

Forum:	The Group of Twenty (G20)
Issue:	Designing a More Sustainable Global Tax System
Student Officer:	Maria Kapodistria
Position:	President

PERSONAL INTRODUCTION

Dear delegates,

My name is Maria Kapodistria, I am an IB2 student at Platon School and it is my utmost pleasure and honor to be serving as the President of The Group of Twenty (G20) in the 12th annual PS Model United Nations conference.

Recalling my first ever interaction with this community, I was an admin staff in the 9th session of PSMUN. Being totally clueless about the importance of the Model United Nations experience, I got to live through the processes of lobbying, debating, and voting, as a passive observer. Yet, most importantly, I got to be surrounded by students experienced enough to know how to effectively negotiate, navigate difficult conversations and exude confidence. The conference took place in 2019. That year has come and gone, and so much has changed for me since then. As of now, I am given the opportunity to serve as a president in the G20, being able to give all this devotion and passion for international relations I have, back to the MUN world. I can assure you I will use the best of my ability to create a memorable experience for every single one of you.

The Group of Twenty (G20) is a forum of the twenty largest economies in the world (19 countries and the European Union) and its primary focus has been governance on all major international economic issues. To that end, discussing matters related to sustainable development, this year's PSMUN G20, addresses, amongst others, the topic of "Designing a More Sustainable Global Tax System".

While this study guide familiarizes you with the topic, to be sufficiently prepared, I would personally advise you not to limit your research solely within it. Should you face any difficulties in fully grasping the topic, you are more than welcome to submit any questions or misunderstandings in my email at mk.kapodistria@gmail.com.

I am looking forward to meeting you all in March!

Yours truly,

Maria Kapodistria

INTRODUCTION

Taxes hold a significant role in the financial policy of almost all national economies, operating as powerful tools for States to manage not only their economic, but also their social and environmental actions. Evidently, their most basic function is to raise government revenue, which is allocated to various productive sectors, including healthcare, education, and employment. Yet, as taxes are levied to ensure a country's welfare, their role in economies expands from just funding government expenditures. In fact, taxes can drive change in the mindset and behavior of consumers and businesses, shaping a country's economic, social, and environmental sustainability.

Sustainability has gotten higher on the policy agenda of both national governments and Intergovernmental Organizations (IGOs) not only in the light of climate change and environmental pollution, but also in terms of volatile economies, income inequality and wealth accumulation. This is because the viability of the world economy itself depends on the resources of healthy ecosystems (fresh water, clean air, robust biodiversity, productive land), on economic growth and development, and on the stability of just and equitable societies. In other words, there cannot be economic or social sustainability without environmental sustainability, and vice versa. Thus, given the direct connection between sustainability and taxation systems, it has become imperative for Member States to incentivize and promote, through their taxes, sustainable practices.

As of now, the international taxation system is addressing partial aspects of sustainability, without actually embracing an integrated perspective. For example, there are still governments that subsidize firms producing unsustainable environmental or social externalities by allowing their profits to be low-taxed. There are governments that design their tax system prioritizing economic growth while neglecting equity considerations, resulting in persistent gender gaps prevailing in many countries worldwide. To that end, the formulation of a tax policy which encompasses all three aspects of sustainability (environmental, economic, social) may be considered as one of the most contentious responsibilities governments have to face.

Making the world more sustainable has become imperative. On that note, the international community has been prompted to urgently reform the global tax system, in a way that will enable nations to more effectively deliver a transition towards sustainable development and growth. Taxes can be used both as incentives and deterrents to attain particular policy goals and thus, create thriving, healthy, diverse and resilient communities for this and many generations to come.

DEFINITION OF KEY TERMS

Tax system

A system of mandatory contributions imposed to individuals or firms by a local, regional, national or international government entity.¹

Sustainability

The exploitation of natural or physical resources at a rate that will allow for future generations to also exploit resources in the long run.²

The tragedy of the commons

An economic and environmental problem that refers to rivalrous but non-excludable goods. According to the theory, every individual has an incentive to consume a resource or good at the expense of others, without being able to exclude anyone from also consuming the resource, ultimately reaching a point of depletion.³

Progressive taxation

A tax system that involves a tax rate that increases analogically with income. In essence, it imposes a low tax rate on low income-earners and a higher tax rate on higher income-earning citizens.⁴

Revenue

The positive net income produced by a given source, equaling to profit minus expenditure.⁵

Green tax

Otherwise referred to as Environmental Tax, it is a duty charged on pollution-causing goods and services to discourage people from anti-ecological behavior and increase their environmental awareness. Under normal circumstances, the money collected by governments helps them carry out ecological projects in the state/country/region.⁶

¹ Gorton, David. "Taxes Definition: Types, Who Pays, and Why." Investopedia, Investopedia, 19 Dec. 2022, <https://www.investopedia.com/terms/t/taxes.asp>.

² Mollenkamp, Daniel Thomas. "What Is Sustainability? How Sustainabilities Work, Benefits, and Example." Investopedia, Investopedia, 30 Nov. 2022, <https://www.investopedia.com/terms/s/sustainability.asp>.

³ Robinson, Deena. "What Is 'Tragedy of the Commons'?" *Earth.Org*, 27 Jan. 2022, <https://earth.org/what-is-tragedy-of-the-commons/>.

⁴ Kagan, Julia. "What Is a Progressive Tax? Advantages and Disadvantages." Investopedia, Investopedia, 19 Dec. 2022, <https://www.investopedia.com/terms/p/progressivetax.asp>.

⁵ "Revenue Definition & Meaning." Merriam-Webster, Merriam-Webster, <https://www.merriam-webster.com/dictionary/revenue>.

⁶ Person. "All That You Need to Know about Green Tax." What Is Green Tax? - Definition and Meaning - ABC of Money, Aditya Birla Capital, 9 Oct. 2022, <https://www.adityabirlacapital.com/abc-of-money/what-is-green-tax>.

Equity

Justice according to natural law or right, judging with no bias or favoritism.⁷ In other words, fairness.

Negative consumption externality

Negative consumption externalities refer to external costs to society created by the consumption of a good. An example of this is smoking in public spaces, as it has external costs for non-smokers, which can otherwise be perceived as “negative benefits.” Hence, it is the overallocation of resources to the production and consumption of a good, at a point of consumption greater than the social optimum.⁸

Negative production externality

Negative production externalities refer to external costs to society created by the production of a good. The problem of environmental pollution is a prime example that causes negative production externalities. In essence, it refers to the overallocation of resources in the production of a good relative to the social optimum.⁹

Merit goods

Goods that provide greater benefits to society upon increased consumption. They are generally undersupplied, however, as the private sector prices them highly and makes them unattainable at times, causing the government to provide them itself. These may include healthcare and education, among others.

Demerit goods

Goods that can negatively affect consumers and society as a whole. These include tobacco, alcohol, drugs, among others. To decrease their consumption, governments often impose high taxes or penalties upon sale or possession of such goods.

Base erosion

Base erosion is the use of corporate tax planning strategies by Multi-National Companies (MNCs) aimed to reduce the size of a company’s taxable profits. Such companies make use of financial measures to have a more favorable tax treatment.¹⁰

Profit shifting

Profit shifting refers to the practice of a company reducing its tax liability by shifting profits to an affiliate jurisdiction. In other words, it is transfer of profits from a high-tax regime to a low-tax regime.¹¹

⁷ “Equity Definition & Meaning.” Merriam-Webster, Merriam-Webster, <https://www.merriam-webster.com/dictionary/equity>.

⁸ Tragakes, Ellie. *Economics for the IB Diploma*. Cambridge University Press, 2020.

⁹ Ibid

¹⁰ “Base Erosion and Profit Shifting (BEPS): Explained.” Healy Consultants, <https://www.healyconsultants.com/base-erosion-and-profit-shifting/>.

¹¹ Ibid

Gini coefficient

“The Gini coefficient is one of the most frequently used measures of economic inequality. The coefficient can take any values between 0 to 1 (or 0% to 100%). A coefficient of zero indicates a perfectly equal distribution of income or wealth within a population”¹²

Common pool resources

Natural resources that are not owned by anyone, are not sold in markets and do not have a price; their absence from markets makes them subject to unsustainable overuse, depletion, and degradation. Examples include forests, rivers, lakes, etc.¹³

Free-market economy

“A free-market economy is one without government intervention or regulation. In a purely free market, buyers and sellers arrive at prices based only on supply and demand.”¹⁴

Planned economy

“A planned economy (also called a command economy) is an economic system in which a government or ruler makes most or all of the important decisions about the production and distribution of goods and services in the society.”¹⁵

Tax harmonization

The adjustment of tax systems from different jurisdictions in the pursuit of a common policy objective.

BACKGROUND INFORMATION

Taxation

The citizens and business firms of every nation are liable to pay tax according to some rules and regulations set by governments. These fees and financial obligations imposed are funding government activities, collecting revenue which is utilized for the welfare of the taxpayers. As per the International Centre for Tax and Development

¹² “Gini Coefficient.” Corporate Finance Institute, 6 Dec. 2022, <https://corporatefinanceinstitute.com/resources/economics/gini-coefficient/#:~:text=The%20Gini%20coefficient%20is%20one%20of%20the%20most,distribution%20of%20income%20or%20wealth%20within%20a%20population>

¹³ Tragakes, Ellie. *Economics for the IB Diploma*. Cambridge University Press, 2020.

¹⁴ DePersio, Greg. “What Are Some Examples of Free Market Economies?” *Investopedia*, Investopedia, 8 July 2022, <https://www.investopedia.com/ask/answers/040915/what-are-some-examples-free-market-economies.asp#:~:text=A%20free%20market%20economy%20is%20one%20without%20government,buyers%29%20or%20receive%20the%20highest%20price%20%28for%20sellers%29>.

¹⁵ “. ” Everyday Finance: Economics, Personal Money Management, and Entrepreneurship. . Encyclopedia.com. 20 Dec. 2022. ” *Encyclopedia.com*, Encyclopedia.com, 8 Jan. 2023, <https://www.encyclopedia.com/finance/encyclopedias-almanacs-transcripts-and-maps/planned-economy>.

(ICTD), “80% of overall government funding in half of the countries around the world is accounted for by tax revenues.”¹⁶

Apart from this though, governments utilize taxation for other than merely fiscal purposes. Most of the economies worldwide follow the principles of the free-market economy i.e., an economy determined by the forces of demand and supply. The other case is a planned economy, where the government is the primary stakeholder controlling and regulating consumption, production, and prices. As the free market is not always optimally efficient i.e., maximizing social welfare, there will be times when government interference is viewed as necessary. For instance, in an unregulated economy, a firm may freely produce output through manufacturing processes that result in harmful effects for the environment, such as atmospheric pollution. As pollution carries an external cost for the environment and, by extension, people, the unconstrained market is inefficient. In light of this inefficacy, the government will intervene in the market, through taxing the revenue of that firm.

The strongest reasons why governments intervene in the workings of free-market economies include resource reallocation, income redistribution, and economic stability. Though taxation policies can differ greatly among More Economically Developed Countries (MEDCs) and Less Economically Developed Countries (LEDCs), there are two very broad categories of taxation that nearly all governments levy.

Direct taxes

Direct taxes are taxes paid directly to the government. Most Member States employ progressive direct taxes, meaning that they are based on the ability of the taxpayer to pay: the higher the capability to pay, the higher the tax. The most important types of direct taxes are income, corporate, and wealth taxes. Personal income taxes involve levies imposed on the total financial income of an individual or household, as measured by wages, rental income, interest income, and dividends. Corporate income taxes are levied on business income i.e., the profits of a corporation. Wealth taxes are imposed on the ownership of assets and are mainly comprised of property and inheritance taxes.

Indirect taxes

Though this study guide will mostly focus on how direct taxes can promote environmental, economic, and social sustainability, it is also important for delegates to be aware of indirect taxes. As indicated, indirect taxes are paid when one is spending on goods and services. The most common form of an indirect tax is the sales tax, otherwise known as the “Value Added Tax” (VAT), which is charged on the price of a product or service at each stage of production. Some countries either exempt certain goods from payment of

¹⁶“Taxation.” Corporate Finance Institute, 2 Nov. 2022, <https://corporatefinanceinstitute.com/resources/accounting/taxation/#:~:text=Taxation%20occurs%20when%20a%20governmental%20authority%20imposes%20levies,Revenues%20collected%20are%20used%20to%20finance%20government%20expenditures.>

taxes or simply impose different rates for different types of goods, for the sake of equity. For example, Greece’s standard VAT rate is 24%, yet some goods and services have a reduced VAT rate of 13% (agricultural and sea produce, accommodation provided by hotels, food services by restaurants) and 6% (health, medical, and pharmaceutical supplies, books, newspapers).¹⁷ Apart from the sales tax, there is also the excise tax, which is a tax paid on specific goods and services, such as fuel, tobacco, and alcohol, used to discourage their consumption. Lastly, governments may levy tariffs, a type of tax applied on imports of foreign goods that enter a country.

As already mentioned, tax systems around the world differ greatly; no two countries will have exactly the same tax pattern. In More Economically Developed Countries (MEDCs) for example, governments rely mostly on income taxation to collect revenue, whereas developing countries rely heavily on consumption and trade taxes.

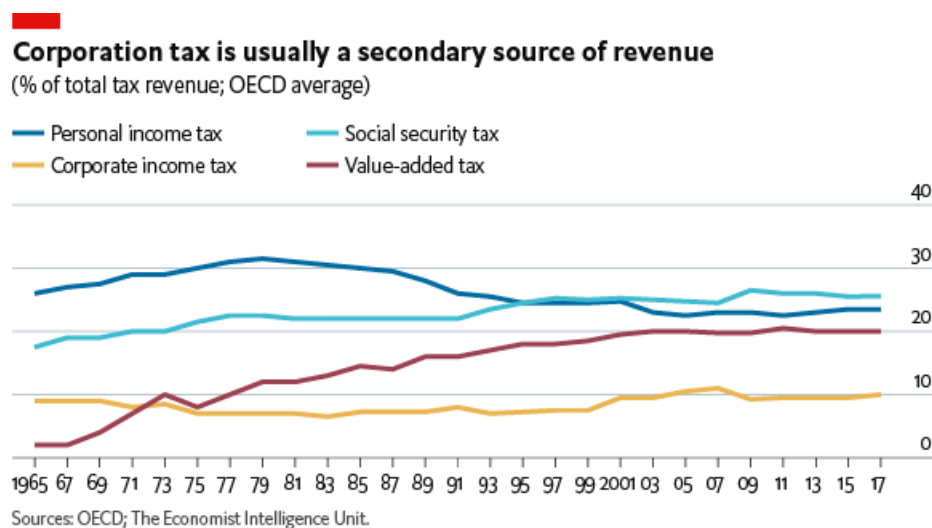


Figure 1: Graph (based on OECD data) which indicates that corporation taxes were rarely accounted for more than 10% of government revenue in 1965-2017

The impact of taxation on human behaviour

The reason why taxation and sustainability are interconnected terms is because taxes are used to attain certain policy goals, under the assumption that they influence consumer and business behavior. For example, if the consumption of a good is taxed, say an excise tax on tobacco, then individuals will most likely be smoking less than they would without the tax in place. That is because the excise tax will make the product more expensive.

Another example can be applied in the use of fossil fuels by companies. Evidently, it has reached international consensus that the consequences of burning fossil fuels are dire to say the least. If governments tax fossil fuels, then, the companies may choose to use a substitute, such as energy from renewable sources, to continue with their

¹⁷ “VAT Rates in Greece - Greek Vat Rates for All Goods & Services.” Global VAT Compliance, <https://www.globalvatcompliance.com/vat-rates-in-greece/>.

manufacturing, particularly if there are benefits in terms of cost and productivity. In both of these cases, governments made use of taxes to induce certain behaviors that are considered desirable, favoring environmental, and social sustainability.

Surely, the above explanation of how taxation systems influence consumer and business behavior has been simplified. For example, in the case of the excise tax on tobacco, consumers need not quit their unhealthy habits, given the addictive nature of smoking. In a similar manner, firms may not switch to alternative, less polluting resources, as the tax may be set too low to make a significant impact. Nevertheless, if designed correctly and efficiently, taxation systems influence economic behavior and the distribution of resources.

The Sustainability triangle

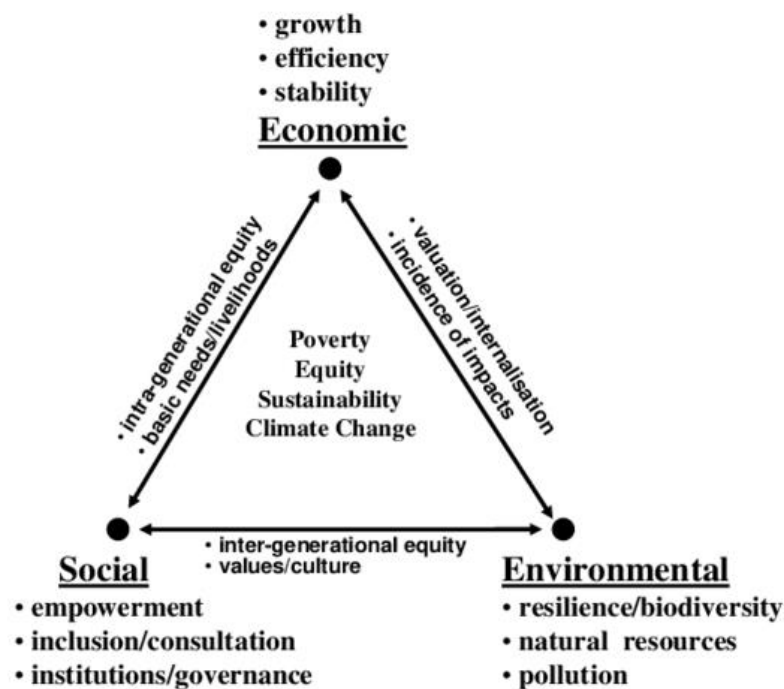


Figure 2: A visual representation of the sustainability triangle

The concept of sustainability has been refined and moderated several times in the global politics arena. Currently, the term is known to have three dimensions, all very closely connected to each other. This idea may be explained through the sustainability triangle, depicted above.

The sustainability triangle, discussed by Mohan Munasinghe, a Sri Lankan physicist, engineer and economist, describes the economic, social, and environmental dimensions of sustainable development, their interactions, and linkages. Indeed, it has

been a matter of public discussion whether these three dimensions should hold equal positions in terms of relevance, as he supports, or they should be arranged in a hierarchical order. In this study guide, it is assumed that the three measurements of sustainability are equally ranked. Therefore, when designing a sustainable global tax system, balancing, and harmonizing economic, social, and environmental sustainability is an essential requirement for achieving the said goal. Deliberately, the ways and paths towards sustainability through taxes are separate for each of its dimensions.

Environmental sustainability

The interpretation of environmental sustainability focuses on the health of living systems, as well as on their ability to maintain resilience. The consumption and production patterns of today's society are known to harm the environment and its sustainability in multiple ways and on a global scale. The tragedy of the commons, an economic problem related to common pool resources, is a basic example, illustrating how individuals and businesses may act in an individualistic manner, according to their own personal interests and at the expense of every other stakeholder. In the environmental context, when consumers or producers choose to neglect the well-being of society in the pursuit of individual benefits, they overuse, deplete, and degrade common pool resources. For example, when forests are uncontrollably cut to create land for the agricultural industry, there is depletion of resources that were otherwise provided by a stable global climate. When fishermen overfish for the sake of a higher revenue as given by a greater fish stock, they disrupt the marine ecosystem and degrade it. In both of these cases, unsustainable practices are described that can lead to losses of biodiversity and pose threats to wildlife. This means something for the economy; it fails to realize allocative efficiency, something that government intervention through an environmentally sustainable tax system can address.

Once the causes of the environmental inefficiencies are identified, governments can intervene, and design tax policies aimed at reducing their extent. From the aforementioned sustainability challenges, there are several objectives to be derived that a sustainable tax system can pursue, aiming towards environmental resilience. To present it briefly, an environmentally sustainable tax system should discourage consumption or production activities which contribute to environmental destruction.

Most of the time, higher cost to the planet does not translate to higher price to consumers. Evidently, environmentally-friendly products are more expensive due to a variety of factors, ranging from high manufacturing costs to higher consumer demand, to consistent product testing. A Telegraph article noted that “green goods can cost 50% more than regular goods.”¹⁸ Other than the high price eco-friendly products have though, goods that harm the environment through their production or consumption,

¹⁸ Eric. “Why Are Eco-Friendly Products More Expensive?” The Sustainable Living Guide, 29 June 2022, <https://thesustainablelivingguide.com/why-are-eco-friendly-products-expensive/>.

are cheap as firms rarely pay for the full toll their operations take. The question is whether there is a way to quantify and designate those externalized costs.

Given that environmentally harmful goods have externalized costs that are too significant to be emitted, economists have designed and defined the theory of negative externalities, to imply that sometimes there are indirect costs involved in production and consumption processes. For example, when industrial wastes containing toxic chemicals are released in public waterways, when drivers are reliant on automobiles and have dependency on oil, when farmers misuse antibiotics to cause their products' abnormal growth, the environment is degraded, contaminated, and used unsustainably. Following this line of reasoning, the production and/or consumption of a good can exert negative effects on the environment. This problem allows governments to intervene in the market economy and tackle it through taxing, either through taxing the firm's revenue according to the amount of harm caused, or the price of the environmentally damaging consumer product. Whichever way the tax is imposed though, it should be designed to reduce the harmful effects of the given products, with the goal of discouraging their consumption or production.

Social sustainability

Conventionally, the social dimension of sustainability involves terms such as empowerment, inclusion and governance and refers to both individual well-being and overall social welfare. It, arguably, parallels the concepts mentioned earlier regarding environmental sustainability; maintaining the resilience of social systems and ensuring their ability to withstand shocks. Thus, one has to place emphasis on making social development more sustainable, creating healthy, livable, equitable, diverse, and democratic communities. On that note, social sustainability can break down into several challenges for tax systems, one of them being the increasing inequality and concentration of income and wealth worldwide. It should be noted that while there are different interpretations of "economic inequality", this study guide will focus on income inequality measured using the distribution of income and wealth inequality measured using the distribution of wealth.

As given by this sustainability challenge, there are several objectives a sustainable tax system can pursue, aiming towards empowerment and inclusion. A socially sustainable tax system should face the issue of income and wealth concentration in a few hands, while ensuring an equal access to opportunities of health, work, and

education.

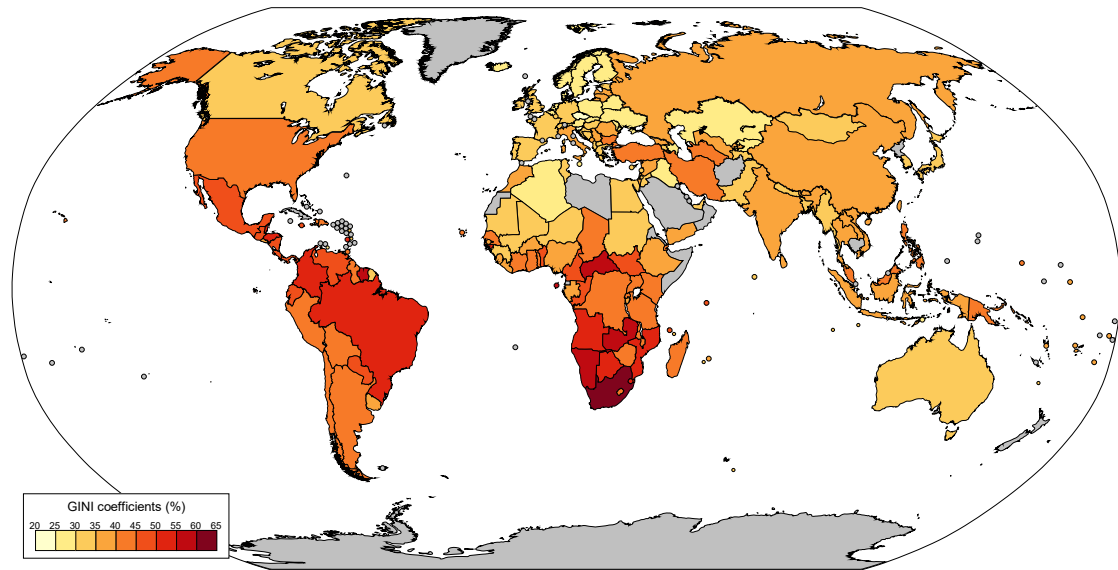


Figure 3: Differences in income inequality worldwide, according to the Gini coefficient in 2018

Inequality of opportunity

Economic inequality refers to the differences among individuals' incomes and wealth, as measured by their ability or inability to satisfy their economic needs. Income inequality measures how unevenly income is distributed throughout a population. For example, Forbes counted a record 2,755 billionaires in the world as of 2021. Meanwhile, the World Bank estimated that in 2021 more than 711 million people globally were living on less than \$1.90 per day.¹⁹²⁰ Disparities like these perfectly encapsulate the situation prevailing today when it comes to income inequality, illustrating a global image that does not promote social sustainability.

To explain more accurately why and how income and wealth inequality affect sustainability, one has to mention “inequality of opportunity”. Clearly, inequalities in income and wealth have negative effects on society that leave subsequent generations worse off. That is because there are specific circumstances influencing an individual’s standards of living as per monetary factors, that are unfortunately beyond one’s control. For instance, if individuals are born in low-income families, with parents that have a low level of education, then, they are not offered the same opportunities to prosper, as people growing up in middle- and high-income households. As a result, in such a situation, inequalities in income and wealth would not be purely due to

¹⁹ “Forbes Billionaires 2022: The RICHEST PEOPLE IN THE WORLD.” Forbes, Forbes Magazine, <https://www.forbes.com/billionaires/>.

²⁰ “Updated Estimates of the Impact of Covid-19 on Global Poverty: Turning the Corner on the Pandemic in 2021?” World Bank Blogs, <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-turning-corner-pandemic-2021>.

circumstances over which individuals have control, such as effort in school and hard work. The World Bank defines inequality of opportunity as “the lottery of birth.”²¹

Apart from the fact that inequalities in wealth and income are not socially sustainable, Member States have also stressed another point; as the Organisation for Economic Cooperation and Development (OECD) found in its report “In It Together: Why Less Inequality Benefits Us All,” “econometric analysis suggests that income inequality has a sizeable and statistically significant negative impact on growth.”²² Hence, in light of this evidence, governments have stressed the redistributive impact of taxes in achieving an outcome that tends towards a more equitable distribution of both income and wealth. As historical data prove, one way to achieve this outcome is progressive taxation.²³

Progressive taxation

Direct taxes, defined and explained previously, can be distinguished into three main categories, depending on the relationship between income and the part of income paid as tax, also known as tax rate. These three categories are: proportional, progressive, and regressive. Each form of taxation holds a different relationship with income and thus, affects low-, middle-, and high-income earners accordingly.

Progressive taxes are based on assessments of an individuals’ income. They follow an accelerating pattern, so as income value increases, the tax rate will also increase, embodying the concept that those with higher incomes have the ability to pay more. Given this relationship between income and the fraction of income paid as tax, progressive taxes are considered to reduce the tax burden of the people belonging to the low-income bracket. However, that may not always be the case. If this tax pattern is fixed in an indiscriminate manner, increases tax evasion, or discourages the productive activities in a country’s economy such as investments, then it may not be deemed as an effective tool to reduce income inequalities. Given this situation, in the creation of a socially sustainable tax system, progressive taxation may be used only if it is designed to function effectively.

Economic sustainability

Economic sustainability mostly refers to economic growth, which is seemingly not attained at the expense of social and environmental sustainability, or vice versa. As

²¹ “The Data Minute: What Is Inequality of Opportunity?: World Bank Group.” [Olc.worldbank.org](https://olc.worldbank.org/content/data-minute-what-inequality-opportunity), 12 May 2021, <https://olc.worldbank.org/content/data-minute-what-inequality-opportunity>.

²² “Why Income Inequality Is Bad for Growth.” World Economic Forum, <https://www.weforum.org/agenda/2015/06/why-income-inequality-is-bad-for-growth/>.

²³ U;, Oishi S;Kushlev K;Schimmack. “Progressive Taxation, Income Inequality, and Happiness.” The American Psychologist, U.S. National Library of Medicine, <https://pubmed.ncbi.nlm.nih.gov/29369661/>.

taxes fund government expenditures, when designing a new/reforming a tax pattern, tax creators have to bear in mind that whatever changes are made, the system should always generate sufficient revenue to finance government activities, so as to ensure an active economy and induce growth. For this reason, an economically sustainable tax system should avoid negative incentives for economic decisions. For example, in an endeavor to achieve income equality through a progressive tax system, governments could tax the higher income groups exorbitantly. However, the result of such an action is twofold. Though this taxation could work towards achieving social sustainability, it is also intended to “discriminate” against the higher income groups. If governments tax high-income brackets heavily, there is an economic risk that may not be as apparent, but harms economies to a great extent. In fact, raised taxes can actually slow markets and lead to stagnation. To be more exact, higher taxes on the higher-income brackets could act as disincentives for individuals or businesses to put effort and make money, as they might feel that their hard work is not being sufficiently rewarded. Tax cuts on individual incomes or corporate profits, on the other hand, may motivate consumers and firms to save money and invest, and can also incentivize businesses to pursue technological innovations through Research and Development (R&D). All of these outcomes result from lower tax rates and can help economies foster and develop technologically and financially. In short, in order to maintain economic sustainability, tax systems have to be designed in a balanced manner, without favoring or benefiting any economic group at the expense of another.

Tax harmonization

An aspect that has yet to be addressed is the meaning of “global tax”. In today’s society, there is no definite unification of tax systems between countries. While there are a few models several countries follow, such as progressive income taxation or a Value Added Tax on goods and services, there are, depending on the occasion, major or little differences between two nation’s tax policies.

What exists, however, is the term “tax harmonization”, known as the adjustment of tax systems from different jurisdictions in the pursuit of a common policy objective. It refers to the removal of tax distortions between countries, and is a method followed in several bilateral or multilateral relationships between countries to limit trade barriers and make common growth more attainable. Examples could include the European Union and the guidelines that have been set, or the coordination between US states through taxation guidelines set out by the central government. In general, though, countries or Intergovernmental Organizations (IGOs) usually opt for a partial commitment to such a system, called semi-harmonization, in which national or regional governments, although guided by instructions given to them by a central power, set out their own taxation system, maintaining their integrity in the process. To understand why that is the case, one has to analyze the advantages and disadvantages of tax harmonization.

Advantages

One of the key advantages of coordinating taxation policies comes in the sector of corporate taxation. To start, it operates as a major tool in the fight against Profit Shifting and Base Erosion (BEPS), tax evasion or tax fraud. It has a great impact on Multinational Corporations (MNCs) and their ability to manipulate the global tax system through BEPS. This is because it simultaneously eliminates the manipulation they can enforce and ultimately brings with it less average costs for MNCs to operate in, hence eliminating both the need and the ability to manipulate the taxation system.

Additionally, tax harmonization helps eliminate a “race to the bottom” between nations for lower tax rates. In general, low tax rates are considered attractive for many MNCs and of course brings benefits to the host nations that receive taxes, though low in percentage. Tax harmonization eliminates such a case, ensuring equal competition for all.

Lastly, tax harmonization ensures equal distribution of public revenues across several countries, ensuring that there are no advantaged or disadvantaged regions due to lower or higher tax rates.

Disadvantages

As mentioned, harmonizing tax rates would help countries tackle BEPS, thereby ensuring a more transparent tax environment and improving the coherence of international tax rules. The intended effect is to attract MNCs, in turn, hopefully, limiting inequalities. Yet, there are countless cases where national economic growth models are based on attracting MNCs by offering low business tax rates, as happens in Hungary, Cyprus or Ireland. This strategy of attracting inward Foreign Direct Investment (FDI) through low tax rates is a successful tool of economic development, particularly for smaller economies that struggle in developing through their own domestic markets. Hence, it negatively impacts tax competition which, in some cases, benefits economies to a great extent.

Another serious argument against full tax harmonization is that of the loss of sovereignty in decision-making upon taxation policies. In a harmonized system, a central power makes all decisions regarding taxation. This not only entails the danger of undermining the political interests of each State according to its socioeconomic or political status, but also heavily limits the ability of a country to enforce exemptions or special systems in cases of emergency, instead opting for a lengthy process of negotiations with the central “government” to discuss the matter at hand. The above, when combined with the vested interests each state may have and the difficulty in coordinating multiple states on specific taxation measures, have incentivized many states to follow a semi-harmonized taxation system in which, while a central government lists several measures that need to be implemented by all States, there is room to slightly

alter the decisions depending on a state's discretion, ensuring sovereignty over their own tax system.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United States of America

The United States of America has separate federal, state, and local governments for each of its regions, with taxes being imposed at each level. Taxes are levied on income, payroll, property, sales and capital gains, but also imports, estate and gifts. The US is widely known to neglect the tax system as a real source of income. In 2020, the total of taxes collected by all federal, state, and local governments amounted to 25.5% of the country's GDP, 8 percentage points lower than the Organisation for Economic Co-operation and Development (OECD) average.

States in the US use a different combination of sales, income, and other taxes and fees for each case. Hence, while the US would not necessarily oppose tax harmonization and would entertain discussions on a sustainable global tax system, the country itself does not show any significant structural element of tax harmonization on a regional or national level.

France

There are three types of taxes in France; the VAT at 20%, social security contributions, and income taxes. The VAT shares a value close to the minimum set out by the EU, symbolizing the stable nature of the country's economy. Social security taxes, related to sick leave, maternity and paternity benefits, unemployment benefits, or other needs of French residents, accounts for 20-30% of a person's gross salary, while income tax operate in a pay-as-you-earn monthly system that reduces people's salary which they receive after-tax.

The country itself is open to global tax system discussions, having already explored tax harmonization within the EU, viewing it as a viable, more efficient option to ensure greater coordination between states.

In terms of income inequality, France records a 4.42 ratio in the scale described above, showing decreased income inequality in relation to the regional average. To do so, France has imposed a progressive tax system, where higher income brackets are taxed at similarly higher rates, with the final range being at 45%.

China

China has imposed a progressive tax system with rates ranging from 3% to 45%, divided into resident and non-resident taxpayers. Resident taxes pay according to their full income, while non-residents pay taxes only on the income sourced from China. Yet, the country has noticed alarming rates of income inequality, possibly due to a concentration of wealth in manufacturing and technology sectors. To address the ongoing issue, president Xi Jinping recently shared a view in favor of a "common

prosperity”²⁴, as in his eyes “The country (...) has only a few people prosperous”. Hence, while income equality has yet to be achieved, there is evident desire for that to be the case.

In terms of China’s responsibility against pollution, while the country had for decades not addressed the issue, an Environmental Protection Tax was enforced in January of 2018 to effectively seize control of national pollution levels. It replaced the already existing pollutant discharge fee that already existed, but exerted a show of tax harmonization, as local authorities collected 100% of the tax revenue, gaining more power to enforce it in the first place, however following the guidelines set out by the central government. The tax is dynamic, applying different tax rates depending on the levels of pollution.²⁵

Hence, not only has China used newly adopted legislation to enforce change in its sustainability indices, but it simultaneously promoted a sense of tax harmonization which, as discussed above, can prove beneficial for the purposes of the present topic in several ways.

India

Taxes in India are an important asset to the national economy, constituting the largest source of income for the government through a progressive tax regime. The tax system in the country has three tiers in its structure; the central government, state governments, and local municipalities.

Despite the country’s well-organized tax system, India has yet to achieve income equality. In 2019, the country recorded a mere 35.7 in its Gini coefficient value²⁶. Among other factors, this is mainly attributed to underemployment, as a lot of people are working in positions that are appropriate for their qualification level, resulting in low productivity and thus income inequality. On a similar note, while the country has imposed environmental taxes in the energy and transport sectors by taxing energy generating fuels and fuel-inefficient vehicles, it has yet to achieve any significant progress to ensure an eco-friendly, sustainable tax system.

European Union

The European Union has no direct role in revenue collection or tax rate setting for its members. It operates in a semi-harmonized tax system in which national governments have the ability to implement their own tax rules and systems but are overseen by EU executives to ensure that there is no case of unfair advantage and competition, or tax discrimination, and to verify relative coordination among member states on corporate

²⁴ Danziger, Pamela N. “China Speaks against Income Inequality, Sending Chills throughout the Luxury Market.” *Forbes*, Forbes Magazine, 5 Sept. 2021, <https://www.forbes.com/sites/pamdanziger/2021/08/22/china-speaks-against-income-inequality-sending-chills-throughout-the-luxury-market/?sh=421781526581>.

²⁵ “China’s Environmental Protection Tax.” *China Briefing News*, 19 Nov. 2018, <https://www.china-briefing.com/news/china-environmental-protection-tax/>.

²⁶ “Gini Index - India.” *Data*, <https://data.worldbank.org/indicator/SI.POV.GINI?locations=IN>.

and income taxes. The formed single market allows individuals and businesses to freely trade goods and services within the borders of the European Union, with the Union further forming a common currency adopted by the “euro zone” countries that would ensure easier and more efficient transactions.

Another example of EU efforts to ensure greater coordination and tax harmonization among member states is the Value Added Tax (VAT), whose guidelines are set out by the Union at a minimum of fifteen percent rate. It is up to the country’s discretion to increase the tax, and there may be reduced rates applied on specific goods due to temporary derogations from VAT. Hence, while the EU has not implemented a fully harmonized tax system, it has set out a few guidelines that ought to be followed by its member states²⁷. Yet, it needs to be mentioned that, despite the guidelines set out by the EU, Member States’ tax percentages still share varying values.

As far as income inequality goes, the EU consists of several MEDCs as members, that share economic growth. Yet, income equality is relatively low considering the levels of development, as it is reported that the top 20% of the population received 5.2 times as much income as the bottom 20% in 2016. Although the ratio varied across the several Member States, the average ratio indicates the persisting income inequality despite the noted economic growth.²⁸

The EU further uses taxes to bring about environmental and energy regulation, in line with its goal of heavily reducing Greenhouse Gas (GHG) emissions. An example of this is the Energy Taxation Directive, which introduced a new structure of tax rates based on the energy content and environmental performance of certain fuels. Similarly, the imposed carbon tariffs that will take effect in 2026 through the Carbon Border Adjustment Mechanism (CBAM) in the region are a way of addressing the overuse of carbon intensive products and goods, including cement, steel, aluminum, and iron, incentivizing the use of resources within the borders of the region.

Organization for Economic Cooperation and Development (OECD)

The OECD has consistently involved itself in discussions on tax alterations that would either ensure greater income distribution on a broader scale or ensure more efficient energy use favoring sustainable development, two key parameters in regard to this topic.

To start, in a joint effort with The Group of 20 in November of 2021, the OECD aimed to tackle base erosion and profit shifting (BEPS), an issue discussed later in the guide, understanding, and addressing tax avoidance through reforms in the international taxation rules. This agreement, being one of the many examples where the OECD showed its willingness to correct income inequalities, focused on tax harmonization, aiming to, on the one hand ensure the inability of Multinational Corporations to

²⁷ “Taxation.” European Union, https://european-union.europa.eu/priorities-and-actions/actions-topic/taxation_en.

²⁸ “Income Inequality in the EU.” Income Inequality in the EU - Products Eurostat News - Eurostat, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20180426-1>.

manipulate the global tax system through loopholes or gaps, and on the other hand eliminate inefficiencies in taxation, one of them being double taxation in countries with a complicated tax structure²⁹.

The organization has additionally used taxes to ensure sustainable development in several areas of the world, an example being the report published in January of 2021 on the taxation of energy use worldwide, in recognition, however, of the dependence of select emerging economies to such resources³⁰. Through such examples, the willingness of the organization to cooperate in a sustainable global tax system is evident, that being through the implementation of common guidelines that ought to be followed.

International Monetary Fund (IMF)

The IMF is also an organization that believes in the ability of tax systems to help achieve sustainability. On several occasions, the organization has shown its desire and ideology in strengthening or even reforming in some cases tax systems as a viable solution to finally meet the Sustainable Development Goals set out by the 2030 Agenda. In fact, in February of 2018 and in collaboration with the OECD, the UN, and World Bank, the IMF called on governments to strengthen and increase the effectiveness of tax systems to ensure the conservation of the resources needed to meet the SDGs and ensure inclusive growth. While the above indeed is vague in terms of what is proposed, signifying that organizations themselves cannot act but only assist in coordinated attempts to address the issue, it illustrates that the IMF is more than involved in the discussion on the effectiveness of taxes on sustainable global growth.

Yet, the organization is aware that only effective taxation can prove beneficial in cases of sustainable development but also correction of income inequalities. Across the several years of operation, executives from the IMF have realized the positive but also detrimental effects taxation can have on sustainable growth, as wrong evaluation of tax policies can have great impact on both consumers and producers. In the eyes of Christine Lagarde, ex-managing director of the IMF up to 2019, “careful design of tax and spending policies can help reduce inequality”³¹.

²⁹ “Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy – 8 October 2021.” OECD, <https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm>.

³⁰ “Taxing Energy Use for Sustainable Development: Opportunities for Energy Tax and Subsidy Reform in Selected Developing and Emerging Economies.” OECD, <https://www.oecd.org/tax/tax-policy/taxing-energy-use-for-sustainable-development.htm>.

³¹ Deutsche Welle. “IMF: Tax Policy Fuels Inequality – DW – 03/13/2014.” Dw.com, Deutsche Welle, 13 Mar. 2014, <https://www.dw.com/en/imf-urges-rethink-of-tax-systems-to-tackle-inequality/a-17495842#:~:text=IMF%3A%20Tax%20policy%20fuels%20inequality%20Hardy%20Graupner%2003%2013%202014,policy%20enactment%20often%20fails%20to%20reduce%20income%20disparities>.

UN Tax Committee

The UN Tax Committee, otherwise known as the Committee of Experts on International Cooperation in Tax Matters, is a subsidiary body of the UN Economic and Social Council (ECOSOC), recognized internationally for its work and guidance in international tax cooperation. The committee offers practical guidance to governments, firms, or individuals to help understand or strengthen tax systems, aiming to achieve sustainable development through taxation. Two of its main objectives, as suggested in the UN website, are “to prevent “double (or multiple) taxation” and “non-taxation” and assists countries to broaden their tax base, strengthen their tax administrations and to curb international tax evasion and avoidance”³². Hence, the committee values taxation as a particularly powerful tool to help finance the achievement of SDGs in both developing and developed countries, mobilizing resources, reducing inequalities and promoting sustainable production and consumption in all sectors of the economy.

TIMELINE OF EVENTS

DATE	DESCRIPTION OF EVENT
27 December 1945	The International Monetary Fund (IMF) comes into formal existence.
16 April 1948	The Organization for Cooperation and Development (OECD) is formed.
30 September 1961	The Organization for Cooperation and Development (OECD) is founded.
2007	Munasinghe designs the Sustainability triangle.
September 2015	The United Nations General Assembly adopts the 2030 Agenda for Sustainable Development (2030 Agenda).
2015	The Addis Ababa Action Agenda (Addis Agenda), is adopted by world leaders at the Third International Conference on Financing for Development, which establishes a strong foundation to support implementation of the 2030 Agenda.
February of 2018	In collaboration with the OECD, the UN, and World Bank, the IMF calls on governments to strengthen and increase the effectiveness of tax systems to ensure the conservation of the resources needed to meet the SDGs and ensure inclusive growth.
October 2018	The Secretariat paper “The Role of Taxation and Domestic Resource Mobilization in the Implementation of the Sustainable Development Goals” is published.
2020	The EU submits a proposal for a tax system sustainability evaluation model.

³² “About | Financing for Sustainable Development Office.” United Nations, United Nations, <https://www.un.org/development/desa/financing/what-we-do/ECOSOC/tax-committee/about>.

5 May 2021	OECD publishes the report of “Effective Carbon Rates 2021,” measuring the pricing of CO ₂ -emissions from energy use in 44 OECD and G20 countries.
November of 2021	OECD and Eurasian officials meet to discuss latest developments in international tax.
8 April 2022	ECOSOC organizes the Special Meeting on International Cooperation in Tax Matters.
18-21 October 2022	The UN Tax Committee holds its 25 th session.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Proposal of an evaluation model in the EU

The model that had been proposed by the EU could have been used by the organization as a diagnostic mechanism to reveal the extent to which tax systems of individual European Union member countries may contribute to sustainable development, as suggested by their economic, social and environmental status.

This would not be the first of its kind, as on an international level, there are a handful of indicators that can be or have been used to assess the different sustainability measures of tax systems in the aforementioned sectors, even being able to uphold country comparisons over an extended period of time. For instance, the European Commission has developed a set of indicators evaluating member states’ tax systems in regard to their effectiveness in achieving the goals of the Europe 2020 strategy. In the specific case, however, the set of indicators focuses on growth- and employment-friendliness, rather neglecting their environmental impact. In fact, a system of indicators conveying a fully analyzed, overall image of a tax system’s contribution to sustainable development has yet to be established.

ECOSOC Special Meeting on International Cooperation in Tax Matters

The ECOSOC Special Meeting on International Cooperation in Tax Matters is an annual meeting that takes place in conjunction with one of the sessions of the United Nations Committee of Experts on International Cooperation in Tax Matters discussed above. According to information published by the UN on the matter, “The Special Meeting provided a platform for the Member States to engage with the UN Tax Committee experts, other experts, and representatives from civil society, the private sector, and international and regional organizations, thereby facilitating the exchange of ideas and advances intergovernmental consideration of tax matters”³³.

³³ “2022 ECOSOC Special Meeting on ‘International Cooperation in Tax Matters’ | Financing for Sustainable Development Office.” United Nations, United Nations, <https://www.un.org/development/desa/financing/events/2022-ecosoc-special-meeting-international-cooperation-tax-matters>.

In the 2022 version of the event, participants discussed on several topics affecting taxation in the modern world, coming to the following conclusions:

1. Tax reforms are key to limit inequalities.
2. Multilateralism and international tax cooperation are key and can particularly benefit Less Economically Developed Countries (LEDCs).
3. A global minimum tax should be introduced, designed to limit the manipulation of tax systems through BEPS.
4. Environmental and health taxes should be introduced to support a more sustainable consumption and production, as well as incentivize behavioral shifts.

These conclusions were the result of UN cooperation and are very important, highlighting the goals of a prospective G20 resolution upon this topic. Delegates are advised to create clauses that tend to be addressing them.

Secretariat paper “The Role of Taxation and Domestic Resource Mobilization in the Implementation of the Sustainable Development Goals”³⁴

In order to further encourage the United Nations Tax Committee, the UN Secretariat communicated with the Committee a note on October 2018, providing them with an overview on the ways their work can help realize member states’ and individuals’ commitment to taxation as a source of mobilization for the 2030 Agenda and its Sustainable Development Goals.

Inside the paper, the connection between taxation and the achievement of SDGs is particularly highlighted, encouraging member states to understand their obligation to “strengthen and increase the effectiveness of their tax systems to generate the domestic resources for funding the government contribution to meeting the SDGs”. In the paper, for instance, the use of fiscal policies as a measure to reduce inequalities is suggested, that either being in a societal or financial context.

In general, this endeavor attempts to show the importance of a sustainable global tax pattern for development. As per the paper, when designing a global tax system, ensuring full compliance and absence of tax exploitation by MNCs or taxpayers is key, aiming towards greater transparency and accountability. Now, though the paper did not take immediate action, it did outline questions for consideration for the UN Tax Committee, and it did highlight that the work of the United Nation Tax Committee can indeed assist the achievement of the 2030 Sustainable Development Goals (SDGs).

POSSIBLE SOLUTIONS

Delegates have to maintain a balance in achieving all economic, social, and environmental sustainability when it comes to creating clauses. It would be an

³⁴ Link to the Secretariat paper: <https://www.un.org/esa/ffd/wp-content/uploads/2018/08/CRP19-The-Role-of-Taxation-and-Domestic-Resource-Mobilization-in-the-Implementation-of-the-Sustainable-Development-Goals.pdf>

understatement to say that all three dimensions of sustainability must be addressed in the making of resolutions, so as to attain the most sustainable outcome possible. On a further note, delegates can also create operative clauses by following the recommendations mentioned in the Previous Attempts section of the guide, including the ECOSOC special meetings and Secretariat paper.

Creation of effective progressive tax systems

A progressive tax system has the potential of interacting with two dimensions of sustainability: the social and the economic one. However, the problem is that in some cases high-income payers may pay very little taxes with no effect on equity considerations and income inequality, and in some others, the tax on the higher income brackets may be so high that investments and firm growth are discouraged, resulting in lower levels of economic growth. Thus, to achieve desirable results, delegates, when creating solutions that are related to a progressive tax system should know that such a tax pattern should follow some basic conditions, namely fairness, adequacy, simplicity, transparency, and administrative ease. Fairness refers to the situation where the taxpayers themselves believe they are treated equally. There should be no extreme tax burdens to low- or accordingly high-income residents, and everyone should be taxed in moderation. Adequacy implies that taxes must provide sufficient government revenue, which is much needed for Member States to promote their nation's welfare, growth, and development. Simplicity, transparency, and administrative ease all refer to the simple organization of the tax system which is not too complicated or costly for either taxpayers or tax collectors.

Administering and enforcing inheritance taxes

Given the emerging concerns of governments related to economic inequalities, delegates can propose plans to curb unequal wealth distribution. While the enforcement of heavy inheritance taxes has entered public discussion and debate multiple times, some economists tend to believe that this type of tax is more equitable than income taxes, particularly in economies with major wealth disparities. One major advantage of inheritance taxes is that they are transparently fair. By taxing inheritances, earnings and capital income “heavily”, the worsening unfairness of taxing income could be mildly corrected. In fact, the OECD proposed inheritance tax as a way to reduce wealth inequality and redistribute between the generations. Delegates can get ideas on how wealth, and more specifically inheritance taxes, can entrench inequalities globally, by visiting the OECD report, “The Role and Design of Net Wealth Taxes in the OECD.”³⁵

Regulation and incentives to reduce tax evasion and tax avoidance

Measures against tax evasion and tax avoidance are necessary to ensure that consumers belonging in the top income brackets or Multinational Corporations (MNCs) do not hide their money in assets that are subject to tax exemptions, tax

³⁵ “The Role and Design of Net Wealth Taxes in the OECD: En.” OECD, <https://www.oecd.org/ctp/the-role-and-design-of-net-wealth-taxes-in-the-oecd-9789264290303-en.htm>.

havens or in foreign financial institutions. Indeed, tax avoidance/evasion can function as an economic and social sustainability problem in two ways.

Firstly, they can be a financial problem for tax authorities; to reduce tax responsibility in a manner that is contrary to government legislation is an unlawful conduct. The government is deprived of money needed to carry out important expenditures for the provision of public goods which are considered merit goods. As a result, this budget deficit can indicate a sustainability problem as of its economic dimension, reducing the effectiveness of governments to induce growth for their own country.

Further, tax avoidance can pose challenges to social sustainability, especially when considering terms such as base erosion and profit shipping (BEPS). When MNCs take advantage of differences between tax rules of different jurisdictions globally to artificially shift profits to low or no-tax jurisdictions, they may exaggerate inequality gaps.

To that end, there should be, along with the creation of a well-structured tax administration organization, an international long-term tax framework which does not allow for such immoral practices to take place. With the general goal being to improve the coherence of international tax rules, this BEPS framework should very simply require changes to national tax treaties, offering concrete solutions for governments to close loopholes in their tax legislations which would allow firms to take advantage of. For example, this framework could require all large MNCs to prepare country-by-country reports with analytical data on how their income is taxed. This long-term tax framework should be created by a joint cooperation of G20 and OECD leader countries, and its timely implementation should be urged.

[Green taxes for the correction of negative production externalities](#)

With economic and social sustainability being addressed above, the one dimension of sustainability that has not been discussed yet is environmental sustainability. As already mentioned, Member States should design a tax system correcting negative externalities.

Policies that can be pursued to promote the sustainable use of common pool resources and correct negative production externalities are market-based policies, and more specifically indirect taxes on firms per unit of output produced, also known as Pigouvian taxes. However, a more effective tax designed to deal with particularly the complex threat the burning of fossil fuels poses to the environment, could be the carbon tax, a tax per unit of carbon emissions of fossil fuels. In one such approach, the carbon tax measures and taxes accordingly the amount of carbon used in production processes: the firms burning more fossil fuels will have to pay a higher tax. Through this tax, businesses are not called to reduce their output produced, but their use of carbon which can be harmful to the environment if used unsustainably. As a result, firms can still produce the same output, but use other substitute energy sources that are non-polluting. In a similar manner, delegates can think of ways to correct negative consumption externalities.

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