pilot countries in Africa every year since 2012. In one Latin American country, illicit drug exports generated on average $12 billion in IFFs annually between 2015 and 2018, an amount comparable to the value of national agricultural exports. Key lessons drawn from Member States' experience included the need for: political will to support the efforts; whole-of-government and whole-of-society approaches to tackle IFFs; an inter-agency technical working group to coordinate and facilitate collaboration; facilitation of national statistical offices; resourcing and empowerment of agencies in the ecosystem; and an appropriate institutional architecture with adequate resources and legal backing. UNODC is working on a corruption measurement framework, presented at the United Nations Statistical Commission in March 2023, that can be used to develop methodologies on measuring IFFs from corruption.

Researchers also continue to refine other methodologies to estimate various components of IFFs. One methodology that has now been published in a peer-reviewed academic journal looks at the differential profitability of the affiliates of foreign multinational enterprises compared to local firms in certain jurisdictions and draws inferences about profit shifting globally.[88] In a separate new working paper, the authors have extended this methodology using historical time series data from different sources to create profit shifting estimates covering the period between 1975 and 2019. They find that while the share of corporate profits in global income has increased from about 15 per cent to close to 20 per cent, corporate tax collection has stagnated relative to global income. They estimate that in 2019, 37 per cent of multinational profits were artificially shifted to 41 low-tax jurisdictions, which represents a loss of 10 per cent of corporate income tax revenue globally, or $969 billion.[89]

6.2 Policy advances on beneficial ownership and tax crimes

The availability of beneficial ownership information on legal persons and arrangements helps to fight against tax evasion and other financial and serious crimes, such as corruption, money laundering and terrorist financing. Criminals and tax dodgers commonly hide their activities and often use opaque legal structures to this end. "Shell companies", which are corporate entities that have no independent activities, are set up only to own assets and other corporate entities, with transactions spread across multiple jurisdictions. Beneficial ownership transparency can pierce the veil of secrecy and reveal the true ownership and allow fair taxation and enforcement of the law.[90] For anti-money-laundering purposes, the beneficial owner is the person ("natural person" in legal terms) who ultimately owns, controls or benefits from legal vehicles such as companies, partnerships and trusts.[91] Information about beneficial owners is required under international anti-money-laundering standards, the international standards for exchange of information for tax purposes, and the United Nations Convention Against Corruption.

Figure III.A.11
Disbursements of ODA for domestic resource mobilization, 2015–2021
(Millions of United States dollars, share of total ODA)



Source: OECD.
Note: Constant 2020 prices, loans are on a gross basis and thus not directly comparable to grants. Share of total ODA calculation includes all bilateral ODA and ODA from European Union institutions, but not from multilateral agencies. DAC = Development Assistance Committee of the OECD.

International norms and standards are being strengthened to add the requirement that public authorities maintain records of beneficial ownership information for some types of legal vehicles. Member States have committed to enhance beneficial ownership transparency, such as through appropriate registries.[92] In March 2022, the Financial Action Task Force (FATF) amended its recommendation on beneficial ownership information of legal persons (e.g., companies, firms, partnerships) to require a public authority to hold this information (usually through a registry).[93] This will apply to the more than 200 countries and jurisdictions committed to FATF standards. In 2022, FATF opened public consultations on potential revisions to its standards on the way beneficial ownership information for legal arrangements (e.g., trusts) must be maintained.[94]

Governments are developing new mechanisms to hold and use beneficial ownership information on legal vehicles. Research based on the experience of 38 countries found that many still lack sufficient legal, regulatory and institutional frameworks and systems as well as practical experience, to use beneficial ownership transparency to enhance the effective recovery and return of proceeds of crime.[95] It highlighted as good practice, establishment of registries of beneficial ownership information for both legal persons and legal arrangements to ensure the timely availability of information to competent authorities, and verifying submitted beneficial ownership data through both automated verification and spot checks. Many international bodies are providing countries with assistance in implementing beneficial ownership transparency systems, including UNODC, the Global Forum and the FATF.

Public transparency of beneficial ownership information can enhance the usefulness of the data, but there have been concerns about privacy. A growing number of countries in all regions are creating systems to publish their beneficial ownership registries for public access. Such enhanced transparency is beneficial to speeding up national and international information sharing. It can also assist due diligence by the private sector. Better access can empower journalists to investigate and report on corruption allegations, allowing for more effective accountability. Public transparency can also boost trust more broadly and contribute to strengthening the social contract. Ensuring the availability of the beneficial ownership information to the general public free of charge and in open data format has been identified as a good practice in a paper presented at a United Nations Convention against Corruption working group.[96] However, a regional court in one developed region limited publication of information in beneficial ownership registries over privacy considerations. The Open Ownership principles were updated in January 2023 to better reflect variable needs among different user groups for beneficial ownership data, while still retaining that the public should have access to a clearly defined subset of usable data free of charge. Policymakers will need to develop appropriate privacy protections as they update their systems in response to the changes in international standards, while still aiming to realize the substantial benefits from public beneficial ownership transparency.

Policy attention is also focusing on how to combat tax crimes and recover assets, along with increased capacity-building. In June 2022, the OECD Council formally issued an intergovernmental recommendation on the OECD's Ten Global Principles for Fighting Tax Crime, which was first launched in 2017 and updated in 2021. The OECD legal instrument, also open to adherence by non-OECD members, provides a benchmark against which jurisdictions can self-assess their relevant frameworks. The Tax Inspectors Without Borders initiative is now providing assistance for criminal investigation of tax abuse. Building on the 2021 review of asset recovery progress presented in the *2022 Financing for Sustainable Development Report,*[97] analysis shows that developing countries account for the majority of countries waiting for assets to be returned and that assets are seized or confiscated in developed countries in almost 70 per cent of the known open cases.[98]

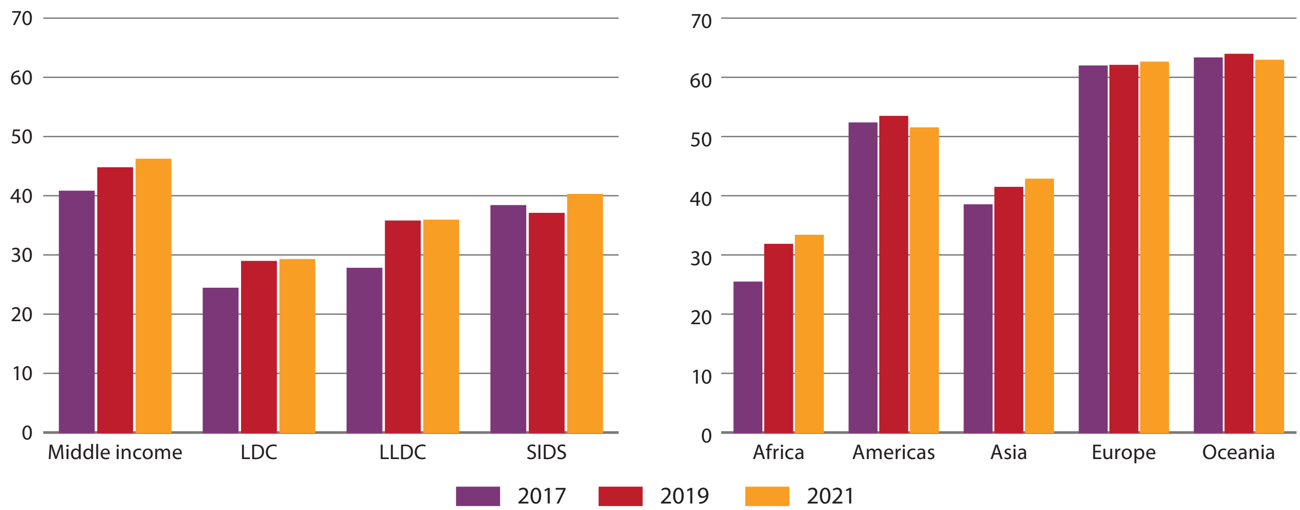
6.3 Budget transparency to counter corruption

Corruption risks can be found at every stage of the budget and procurement process; transparency is an important component of strategies to combat corruption. Without appropriate mitigation measures, corruption may lead to inflated costs, the delivery of substandard goods and services or complete non-performance by public institutions or suppliers. The costs are borne by citizens, both as taxpayers and as intended beneficiaries of goods and services. Public transparency not only protects state expenditures but can also help to shape societies by strengthening the social contract.

Budget transparency practices have remained relatively steady over the last four years, with diversity in progress. While there is no comprehensive official data on the transparency of budgets, civil society organizations released the latest results of a large-scale budget transparency survey in May 2022, which found that the COVID-19 pandemic did not undo budget transparency gains worldwide, with most countries maintaining their transparency ratings and only small changes in averages (see figure III.A.12). Of the 120 countries assessed in the 2021 Open Budget Survey, the average Open Budget Index score was 45.3 out of 100.[99] As expected, less developed countries had lower scores on the index, with richer countries having greater capacity and resources to invest in budget transparency and participation. Supreme audit institutions can be critical to anti-corruption programmes, and the budget survey found that in 2021 the average score on the transparency of audit institution reports was 65.1. The averages ranged widely across regions and country groups; developing countries had an average score of 56.1. Developing countries scored higher on the discretion of audit institutions, with an average of 88.7, compared to a global average of 90.1.

Intergovernmental discussions on improving budget and procurement transparency to combat corruption have focused on the use of digital technologies. The IMF's Fiscal Transparency Code is the international standard for disclosure of information about public finances. Article 9 of the United Nations Convention against Corruption calls for the establishment of appropriate systems of public procurement based on the fundamental principles of transparency, competition and objective criteria in decision-making. In June 2022, the Open-ended Intergovernmental Working Group on the Prevention of Corruption discussed public procurement in the context of information and communications technologies. Governments indicated a wide and increasing use of such technologies to implement the Convention, including through the use of e-procurement portals.

Figure III.A.12
Average Open Budget Index scores, by country groups and regions, 2017–2021
(Index)



Note: Compares the 115 countries assessed in all of the 2017, 2019, and 2021 Open Budget Surveys.

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