Aligning Tax Expenditures with the Sustainable Development Goals (SDGs)

Tax for SDGs Initiative

UNDP

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Global Tax Expenditures Transparency Index
Launch Event and Conference
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For more information contact taxforsdgs@undp.org

Background

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Besides their stated policy goals, tax expenditures (TEs) are often **costly** and **opaque** and, when ill-designed, can be **ineffective** and trigger significant **side effects or externalities**

Hence, reforming TE systems should be seen as an avenue for governments to

1. increase **domestic revenue mobilization (DRM),** and
2. better align their tax systems with the SDGs → **UNDP's Tax for SDGs**

What is UNDP offering?
TEs & SDGs Toolkit

UNDP offer on TEs & SDGs provides a **self assessment**, two-stage **toolkit** to assess the alignment of national TE systems with the SDGs.

- **1st stage:** Structural conditions (being implemented)
- **2nd stage:** Individual TE alignment with the SDGs (work in progress)

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The Toolkit

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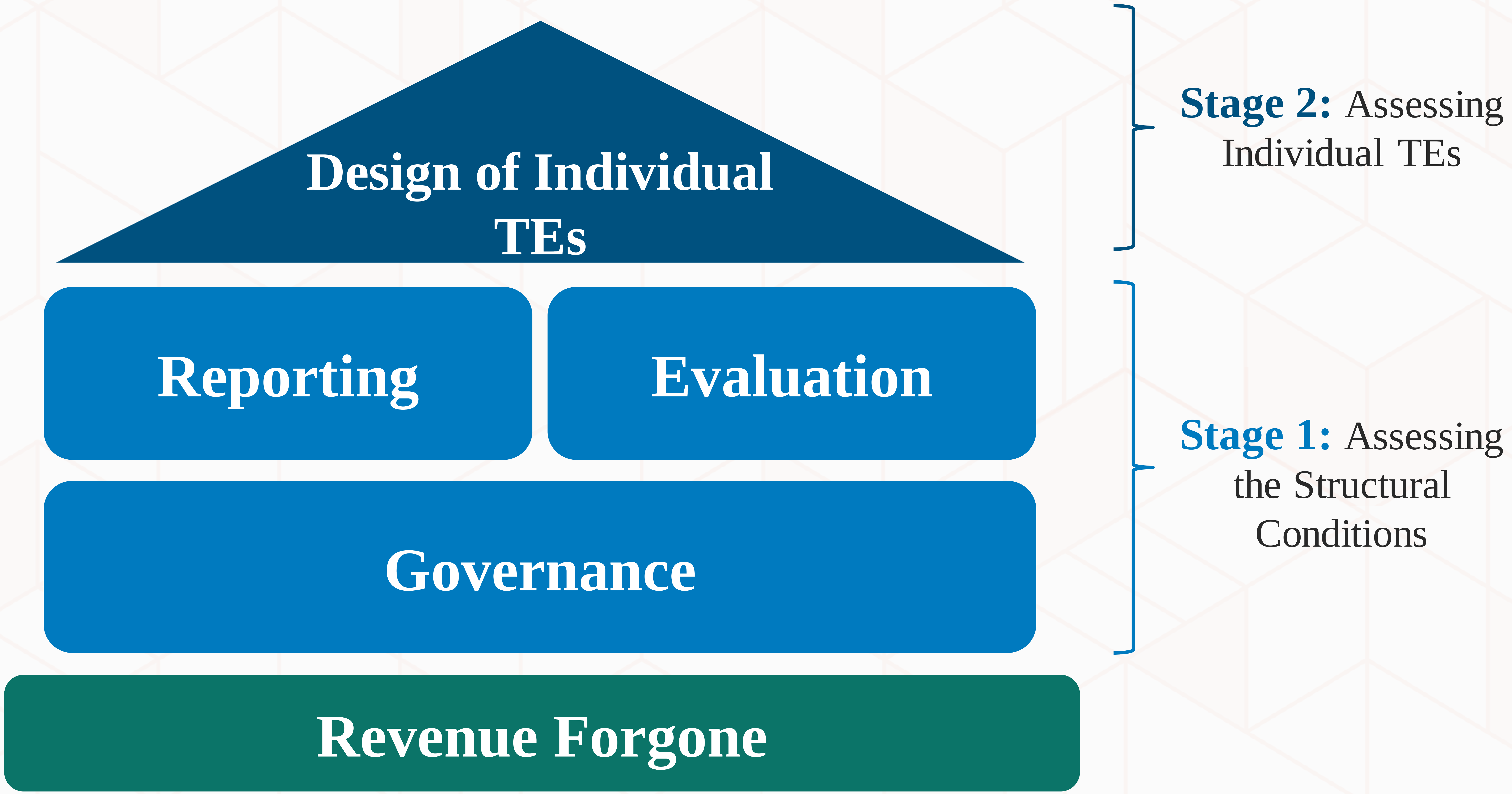

First Stage

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Dimension 1: Governance		
Subdimensions:		**Scoring**
1.1	Legal Basis	**A - D**
1.2	Fiscal Policy Integration	**A - D**
1.3	Institutional Setup	**A - D**
1.4	Institutional Capacity	**A - D**

Dimension 2: Reporting		
Subdimensions:		**Scoring**
2.1	Frequency and Regularity of TE Reporting	**A - D**
2.2	Accessibility and Visibility of TE Reporting	**A - D**
2.3	Revenue Forgone Estimates	**A - D**
2.4	Background Information on TEs	**A - D**

Dimension 3: Evaluation		
Subdimensions:		**Scoring**
3.1	Ex-Ante Examination Framework	**A - D**
3.2	Ex-Post Evaluation Framework	**A - D**
3.3	Occurrence of Ex-Post Evaluations	**A - D**
3.4	Discussion of Evaluation Results	**A - D**

Revenue Forgone (RF)		
Indicators:		**Unit**
I.1	RF as a Share of GDP	**%**
I.2	RF as a Share of Total Tax Revenue	**%**
I.3	RF as a Share of Government Spending	**%**
I.4	RF Targeting SDGs as a Share of Total RF	**%**

Subdimension 1. Legal Basis: Scoring

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Score	Description
A	*All of the following requirements apply:* 1. There is a legal requirement to periodically report on TEs. 2. The report is submitted to the National Assembly. 3. The institution in charge of TE reporting is clearly indicated in the law. 4. The legal requirement to report on TEs includes the description of policy objectives (ideally, with references to the SDGs) and costing of TEs (revenue forgone estimates). **Periodic reporting:** occurring at repeated time intervals. This can be because the TE report itself must be published periodically, or because another document to which the TE report is attached (e.g. the Budget) must be published periodically.
B	*At least the following requirements apply:* 1. There is a legal requirement to periodically report on TEs. 2. The report is submitted to the National Assembly.
C	There is a legal requirement to periodically report on TEs.
D	None of the above requirements apply.

Subdimension 1.1. Legal Basis: Assessment Questions

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Legal basis	Guidance	Answer	Comments	Sources
Is there a legal provision requiring to report on TEs?	**Legal requirement:** obligation specified in a public document with legal authority (law, directive, regulation, decree etc.).	*Yes/No*		
Does the legal provision requiring to report on TEs impose that reporting is done periodically?	A requirement to report periodically can be expressed directly or indirectly in the law (law, regulation, decree etc.). **Directly:** the legal prvision requiring to report on TEs specifically indicates that TE reports have to be published periodically (every year, or other period of time). **Indirectly:** the legal provision requiring to report on TEs is subordinated to the requirement to publish other document(s) (e.g. budget documentation, medium-term strategy etc.), and such document(s) are specifically required to be published periodically (every year, or other period of time).	*Yes/No*		
Is the TE report required to be presented to the National Assembly?	**National Assembly:** government institution where representatives of citizens publically deliberate and vote on national policies (e.g. parliement, assembly, council). The question focuses on national-level representative organs that have a mandate over policy-making in a jurisdiction.	*Yes/No*		

Subdimension 1.1. Legal Basis: Assessment Questions

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Legal basis	Guidance	Answer	Comments	Sources
Is the government institution in charge of TE reporting clearly indicated in the legal provision requiring to report on TEs?	**Government insitution:** entity that is under the authority of national government (e.g. ministry, agency, department, special unit)	*Yes/No*		
Does the legal provision requiring to report on TEs specify that reports must describe the policy objectives of TEs?	Beyond the requirement to report on TEs, the law could specify that the policy objectives of each TE provision are indicated in the report. This would ideally include a requirement to indicate which SDGs are being targeted by each TE provision (e.g. a TE that promotes energy transition would be identified with SDG 7). **Policy objective:** reason or purpose for which the tax law deviates from the benchmark, resulting in a tax expenditure.	*Yes/No*		
Does the legal provision requiring to report on TEs specify that reports must indicate the cost (revenue forgone) of TEs?	Beyond the requirement to report on TEs, the law may specify that the fiscal cost (revenue forgone estimates) of each individual TE provision are provided.	*Yes/No*		

Second Stage

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- Looks into specific TE provisions by assessing their **potential alignment** (or miss-alignment) with the SDGs
- Based on 3 key questions:

a. *Is the TE's **stated policy goal** supportive or running against the SDGs?*

*b. Is the TE **likely to be effective** in reaching that policy goal, i.e. is the impact on the outcome variable likely to be the expected one? [only if answer to a = supportive]*

*c. Are there potential **negative and/or positive externalities** affecting other SDG(s) being triggered by the TE?*

Earned Income Tax Credit (EITC)

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Policy goal:
- To bolster economic security of low-income working families (especially women with children)

Design:
- Tax credit for **low-income workers** with **eligible children*** at a maximum rate of 45% of income
- The credit **plateaus and then phases out** at income levels and rates which depend upon how many qualifying children are eligible and marital status
- Credits in excess of tax liabilities owed through the PIT system are **refundable**

Evidence:
- **Encourages** single people and primary earners in married couples to **work** (Bastian and Lochner, 2022)
- Positive effects in childhood on education, and employment outcomes in adulthood (Bastian and Michelmore, 2018)
- The EITC is **concentrated among the lowest earners**, with almost all of the credit going to households in the bottom three quintiles of the income distribution (Hardy et al., 2022)

Assessment Matrix

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TE Provision	Assessment	Sustainable Development Goal																
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Earned Income Tax Credit (EITC)	*Objective*																	
	Effectiveness																	
	Externalities																	
Electric Vehicle (EV) Tax Credit	*Objective*																	
	Effectiveness																	
	Externalities																	
Mortgage Interest Deduction (MID)	*Objective*																	
	Effectiveness																	
	Externalities																	

Assessment	Green	Yellow	Grey
Objective	Supportive of SDG	Against SDG	Not supportive or against
Effectiveness	Good design	Design flaw(s)	No foreseen effect
Externalities	Positive externalities	Negative externalities	No foreseen effect

Electric Vehicle (EV) Tax Credit

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Policy goal:

- To boost demand for EVs and accelerate the country's development of a nation-wide charging station network

Design:

- Buyers of a new plug-in **electric vehicle** may qualify for a credit up to $7,500, **if their income does not exceed**:
  - $300,000 for married couples filing jointly
  - $225,000 for heads of households
  - $150,000 for all other filers
- Under current version, only available for vehicles with **final assembly in North America***
- The credit is **nonrefundable**

Evidence:

- Positive and significant effect on EVs sales ([Jenn et al., 2018])
- Roughly 90% of the benefits captured by top-10 income earners ([Borenstein and Davis, 2016])
- *Can violate WTO Rules

Assessment Matrix

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Mortgage Interest Deduction (MID)

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Policy goal:
- To boost homeownership levels

Design:
- Homeowners can **deduct** mortgage interest on the first $750,000 ($375,000 if married filing separately) of indebtedness

Evidence:
- Negligible effect on homeownership, if anything only on high-income earners (Hilber and Harris, 2014)
- Benefits **highly concentrated** at the upper end of the income distribution (Harris and Parker, 2014 & Sommer and Sullivan, 2018)
- Encourages high-income households to take out loans to buy **more expensive and larger houses,** rather than investing in other assets (Keightley, 2020)

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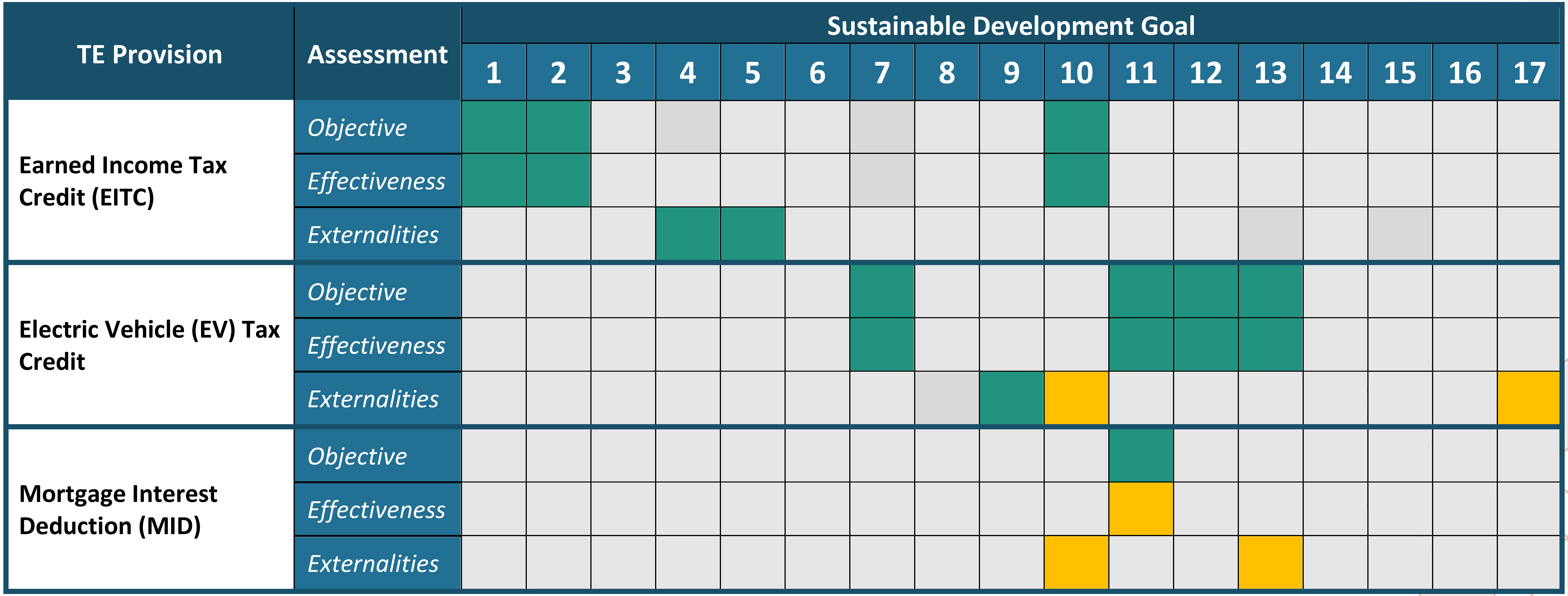

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Thank You!

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