United Nations E/2019/SR.11

Economic and Social Council

Distr.: General
25 June 2019

Original: English

2019 session
26 July 2018–24 July 2019
Special meeting on international cooperation in tax matters

Summary record of the 11th meeting
Held at Headquarters, New York, on Monday, 29 April 2019, at 3 p.m.

President: Ms. King . . . . (Saint Vincent and the Grenadines)

Contents

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*)

Interactive dialogue: "Taxation and environmental protection"

Interactive dialogue: "Taxation and inequality"

Conclusion of the special meeting

This record is subject to correction.

Corrections should be submitted in one of the working languages. They should be set forth in a memorandum and also incorporated in a copy of the record. They should be sent as soon as possible to the Chief of the Documents Management Section (dms@un.org).

Corrected records will be reissued electronically on the Official Document System of the United Nations (http://documents.un.org/).

19-06924 (E)

Please recycle

The meeting was called to order at 3.20 p.m.

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*)

Interactive dialogue: "taxation and environmental protection"

1. **Ms. Milne** (Professor and Director at the Environmental Tax Policy Institute of the Vermont Law School), moderator, said that, in considering how taxation could be used to protect the environment, the circumstances of individual countries and the challenges of translating theory into practice must be taken into account. The concept of a tax on private sector activities that generated negative externalities, such as pollution, was first developed by the economist Arthur Pigou in 1920 and had inspired the design of many environmental taxes worldwide since the mid-twentieth century. Although such taxes could not often realistically be set equal to the social cost of the externality in question, as theorized by Pigou, they had a powerful influence on the behaviour of polluters, generating revenue that could be used to increase general income, tackle environmental problems, address unfairness arising from the imposition of the tax, and advance tax reform.

2. In designing an environmental tax, the effect of the tax on the environment, equity, and the economy, as well as its administrative feasibility and fiscal impact, must be taken into account. There was also a need to determine the appropriate level of government at which to impose the tax, depending on the environmental problem in question; establish partnerships between environmental and tax authorities in order to transcend traditional silos of expertise; integrate the tax with other environmental policies; and consider the role of politics. Countries could tailor environmental taxes to their specific environmental problems, fiscal systems, the characteristics of their citizens and economies, and their political economies. The potential of the broader fiscal system could also be harnessed to protect the environment by effecting environmental tax reform, repealing subsidies for environmentally harmful activities, and offering tax incentives for environmentally friendly activities such as the adoption of new technologies.

3. **Mr. Van Dender** (Head, Tax and Environment Unit, Centre for Tax Policy and Administration, Organization for Economic Co-operation and Development (OECD)), panellist, said that environmental taxes had a powerful impact on the behaviour of polluters, with simple approaches often resulting in positive outcomes. For example, following the introduction of a carbon tax in Australia in June 2012, that country's carbon emissions from electricity generation had immediately declined, only to increase precipitously in July 2014 after the tax had been repealed as a result of political controversy. However, emissions from petroleum, which had not been included in the tax base, had risen steadily between June 2012 and July 2014. Carbon taxes had the potential to generate significant revenue, providing a valuable opportunity to capitalize on the synergies between tax policy and environmental policy. Indeed, such taxes decreased emissions at a lower cost than other policy instruments as they enabled polluters to decide how they reduced their emissions.

4. Environmental taxes were nevertheless underused. Among OECD countries, environmental tax revenue as a share of gross domestic product (GDP) had ranged in 2000 from under 1 per cent in the United States of America to about 5 per cent in Denmark, and had declined between 2000 and 2008, partly owing to the improvement of environmental outcomes, but primarily to the failure of Governments to take into account welfare in setting tax rates. Moreover, among 42 OECD and G-20 countries representing 80 per cent of global carbon emissions, the average gap between the actual price of carbon and the price required to achieve the emissions reduction targets set out in the Paris Agreement adopted under the United Nations Framework Convention on Climate Change had been 76.5 per cent in 2018 and was decreasing at an inadequate rate. Environmental tax rates and bases, as well as the purposes for which revenue was used, must be adapted to specific contexts in order to foster public support for environmental taxes and mitigate their impact on the poor. Energy prices should also be increased gradually in order to support business competitiveness.

5. **Mr. Coulombe** (Senior Director, Excise and Sales Tax Division, Tax Policy Branch, Department of Finance of Canada), panellist, said that, in 2019, Canada had introduced a federal carbon pollution pricing system comprising a regulatory charge on fossil fuels and an output-based pricing system for large industrial facilities. The fuel charge, set at Can$20 per ton of carbon dioxide equivalent in 2019 and subject to an increase of Can$10 annually through 2022, was not a tax measure, as its primary goal was to reduce emissions rather than to raise revenue. The charge was paid to the federal Government by registered fuel distributors; while consumers did not directly pay the charge, it might be embedded in the price that they paid for fuel. Industrial facilities participating in the output-based

pricing system did not pay the charge on the fuels they purchased but were required to pay a carbon charge on the portion of their emissions that exceeded a certain threshold.

6. In designing the fuel charge, a balance had been struck between the principles of simplicity, certainty and fairness. While targeting distributors instead of individual consumers enabled more streamlined reporting of emissions, certainty with regard to the specific obligations entailed by the charge was required in order to ensure compliance. The 22 types of fuel to be covered by the charge had been clearly defined, and a precise methodology for calculating rates had been established, taking into account the global warming potential factors of the relevant greenhouse gases, the typical chemical composition of the fuels, and the related burning conditions. To ensure fairness, the rates for gas and diesel had been reduced by 5 and 2 per cent, respectively, to reflect mandatory renewable content requirements for those types of fuel, and special rules had been developed for fuels whose renewable content exceeded a certain threshold.

7. Government and private sector stakeholders had been consulted extensively throughout the development of the fuel charge and the output-based pricing system. Expertise within the Government on the reporting of greenhouse gas emissions under the Paris Agreement, and the specific knowledge of fossil fuel production and the distribution supply chain within the private sector, had proven particularly useful. As a backstop, the federal carbon pollution pricing system only applied in provinces and territories that had specifically requested it or that had not already established their own carbon pricing systems in line with federal standards.

8. The Government was returning the proceeds collected from the federal carbon pollution pricing system to provinces or territories of origin. In Ontario, New Brunswick, Manitoba and Saskatchewan, the majority of the direct proceeds from the fuel charge were being passed on to individuals and families through the personal income tax system; 7 out of 10 households in those provinces were expected to receive such payments. Lastly, building modelling capacity was essential to establish projections of the proceeds to be generated by the federal carbon pollution pricing system and to analyse its impact on the economy, greenhouse gas emissions, and households.

9. **Mr. Pizarro** (University of Santiago; and formerly with the Ministry of the Environment of Chile), panellist, said that, in September 2014, the Government of Chile had enacted a general tax reform bill comprising three green taxes. The first was a tax on carbon emissions from stationary sources such as boilers and turbines that had a power generation capacity of at least 50 megawatts. It was set at $5 per ton of carbon emissions on the basis of the estimated social cost of emissions. As the Government could not legally impose taxes on specific sectors, the tax provided an alternative means of recovering the cost of emissions by focusing on pollution-generating technologies. It also required large industrial facilities to report their emissions, helping Chile to achieve its nationally determined contributions under the Paris Agreement.

10. The second tax, a tax on local pollutants also produced by stationary sources, was proportional to the environmental damage caused per ton of emissions in each municipality, as determined on the basis of, inter alia, the estimated social cost of emissions and the population of the municipality. By discouraging the establishment of industrial facilities in areas where the potential environmental damage was high, the tax contributed to land-use planning. All revenue from the tax was collected by the central Government. The third tax, a tax on the sale of new cars, was based on the nitrous oxide emissions expected over the car’s lifetime. Significant institutional infrastructure had been developed to support the implementation of the three taxes.

11. In 2018, revenue from the two taxes on stationary sources had amounted to $186 million, with carbon emissions accounting for the largest share and the energy sector most heavily affected. Revenue from the tax on car sales had amounted to about $100 million: gasoline-powered cars had accounted for 60 per cent of that revenue, even though they represented 87 per cent of registered vehicles in Chile, while diesel-powered cars, which produced more harmful emissions, had accounted for 40 per cent, despite representing only 13 per cent of registered vehicles. That ratio illustrated the higher weighting assigned to more damaging pollutants. Between 2017 and 2018, revenue from the taxes on stationary sources had decreased by 1 per cent, correlating with positive environmental trends over the same period, including a 7 per cent decline in particulate matter emissions.

12. Environmental fiscal reform was central to the achievement of the Sustainable Development Goals and must be consistent with local problems and objectives. Environmental taxes were a feasible and efficient way to protect the environment, and their impact on vulnerable communities could be mitigated. Such taxes made the behaviour of private actors more transparent, generated consistent information to support the formulation of public policies, and enabled the creation of institutional infrastructure for development.

13. **Ms. Aristizabal** (Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters), panellist, said that the Subcommittee on Environmental Taxation Issues, established in 2017, was mandated to identify developing countries' needs for guidance in the area of environmental taxation and to focus specifically on the application of carbon taxes.

14. The Subcommittee was producing a handbook that provided practical advice to developing countries on how to design and implement carbon taxes, while presenting alternative instruments to support environmental protection. The handbook addressed countries' various potential motivations for introducing carbon taxes, depending on their specific situations and priorities; the link between environmental taxation and countries' international commitments; the institutional and political framework underpinning carbon taxation; issues related to the administration of carbon taxes; revenue use; the relationship between carbon taxes and other policy instruments, such as subsidies and incentives; and countries' experiences in the area of environmental taxation. The handbook also outlined two approaches to designing carbon taxes, namely, on the basis of the carbon content of the fuel in question or on the basis of the emissions generated by a specific activity. Countries were encouraged to share their experiences in the area of environmental taxation with the Subcommittee for inclusion in the handbook. The Subcommittee was organizing a workshop focusing on the experiences of sub-Saharan African countries, to be held in Nairobi in June 2019.

15. **Ms. Milne** (Professor and Director at the Environmental Tax Policy Institute of the Vermont Law School) asked how important it was for environmental taxes to be socially visible in order to influence the behaviour of polluters.

16. **Mr. Pizarro** (University of Santiago; and formerly with the Ministry of the Environment of Chile) said that the experience of Chile had clearly demonstrated the importance of such visibility. As a result of the tax on carbon emissions, energy companies in Chile had pledged to dispense with the use of coal and had signed an agreement with the Ministry of Energy to shut down existing coal-fired power plants, a response that was disproportionate to the relatively low rate of the tax and illustrated the influence of the social debate generated by it.

17. **Mr. Coulombe** (Senior Director, Excise and Sales Tax Division, Tax Policy Branch, Department of Finance of Canada) said that, in addition to making taxes visible, Governments must transparently communicate how tax revenue would be used and how emissions reduction targets would be achieved.

18. **Ms. Aristizabal** (Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters) said that Colombia had introduced a tax reform package comprising, inter alia, a carbon tax and a tax on plastic bags. The tax on plastic bags had had a more dramatic effect on consumer behaviour than the carbon tax, likely owing to its greater visibility.

19. **Mr. Van Dender** (Head, Tax and Environment Unit, Centre for Tax Policy and Administration, Organization for Economic Co-operation and Development (OECD)) said that according to recent studies, certain types of environmental taxes, in particular carbon taxes, might have a more pronounced influence on behaviour than others in the short term but not necessarily in the long term. Transparency with regard to tax increases and revenue use was essential to fostering public support for environmental taxes.

20. **Ms. Milne** (Professor and Director at the Environmental Tax Policy Institute of the Vermont Law School) asked how to evaluate the impact of environmental taxes on equity within complex tax systems.

21. **Mr. Van Dender** (Head, Tax and Environment Unit, Centre for Tax Policy and Administration, Organization for Economic Co-operation and Development (OECD)) said that Governments must determine the share of income spent by households of different socioeconomic levels on various energy-consuming goods and services, bearing in mind the distinction between equity and affordability. For example, as higher-income households often spent a greater share of their income on transportation than lower-income households, raising taxes in the transportation sector would have a disproportionate impact on the rich, thus promoting equity, but would still require poorer households to spend more in absolute terms, thus undermining affordability. Encouragingly, studies suggested that affordability outcomes could be improved by using just one third of the revenue raised from environmental taxes.

22. **Mr. Coulombe** (Senior Director, Excise and Sales Tax Division, Tax Policy Branch, Department of Finance of Canada) said that Governments must have the in-house capacity to evaluate the direct and indirect impact of various pricing scenarios on households and other sectors, and to determine the most effective ways of using revenue depending on the types of taxes applied, the energy sources involved, and context-specific economic factors.

23. **Mr. Pizarro** (University of Santiago; and formerly with the Ministry of the Environment of Chile) said that environmental taxes disproportionately benefited poor communities in the long run, particularly given their vulnerability to climate change. Indeed, the overall costs and benefits of such taxes must be taken into account: in Chile, for example, environmental pollution cost over $8 billion per year and resulted in over 3,000 premature deaths, while revenues from taxes on local pollutants amounted to only $25 million.

24. **Mr. Protto** (Member, Committee of Experts on International Cooperation in Tax Matters) asked how to raise awareness and build support for environmental taxes among legislators.

25. **Ms. Aristizabal** (Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters) said that the signing of the Paris Agreement by the Government of Colombia had sent a powerful signal to national legislators regarding the need for meaningful action to combat climate change. Coordination among Government entities was also critical. For instance, a policy paper on environmental protection prepared by several relevant government ministries in Colombia had guided legislators in developing a green tax reform bill. Other important drivers of action had included recommendations made by the Environment Policy Committee as part of the process of accession by Colombia to OECD, as well as other relevant recommendations made by the OECD Development Centre.

26. **Mr. Ríos Sánchez** (Mexico) asked how Governments could set appropriate tax rates to achieve climate change goals while avoiding adverse effects on economic growth.

27. **Mr. Fondukov** (Russian Federation) asked how to ensure compatibility between the imperatives of raising revenue and of changing the behaviour of polluters in the long term.

28. **Mr. Van Dender** (Head, Tax and Environment Unit, Centre for Tax Policy and Administration, Organization for Economic Co-operation and Development (OECD)) said that, to achieve the targets set out in the Paris Agreement, carbon prices would need to increase steeply over the next two decades at least, generating significant revenue while simultaneously driving behavioural change. Should additional revenue be required after emissions reduction targets had been achieved, Governments could explore alternatives to carbon taxes; in the transportation sector, for example, that could be a tax on driving. The potential impact of carbon taxes on economic growth should be considered in relation to the significant risks posed by climate change, which could be most effectively managed by establishing carbon pricing systems to reduce emissions.

29. **Mr. Pizarro** (University of Santiago; and formerly with the Ministry of the Environment of Chile) said that in order to mitigate the impact of carbon taxes on economic competitiveness, global markets must be developed, and offsetting mechanisms must be introduced at the national and international levels. In addition, the effect of emissions reductions on welfare must be taken into account. Countries should view environmental taxes as complementary to other policy options and should focus on establishing the institutional infrastructure required to implement such taxes before addressing issues like tax rates, competitiveness and equity.

Interactive dialogue: “Taxation and inequality”

30. **Mr. Prichard** (Professor at the University of Toronto in Canada), moderator, said that when raising revenue for the achievement of the Sustainable Development Goals, the importance of ensuring equity was often overlooked. Many experts agreed on three broad principles with regard to equity: national taxation systems and direct government transfers should be used to reduce poverty so that the poor received more from the system than they contributed; the rich should be taxed more heavily than the poor, not only for the purpose of redistribution but also to counteract the accumulation of extreme wealth and power by a narrow segment of the population; and, on the basis of horizontal equity, individuals with similar income and assets should face similar tax burdens and be treated equally under the law.

31. By comparing before-tax income and income after taking into account all tax and direct government transfers, it was possible to identify the failures of the current system. States which had acceded to the Organization for Economic Cooperation and Development (OECD) recently, such as Chile, Mexico, the Republic of Korea and Turkey, were generally less successful than low-income countries at using the fiscal system to redistribute income and reduce poverty and inequality. Similarly, Governments in some low-income countries used taxation and direct government transfers less successfully and sometimes even exacerbated poverty through overreliance on value added tax (VAT) instead of progressive taxation and direct transfers to the poor.

32. Four key issues characterized differences between low-income and middle-income countries in their use of

taxation and direct government transfers. First, non-OECD countries collected only 2 per cent of their GDP in direct personal income taxes, compared to almost 10 per cent for OECD member countries. They struggled, in particular, to tax large informal sectors and wealthy individuals for a number of reasons, including weak imposition of taxes on professional incomes and capital gains; low tax progressivity; international tax avoidance and evasion; and weak enforcement of the domestic tax regime.

33. Second, taxation of general wealth and inheritance in non-OECD countries was often non-existent, while even in OECD member countries, wealth taxes were being diluted, spurred by politics and the difficulty of international enforcement. Property tax, which was more accommodating of a unified taxation approach, accounted for only 0.5 per cent of GDP in low-income countries, compared to between 2 and 3 per cent in OECD member countries.

34. Third, although it was difficult to gather conclusive data on international corporation tax, it was generally accepted that a large proportion of multinational profits were shifted to low-tax jurisdictions to reduce tax liability. Low-income countries faced particularly acute challenges because they lacked the data and capacity to apply OECD rules on corporation tax. As a result, their Governments collected less revenue and an uneven playing field was created between domestic and international firms.

35. Fourth, studies in Sierra Leone and the Democratic Republic of the Congo indicated that much of the fiscal burden on citizens in low-income countries was hidden from view because costs such as levies, informal user fees for local services and off-the-books payments for State and non-State services were incurred at the local and subnational level. Such costs sometimes amounted to between 5 and 10 per cent of the average citizen's income and even more for poorer groups.

36. **Mr. Mosioma** (Executive Director, Tax Justice Network Africa), panellist, speaking via video link from Kenya, said that inequality was a growing global phenomenon, whose devastating effects were noticeably felt on the African continent. According to a study by the United Nations Development Programme (UNDP), 10 of the 19 most unequal countries in the world were in Africa. Moreover, although Africa had recently been recorded as the continent with the most rapid growth in dollar millionaires and had experienced an overall reduction of extreme poverty, the number of people living below the poverty line had increased. The African continent's growth was skewed towards predominantly high-asset sectors with high capital absorption, such as mining, finance, real estate and technology, and was concentrated in only a few countries. By contrast, labour-intensive sectors such as manufacturing, agriculture and construction had shrunk, resulting in a rise in inequality and the further concentration of income.

37. The concentration of wealth among the elite had a direct bearing on the nature of policies adopted, since a State consisting of few rich and many poor people tended to be subjected to manipulation by the rich. According to the 2019 edition of *African Tax Outlook*, published by the African Tax Administration Forum, 30 per cent of African taxation was collected in consumption taxes. Pressure on Governments to increase domestic resources had led to aggressive tax systems in which the rich used their political influence to resist taxes on their wealth. In 2017, for example, political pressure had led Kenya to reverse a decision to tax capital gains, while Uganda had baulked at the prospect of imposing a tax on the purchase of land above a certain value. On a positive note, some progressive measures had been applied, such as the introduction of a tax in Uganda on high-net-worth individuals that had resulted in the collection of $3 million in six months.

38. Tax competition also induced Governments to offer a wide range of tax incentives to corporations, thereby severely eroding the tax basis and increasing reliance on indirect taxation. African countries were estimated to have lost some $87 billion annually as a result of illicit financial flows, largely because multinational companies shifted profits offshore and exploited loopholes in weak tax systems. It was estimated that Kenya, for example, lost up to $1 billion annually because of incentives to attract foreign direct investment (FDI).

39. To tackle inequality in Africa, countries needed to design multidimensional policies. They should explore ways in which to increase direct taxation, especially on high-income earners, through capital gains taxes, property taxes and other wealth taxes and introduce measures to prevent tax avoidance by actors in typically more informal sectors, such as real estate. In the context of the increasing digitalization of the economy, investment in information technology might also facilitate the collection of revenue. Moreover, steps should be taken to ensure citizen participation in the design of tax policies, since taxation should be by consensus, not by cohesion. It should be noted that policies to combat poverty, such as investment in education and productivity, tended to address inequality as well, but if they were not accompanied by progressive taxation and well-targeted social programmes, they could lead to accelerated income disparities.

40. **Ms. Tamba** (Member, Committee of Experts on International Cooperation in Tax Matters), panellist, said that the State played a crucial role in ensuring that taxes and benefits had a positive impact and enhanced the availability and equality of public and social services. A well-balanced mixture of progressive and targeted tax and expenditure policies, as well as fair implementation and administration of tax systems, improved redistribution and reduced social and economic inequality. However, research carried out by the United Nations in sub-Saharan Africa showed that policies that were effective in reducing poverty did not necessarily have the same impact on income equality and could even increase it if not accompanied by targeted social protection programmes and progressive taxation.

41. In Africa, a number of fiscal policies were used to reduce inequality. In Liberia, concession agreements stipulated that resources should be allocated for the direct benefit of countries in which the respective company operated. In Ghana, the national health insurance system was funded from levies on certain goods and services and additional social security and national insurance contributions. As a result, the quality and accessibility of the Ghanaian health-care system was excellent. Various Governments had taken measures specifically targeting the bottom 30 to 40 per cent of the population, such as investment in public education, agriculture and facilities to protect perishable produce for the rural poor. A strategy by China to accelerate infrastructure development in Africa was proving to be particularly timely. Some African countries had successfully applied cash transfer programmes: one such programme carried out in Liberia in 2010 had benefited over 3,000 households.

42. There was a clear need to accelerate action to tackle inequality, particularly in Africa, which was home to 27 of the world's 28 poorest countries, currently accounted for 16 per cent of the global population and was on course to make up 40 per cent of the global population by 2100. High unemployment, corruption, the irregular water supply, insufficient health-care services and limited opportunities had precipitated an exodus from African countries, culminating in the migrant crisis. With the advent of universal connectivity and improved access to the Internet, Governments were increasingly held accountable and called on to take urgent action in order to avoid facing the discontent of their citizens. Although many good practices and laws had been developed, a failure to deliver on them owing to a lack of commitment and capacity was a major challenge. If African countries were to attain the Sustainable Development Goals, they should develop measurable actions plans and consider naming and shaming those who hindered their implementation.

43. **Mr. Fuentes-Nieva** (Executive Director, Oxfam Mexico), panellist, said that tax was a key element of the social contract between States and citizens and thus a crucial factor in the growing distrust in established institutions worldwide. Citizens essentially agreed under the social contract to sacrifice some of their freedom and contribute taxes to Governments in exchange for security and public goods and services. However, the increasing difference between citizens' demands and the services provided by States implied that a new social contract was needed and that global tax policies should thus be redesigned. Growing disparities in income and wealth and a failure to tax the richest in society were key reasons for the weakening of the social contract. The considerable discrepancies in before-tax and after-tax income between countries demonstrated that inequality was caused by policy decisions rather than a certainty.

44. Improving tax morale and trust between citizens and the State was an important part of increasing tax receipts sufficiently to fight poverty. Taxation must therefore be viewed in conjunction with public expenditure, since without clear accountability of the public spending of funds raised through taxes, it was difficult for Governments to justify tax rates that would be high enough to tackle poverty and inequality in pursuit of the Sustainable Development Goals. It was equally key for Governments to increase tax morale by demonstrating that public money was not subject to corruption.

45. Public morale and the relationship with the social contract could also be improved by ensuring that public expenditure was more closely linked with the communities in which taxes were collected. Mexico was a case in point: it collected 20 per cent of GDP in taxes but its decades-long dependency on oil revenues had resulted in a system skewed towards federal taxes, rather than state or municipal taxes. Where states did have taxation abilities, (for example, with regard to car ownership), they sometimes engaged in a race to the bottom with other states. Similarly, municipalities often did not collect property taxes even though they had the powers to do so. More consideration should therefore be given to the extent to which municipal, state and federal taxes and transfers affected the distribution of income and inequality and how they could be used to strengthen the social contract.

46. Globalization had adversely affected tax revenues by increasing the potential for tax avoidance and tax

evasion. Such matters could not be resolved by Governments alone but required international cooperation. The United Nations and other international forums had an important influence in that regard, since without efforts at the global level to close tax havens, the wealthy would continue to have opportunities to limit their effective tax rates that were unavailable to others. Failure to deal with tax havens and tax avoidance further undermined tax morale as public perception of the fact that the richest in society received services from the State without paying taxes increased awareness of the unfairness of the social contract.

47. **Mr. Ríos Sánchez** (Mexico) said that when evaluating the fiscal situation in Mexico and determining what actions to take, it was important to gather information from non-governmental organizations. Studies had shown that the direct transfers designed by the Government of Mexico had been fairly successful. Nevertheless, his Government was aware that to achieve Goal 10, it must promote federalism and improve coordination between state and municipal institutions.

48. **Mr. Fuentes-Nieva** (Executive Director, Oxfam Mexico) said that improving coordination between different levels of authority, ensuring the accountability of municipal, state and federal authorities and strengthening citizens' tax morale was indeed crucial for Mexico.

49. **Ms. Tan** (Observer for Singapore), recalling that many States had moved away from imposing inheritance tax and estate duty, that property tax accounted for only 2 per cent of the GPD of OECD member countries and that many Governments had found it difficult to enforce taxation on the non-physical entities of the wealthy, asked how Governments could administer and enforce progressive taxes on wealth in a way that generated a decent amount of revenue.

50. **Mr. Prichard** (Professor at the University of Toronto in Canada) said that countries were generally more effective at applying property tax than other types of wealth tax. However, since physical property usually represented only a small proportion of the wealth of high-net-worth individuals, property tax was no substitute for wealth taxes that achieved broader redistribution. States were also hesitant to enforce broader wealth taxes like estate duty or inheritance tax. Although recent international tax reforms, such as the automatic exchange of information for tax purposes between countries, would make it easier to tax income, it was critical to find ways to facilitate taxation not only of income but also of more broadly defined categories of wealth.

51. Recent political changes had also eroded the effectiveness of wealth taxes. In the United States, policies to reduce estate duty and the inheritance tax had reduced revenue. Wealth taxes worked well only when States had the political will to implement them: by drawing on new tools available to them, Governments could reintroduce wealth taxes and enforce them more effectively, thereby improving equity.

52. **Mr. Alemayehu** (Observer for the Global Alliance for Tax Justice) said that the current discussion on taxation and inequality should have focused on the international constraints faced by developing countries rather than possible normative measures of domestic tax policy. International efforts to improve tax regimes were currently fragmented and the United Nations was the only organization with the legitimacy to unite them. A parallel process had commenced under the auspices of OECD primarily because efforts had been made to marginalize such discussions at the United Nations. Although the deadline for achieving the Sustainable Development Goals was fast approaching, the international community was not showing enough urgency to curb illicit financial flows, tax evasion and tax avoidance. If the United Nations could not find ways to ease those external constraints on developing countries, it was illusory for it to expect them to overcome the regressive nature of their national tax regime or to implement many of the good initiatives developed for mobilizing domestic resources.

53. **Mr. Malik** (Observer for the Indigenous Peoples' Survival Organization) said that tax was an obligatory donation used to run not only Governments but also international organizations like the United Nations. However, since taxation was essentially money, it would often be prone to corruption and money-laundering. Any global solution to improve taxation should incorporate an understanding of the civic duty to pay taxes into the curricula of educational institutions. Teaching the next generation lofty qualities of that kind would be a more sustainable way to confront the difficulties encountered in administering and enforcing tax.

54. **Ms. Tamba** (Member, Committee of Experts on International Cooperation in Tax Matters) said that civic education was a significant aspect of tax compliance in any tax education campaign. In Liberia, the active involvement of civil society in promoting taxpayer education and holding the Government accountable for expenditure policies had improved tax compliance.

55. **Mr. Mosioma** (Executive Director, Tax Justice Network Africa), replying to the question from the representative of Singapore, said that since much of the wealth subject to taxation by developing countries was

held offshore, domestic solutions had only a limited effect. The focus should therefore be on improving the global financial system, which was widely recognized as flawed and conducive to the outflow of funds from developing countries. Developing countries resorted to consumption taxes and tax incentives, partly because they were unable to tax the revenue of the corporate sector, especially when multinational companies engaged in tax avoidance and tax evasion, and partly because of widening gaps between statutory tax rates and the effective tax rates.

56. Solutions to such issues must be agreed upon in a global context. Developing and developed countries should come together to design an effective global governance system under the auspices of the United Nations that was mutually beneficial for all. Furthermore, efforts should be made to increase transparency, especially with regard to where companies reported their profits and the role of beneficial ownership in tax systems.

57. **Ms. Tamba** (Member, Committee of Experts on International Cooperation in Tax Matters) said that illicit financial flows from Africa currently exceeded development aid to African countries. To reduce poverty in Africa, it was therefore crucial to step up efforts to cap illicit financial flows.

Conclusion of the special meeting

58. The President said that the interactive dialogues held during the special meeting had made it clear that, despite some progress towards building a global tax architecture aligned with national, regional and global sustainable development priorities, further efforts were needed. The findings and conclusions of the special meeting should contribute to the growing body of recommendations available to countries regarding the use of tax policies to support national sustainable development strategies. Participants should continue to use the Council as a platform for generating and raising awareness of such recommendations, exchanging experiences and lessons learned, highlighting specific needs for capacity support and promoting multi-stakeholder initiatives.

The meeting rose at 6.05 p.m.