



*European Economic and Social Committee*

**ECO/494**

**Taxation/private investment and the Sustainable Development Goals  
– cooperation with the UN Committee of Experts  
on International Cooperation in Tax Matters**

## **OPINION**

European Economic and Social Committee

**Taxation/private investment and the Sustainable Development Goals – cooperation with the UN  
Committee of Experts on International Cooperation in Tax Matters**  
[own-initiative opinion]

Rapporteur: **Krister Andersson**

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## 1. **Conclusions and recommendations**

- 1.1 Taxation policies are fundamental for the SDGs as they determine the economic environment in which investment, employment, and innovation take place while providing the government with revenues for financing public spending. Additional policy alignment and credibility enhancing measures could do much to increase private investment and to close the global investment gap by stimulating capital flows from capital-intense states to developing economies with investment needs.
- 1.2 Businesses provide valuable goods and services in the economies and are important drivers of investment, productivity, inclusive economic growth, and job creation. As these organisations are diverse and range from SMEs to multinationals, they are a major resource of expertise, creativity, and innovation which assist in solving many of the sustainable development challenges.
- 1.3 A high percentage of informal economic activity results in narrow tax bases, which further reduce the potential for tax collection and increase distortions. Tax bases should be as broad as possible allowing tax rates to be as non-distortive as possible.
- 1.4 The EESC would like to emphasise that a successful domestic resource mobilisation requires that (1) tax rulings are made in an open and transparent manner; (2) systems are put in place to ensure the accountability of civil society organisations (CSOs) and parliamentarians; (3) governments should be transparent with taxes and expenditure; and that (4) taxes are visible.
- 1.5 The private sector plays an important role in promoting gender equality. Wage policies as well as training and education in the work place are important to promote equal opportunities between genders, in career progression and professional growth. The opportunities linked to female participation in the global economy are huge, and should be a driver of inclusive economic growth, innovation and productivity.
- 1.6 Policies related to taxation of the digitalised economy should seek to promote, not hinder economic growth and cross-border trade and investment. In the face of the growing importance of digitalised companies, there is a need to develop a new methodology for nexus and profit allocation to determine taxation rights between market countries and the country in which the digitalised MNEs are resident.
- 1.7 The EESC considers it important that any new rules on how to allocate taxation rights between countries is fair for both small and large consumer countries, as well as for developed and developing countries. Proper remuneration for the contributions made in terms of innovation, entrepreneurship etc. must be recognised. Corporate tax revenues, although small in relation to total tax revenues, are important for resource mobilisation and financing of needed infrastructure, research and development, education and health care, etc.
- 1.8 The EESC notes that EU Member States are among the SDG top performers. The Committee stresses that the EU and its Member States have to take steps to ensure sustainable fiscal and taxation systems in order to achieve the SDGs. The involvement of Organised Civil Society at

all levels is essential in order to realise the SDGs, as civil society represents key stakeholders in the implementation of the Agenda 2030 and much of the needed investment will come from the private sector.

- 1.9 The EESC welcomes the Platform for Collaboration on Tax, which is a joint initiative of the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank Group (WBG), as it facilitates the interactions between standard-setting, capacity-building, and technical assistance in the sphere of international tax. The EESC believes that the EU should also be a member of the Platform.
- 1.10 The EESC considers that the work on taxation/private investment and the Sustainable Development Goals by the UN Committee of Experts on International Cooperation in Tax Matters is of the utmost importance for advancing the global dialogue and greatly contributes to peer learning and to exchange of best practices. The EESC stresses that European civil society must play an active role in this crucial international debate.

## 2. **Introduction to investment, taxation and the SDG**

- 2.1 The 2030 Agenda is centred on 17 Sustainable Development Goals (SDGs)<sup>1</sup> and 169 targets which aim to address the environmental, political and economic challenges facing our world.
- 2.2 To achieve the Goals, private investment plays an important role and further alignment of investment and tax policies would be a necessary step to promote investment, job creation and sustainable economic growth globally. Some important work has already been carried out in this direction by the OECD, such as *the Base Erosion Profit Shifting (BEPS)*<sup>2</sup> project and the initiative *Policy Coherence for Sustainable Development (2018)*<sup>3</sup>.
- 2.3 Taxation policies are fundamental for the SDGs as they determine the economic environment in which investment, employment and innovation take place, while providing the government with revenues for financing public spending. Additional policy alignment and credibility enhancing measures could do much to increase private investment and to close the global investment gap by stimulating capital flows from capital-intense states to developing economies with investment needs.
- 2.4 Tackling tax avoidance and diminishing tax competition at the global level is of high importance for achieving SDGs. At times of austerity and budgetary constraints, the decline in tax revenues from companies has an adverse effect on the sustainability of social protection systems and may lead to regressive taxation if the tax burden is shifted to consumers and low-income workers.

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1 <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals>.

2 <http://www.oecd.org/tax/beps/>.

3 <http://www.oecd.org/publications/policy-coherence-for-sustainable-development-2018-9789264301061-en.htm>.

2.5 Developing countries most in need of resources still face challenges collecting taxes. In the developing countries, the contribution from personal income taxes is often very low – only a few per cent of GDP while in the developed countries they constitute the bulk of tax revenues, in particular if social security contributions are included.

2.6 How tax revenues are administered and used is also very important. It must be noted that some countries, notably African nations, use 25-35 percent more inputs in both the education and health sectors to produce the same outputs as more advanced and efficient countries<sup>4</sup>. It is therefore important to ensure that public spending is cost-effective.

### 3. **Taxation as an instrument for environmental protection**

3.1 Several of the SDG targets relating to climate protection would benefit from the creation of a coherent framework and implementation plan in the area of taxation for the use of natural resources. Environmental tax policies could be employed to combat climate change (Goal 13)<sup>5</sup> and protecting ecosystems in the ocean and on land (Goals 14 and 15<sup>6</sup>). By affecting the pricing structures of inputs, tax policy can be used to promote affordable and clean energy (Goal 7)<sup>7</sup> and stimulate a responsible use of the common natural resources (Goal 12)<sup>8</sup>.

3.2 The purpose of environmental taxes, from an economic point of view, is to correct for externalities, i.e. situations where the polluters are able to shift the costs from the environmental damage over to society; an example is the emission of greenhouse gases. In designing these kinds of taxes, it would be highly beneficial to involve civil society and business in the process as this would ensure that policies which strengthen the regulatory frameworks align private sector incentives with public goals<sup>9</sup>.

3.3 An example of a policy mix in the field of taxation could be to phase out subsidies on inefficient fossil fuel (target 12.C)<sup>10</sup>. This would bring about important budget savings for governments, while also making these types of fuel less attractive for businesses and consumers. These savings, if redirected towards increasing the share of renewables in the global energy supply

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4 <https://openknowledge.worldbank.org/bitstream/handle/10986/8325/wps3645.pdf?sequence=1&isAllowed=y>

5 Goal 13 - Take urgent action to combat climate change and its impacts.

6 Goal 14 - Conserve and sustainably use the oceans, seas and marine resources for sustainable development; Goal 15 - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

7 Goal 7 - Ensure access to affordable, reliable, sustainable and modern energy for all.

8 Goal 12 - Ensure sustainable consumption and production patterns.

9 For more information, see ICC "Business Charter for Sustainable Development – Business Contributions to the Sustainable Development Goals", <https://iccwbo.org/content/uploads/sites/3/2015/09/ICC-Business-Charter-for-Sustainable-Development-Business-contributions-to-the-UN-Sustainable-Development-Goals.pdf>

10 12 c - Rationalise inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimising the possible adverse impacts on their development in a manner that protects the poor and the affected communities.

(target 7.2)<sup>11</sup>, can support universal access to clean energy (target 7.1)<sup>12</sup>. If additional policies are put in place to stimulate investments in clean energy infrastructure (target 7.B)<sup>13</sup>, it would facilitate decoupling economic growth and environmental degradation (target 8.4)<sup>14</sup>.

- 3.4 The principle of aligning business incentives with public goals is in line with the *Addis Ababa Action Agenda*<sup>15</sup>, by which businesses were encouraged to embrace a core business model that takes account of the environmental, social and governance impacts of their activities. Businesses provide valuable goods and services in the economies and are important drivers of investment, productivity, inclusive economic growth, and job creation. As businesses are diverse and range from SMEs to multinationals, they are a major resource of expertise, creativity, and innovation which assist in solving many of the sustainable development challenges. In order to achieve the SDGs on combating climate change, the private sector should adhere to a code of conduct that will significantly increase green investments and reduce or eliminate investments with negative effects on the environment.
- 3.5 Considering the interlinkage of the SDGs, civil society involvement is vital to ensure that three-dimension sustainable development (economic, social and environmental) is reflected in the design and implementation of policies. Environmental taxes have traditionally been identified as regressive, meaning that they have a larger impact on low-income households. Consequently, it is important to ensure that policies remain socially sustainable.
- 3.6 The EESC does not support taxation of an arbitrary nature that would adversely affect and disproportionately impact the poor and less well-off in society and equally undermine several of the SDGs. For example, substantially increasing taxes on goods and services where there are no viable alternatives would only be a burden without achieving its objectives.
- 3.7 The EESC would like to underline the role that civil society organisations play in monitoring SDG implementation and in ensuring socially acceptable measures as well as indicating the need to revise the indicators<sup>16</sup>.
- 3.8 The EESC would like to underline the need to create the right conditions to ensure that both private and public funds are directed towards the sustainable long-term investments needed for a sustainable economy<sup>17</sup>.

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<sup>11</sup> 7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix.

<sup>12</sup> 7.1 - By 2030, ensure universal access to affordable, reliable and modern energy services.

<sup>13</sup> 7.b - By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support.

<sup>14</sup> 8.4 - Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.

<sup>15</sup> <https://sustainabledevelopment.un.org/index.php?page=view&type=400&nr=2051&menu=35>.

<sup>16</sup> EESC ongoing opinion on *The sustainable economy we need* (not yet published), point 1.10 - The EESC calls on the Commission to establish a blueprint for "green fiscal reform" in the EU Member States to help align taxation, subsidies and pre-distributive policies with the goal of achieving a just transition to a wellbeing economy.

<sup>17</sup> EESC opinion on *Next steps for a sustainable European future*, [OJ C 345, 13.10.2017, p. 91](#)

#### 4. **Taxation of the informal economy**

- 4.1 In order to finance public investment and public spending needed to meet the SDGs, broadening the tax base of governments by taxing the informal economy is important. According to the International Labour Organization, more than 61% of the global workforce (2 billion people) makes a living in the informal sector, with 93% of informal employment worldwide being concentrated in emerging and developing countries. For this reason, it is vital to design tax policies and an institutional framework which allows for the integration of the informal sector into the formal economy.
- 4.2 The prominent role of the informal economy, particularly in developing countries, means that the daily economic activities of citizens and business remain outside the tax base. In many cases, the choice to operate outside of the formal economy is not an active choice, but rather the only practical alternative for firms and workers who either cannot access the formal sector, or have been excluded from it. The inclusion of the informal economy must be promoted through effective institutions (Target 16.A and 16.6)<sup>18</sup> that allow workers, business and consumers to contribute to the tax base of the state, while benefiting from social protection and services. In particular, the fairness, transparency, efficiency and effectiveness of tax systems, should be a priority as a precondition for sustainable development.
- 4.3 Many companies would be willing to formalise, as there are hidden costs facing SMEs operating outside the formal economy and many benefits for companies who formalise. The benefits of being formalised include easier access to credit and other financial instruments (Target 8.10)<sup>19</sup>, training and support programmes, government procurement contracts, property rights, as well as the possibility to engage with larger firms. The costs associated with formalising are the costs of registration and licences, the costs of tax compliance, the cost of complying with labour laws and other government regulations. By simplifying the procedures of registration, licencing and the administration of tax compliance, companies would be incentivised to formalise.
- 4.4 In many situations where the informal economy is very widespread, an important contribution to this process can come from companies in general and sometimes in particular from cooperative enterprises, which allow many people without economic resources to start economic and entrepreneurial activities, even with a minimum capital injection.
- 4.5 Encouraging the formalisation of micro enterprises and SMEs would allow for policies that support job creation and growing enterprises (Target 8.5)<sup>20</sup>. Labour market regulations to achieve decent working conditions must be adhered to (Target 8.5). Similarly, greater oversight

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<sup>18</sup> 16 a - Strengthen relevant national institutions, including through international cooperation, for building capacity at all levels, in particular in developing countries, to prevent violence and combat terrorism and crime.  
16.6 - Develop effective, accountable and transparent institutions at all levels.

<sup>19</sup> 8.10 - Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

<sup>20</sup> 8.5 - By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

and regular control over economic activity would allow governments to adopt policies, especially fiscal, wage and social protection policies that progressively achieve greater equality (Target 10.4).

- 4.6 While the benefits of a functioning system for tax collection are evident, challenges remain in how to implement the necessary changes to increase the capacity of states in this regard. Experiences from the past have shown that much of the efforts that have been directed towards this end have often resulted in distortions, low yields, high collection costs, enforcement challenges and even capital flight. Considering that many developing states have reduced means, measures to improve administrative efficiency and effectiveness of tax systems should be prioritised. The private sector can offer assistance in capacity-building, transferring experiences from highly developed countries and economies<sup>21</sup>.
- 4.7 The administrative costs and compliance costs must be taken into account when governments try to close any revenue gaps, be it from direct or indirect taxes. Special consideration must be given to the situation of low income earners and to the distribution of the tax burden across income levels. Increasing inequalities may jeopardise tax morale. The Committee considers that a properly designed progressive tax system could ensure a fair distribution of the tax burden and significantly contribute to diminishing inequalities and reducing poverty.
- 4.8 A high percentage of informal economic activity results in narrow tax bases, which further reduce the potential for tax collection and increase distortions. It is important to highlight the need to mobilise resources to improve domestic revenue collection (Target 17.1)<sup>22</sup> and to fight tax evasion and money laundering. Countries need to improve their cooperation against illicit financial flows and the EU should consider having a coordinated list of possible counter measures.
- 4.9 The EESC would like to emphasise that a successful domestic resource mobilisation requires that (1) tax rulings are made in an open and transparent manner; (2) systems are put in place to ensure the accountability of civil society organisations (CSOs) and parliamentarians; (3) governments be transparent with taxes and expenditure; and that (4) taxes are visible<sup>23</sup>.

## 5. **Taxation and gender equality**

- 5.1 Sustainable Development Goal 5 aims at ending all forms of discrimination against women and promoting policies for gender equality and the empowerment of women and girls. A precondition of female empowerment is to secure equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services,

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<sup>21</sup> The International Panel on Climate Change (IPCC) has initiated such a programme.

<sup>22</sup> 17.1 - Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.

<sup>23</sup> A discussion of some of these issues can be found in the article [Promoting Tax Bargains in Uganda and Beyond: The Importance of Civil Society and Parliamentarians](#).



inheritance and natural resources (Target 5.A)<sup>24</sup>. By pursuing economic emancipation for women, women's full and effective participation is promoted and equal opportunities for leadership at all levels of decision-making in political, economic and public life is improved (Target 5.5)<sup>25</sup>. By achieving these goals, guaranteeing female economic rights also strengthens other SDGs, such as Goal 8 (decent work and economic growth) and Goal 16 (peace justice and strong institutions).

- 5.2 The private sector plays an important role in promoting gender equality. Wage policies as well as training and education in the work place are important to promote equal opportunities between genders, in career progression and professional growth. The opportunities linked to female participation in the global economy are huge and should be a driver of inclusive economic growth, innovation and productivity.
- 5.3 There is an important link between reducing the informal sector and gender equality. When companies do not pay taxes, it means that the public administration (state, regional and local) will have less funds for public services, sustainable infrastructure and social protection, which are important for gender equality. Without proper social spending and adequate infrastructure the poor will be hurt, and often women in particular.

## 6. **Taxation in the digitalised economy**

- 6.1 The rapid digitalisation of the economy is an important driver for global economic growth. It also allows more effective information gathering for tax authorities and enhanced service to taxpayers. The digitalisation of the economies has, however, raised the issue of where income and profits are earned and created and how they are distributed among countries. Digital services can be supplied at a distance, without any physical presence in the market jurisdiction where consumption takes place.
- 6.2 Policies related to taxation of the digitalised economy should seek to promote, not hinder economic growth and cross-border trade and investment. In the face of the growing importance of digitalised companies, there is a need to develop a new methodology for nexus and profit allocation to determine taxation rights between market countries and the country in which the digitalised MNEs are resident<sup>26</sup>.
- 6.3 What this requires is to find an internationally accepted solution for how to tax these new business models, while taking account of the needs of both developed and developing countries<sup>27</sup>. To implement any model for taxation in the digitalised economy, a framework for

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<sup>24</sup> 5.a - Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws.

<sup>25</sup> 5.5 - Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

<sup>26</sup> See EESC opinion *Taxation in the digitalised economy*, [OJ C 353, 18.10.2019, p. 17](#).

<sup>27</sup> See EESC opinions *Taxation of profits of multinationals in the digital economy*, [OJ C 367 of 10.10.2018, p. 73](#) and *Taxation in the digitalised economy*, [OJ C 353, 18.10.2019, p. 17](#).

intensified cooperation between the administration of national tax authorities, as well as a resolution mechanism for multi-party disputes must be established.

- 6.4 The Interim Report from the OECD, [\*Tax Challenges Arising from Digitalisation – Interim Report 2018\*](#). (March, 2018)<sup>28</sup> sets out the Inclusive Framework's<sup>29</sup> agreed direction of work on digitalisation and the international tax rules through 2020. It describes how digitalisation is also affecting other areas of the tax system, providing tax authorities with new tools that are translating into improvements in taxpayer services, improving the efficiency of tax collection and detecting tax evasion. A final report from the OECD/Inclusive Framework is expected in 2020.
- 6.5 The EESC considers it important that any new rules on how to allocate taxation rights between countries is fair for both small and large consumer countries, as well as for developed and developing countries. Proper remuneration for the contributions made in terms of innovation, entrepreneurship etc. must be recognised. Corporate tax revenues, although small in relation to total tax revenues, are important for resource mobilisation and financing of needed infrastructure, research & development, education and health care etc.

## 7. **The role of private investment to fulfil the SDG**

- 7.1 The EESC notes that for many of the SDGs, the EU Member States are among the top performers. The Committee stresses that the EU and its Member States have to take steps to ensure future-proof fiscal and taxation systems in order to achieve the SDGs.
- 7.2 The involvement of Organised Civil Society at all levels is essential in order to realise the SDGs, as civil society represents key stakeholders in the implementation of the Agenda 2030 and much of the needed investment will come from the private sector.
- 7.3 Businesses are global drivers of productivity, inclusive economic growth, job creation, investment and innovation. Private sector expertise holds the keys to unlocking many of the challenges linked to sustainable development.
- 7.4 Investment, including foreign direct investment (FDI), plays an important role in eradicating poverty, combatting climate change and ensuring inclusive sustainable growth<sup>30</sup>. For instance, the achievement of Goal 8<sup>31</sup> will require more private-sector investment. The Addis Ababa Action Agenda (2015) recognises this by stating that "private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation."
- 7.5 The EESC underlines that predictable tax rules are essential for cross-border trade, business investment, jobs and growth. Income tax treaties could help trade grow by providing greater

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28 <http://www.oecd.org/tax/tax-challenges-arising-from-digitalisation-interim-report-9789264293083-en.htm>.

29 The OECD Inclusive Framework.

30 See Business Charter for Sustainable Development ICC, (2015).

31 Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

certainty for businesses, reducing double taxation and providing a mechanism to fight aggressive tax planning and tax evasion. Governments must agree on acceptable forms of tax competition and businesses must adhere to rules and principles agreed upon by and between countries.

- 7.6 Recently, the OECD and the IMF issued a joint report on tax certainty as a response to heightened concern expressed by the G20 leaders about uncertainty in tax matters and its impact on cross-border trade and investment, especially in the context of international taxation.
- 7.7 The World Bank's Paying Taxes 2018 report<sup>32</sup> notes that for many businesses in developing countries the tax burden is already quite high. For example, in sub-Saharan Africa, effective tax rates facing medium-sized companies are seven percentage points higher than the world average. Tax policies that promote investment and innovation, particularly in developing economies, would go a long way in attracting foreign direct investment (FDI), which consequently provides opportunities for decent work, innovation and increased productivity in order to effectively increase the gross domestic product of countries.
- 7.8 Companies need to be transparent towards the tax authorities. The principal aim of country-by-country reporting is, according to the OECD, to develop a high-level risk assessment tool to provide tax authorities with a better overview of multinationals' global activities and taxes paid, while expressly not being the basis of taxation itself. In addition, there is also a need for greater transparency from governments regarding how much tax is collected and how it is spent.
- 7.9 There is sometimes a misconception that development funding could be financed entirely or primarily by "cracking down on the questionable tax practices of multinational enterprises." Impartial OECD estimates indicate that BEPS by multinationals amounted to USD 100-240 bn before any counter-measures were enacted<sup>33</sup>. In the EU, BEPS was estimated to have been 0.3 per cent of GDP<sup>34</sup>. While significant, this amount is not enough to fund implementation of the SDGs. Further, these revenues would likely not accrue to those countries most in need of development funds. The most important source of revenue for funding the SDGs is sustainable economic growth. Thus, tax policies that encourage sustainable economic, social and environmental growth are required to meet these goals.
- 7.10 The EESC welcomes the Platform for Collaboration on Tax, which is a joint initiative of the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank Group (WBG), as it facilitates the interactions between standard-setting, capacity-building, and technical assistance in the sphere of international tax. The EESC believes that the EU should also be a member of the Platform.

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32 <https://www.doingbusiness.org/en/reports/thematic-reports/paying-taxes>.

33 BEPS report (2015), OECD.

34 See EESC opinion *Taxation – qualified majority voting*, [OJ C 353, 18.10.2019, p. 90](#)

7.11 The EESC considers that the work on taxation/private investment and the Sustainable Development Goals by the UN Committee of Experts on International Cooperation in Tax Matters is of the utmost importance for advancing the global dialogue and greatly contributes to peer learning and exchange of best practices. The EESC stresses that European civil society must play an active role in this crucial international debate.

Brussels, 11 December 2019

Luca Jahier

The president of the European Economic and Social Committee

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