Executive Summary

Introduction

Raising public revenues through taxation is fundamental to the development process, as it supports vital public investments and helps promote improved governance by facilitating a process of bargaining between citizens and their government.

A key factor that influences the way in which taxation shapes the development process is the distributional effects of these policies and how equitable they are. The equity impacts of taxation can emerge both directly and indirectly. From a direct perspective, equitable tax policies require those with higher levels of income or wealth, or those who are less marginalised (in relation to gender, geography, ethnic groups, or other factors) to be taxed at a higher rate. From an indirect perspective, the public spending facilitated by tax revenues can promote equity through disproportionately benefitting poorer or more marginalised groups, which can in turn help generate greater social and economic benefits for these groups. Conversely, where tax and public spending policies pay little regard to their distributional consequences or favour richer or less marginalised groups, the process of improving equity and reducing poverty can be undermined. This issue of 'equitable taxation' therefore has major consequences for efforts to achieve the Sustainable Development Goals (SDGs), especially those of ending poverty in all of its forms (SDG2), achieving gender equality and empowering all girls (SDG5), and reducing inequality (SDG10).

This brief presents the findings of case studies of the emergence of equitable tax policies in three partner country members of the Addis Tax Initiative (ATI). In doing so, it aims to serve as a "good practice" reference document for peer-learning among ATI members on equitable tax reforms, by providing practical examples of their implementation, as well as guidance and inspiration for their introduction in other countries.

These case studies were selected based on tax reforms whose goal of producing equitable effects was supported by existing analysis and data. The case studies were developed through reviewing relevant documents and interviews with key actors involved in these reforms.

Case study findings

This section sets out briefly the findings of the three case studies – on the Philippines, Sierra Leone, and Uganda – that were undertaken through the research on ATI partner countries' perspectives from moving towards equitable tax systems.

Philippines – Sin Tax Reform and Revenue-Raising for Access to Healthcare

This case study explored the introduction of taxes on alcoholic drinks; tobacco, heated tobacco, and vapour products; and sugar-sweetened beverages, as well as earmarking of most of the revenues for spending on expanding access to health services, especially for low-income groups.

Specific taxes on alcohol and tobacco products were first introduced in the Philippines in 1996, but were set at relatively low levels. The initial impetus for the tax reforms came from the need to raise revenue to support the agenda of the incoming administration of President Benigno Aquino in 2010, but also to ensure that tax regime for spirits met international trade rules. The successful introduction of these taxes, overcoming resistance from industry, was secured through support from a wide coalition of actors – including the President, the ministries of finance and health, civil society, and economic reform groups. Linking the reforms to health expenditure and outcomes (from reduced consumption) was also thought to have helped secure wide support for the reforms.

The tax regime that was introduced in 2012 focussed on setting higher and simpler taxes on tobacco products and alcoholic drinks over a phased period during 2012–17. It was also legislated that 85% of the additional revenues from these taxes would be earmarked for health spending, especially investments in expanding access to the National Health Insurance Program (NHIP) for lower income groups. Then in 2018 new taxes were introduced on sugar-sweetened beverages and heated tobacco and vapour products, with 50% of the revenues from the former and all the revenues from the latter being earmarked for health expenditures. At the same time, taxes on alcohol and tobacco products were also increased.

Revenues from these "sin taxes" have increased rapidly since 2012 and have in turn supported a significant increase in health expenditure. Revenues earmarked for health spending increased from ₱34 billion (USD 0.7 billion) in 2013 to ₱93.6 billion (USD 1.7 billion) in 2022, helping health expenditure to increase from ₱87.2 billion (USD 1.9 billion) to ₱262.9 billion (USD 4.9 billion) over the same period. Amongst other impacts, these expenditures have helped increase coverage of the NHIP from 52.6% of the population in 2011 to 89% in 2022.

Over the period 2012–17, the price increases precipitated by taxes on cigarettes contributed to a 23% reduction in their sales volumes. Initial market surveillance suggested that taxes on sweetened beverages led to a price increase of 20%, which in turn helped reduce consumption by more than a fifth, with higher reductions noted for amongst males and the poorest quintile. Whilst sin taxes may have constituted a higher proportion of the incomes of poorer groups, they likely benefitted most significantly from the greater access to health services.

Sierra Leone – Subnational Revenue Generation through Property Tax Reform in Freetown

Property taxes are a core component of local government revenues in most countries. However, in Sierra Leone, as in most low-income countries, these taxes are highly under-performing, largely due to issues such as incomplete and out-of-date valuation rolls, under-assessment of the most valuable properties, and weak enforcement. In order to address these challenges, beginning in 2019, the Freetown City Council (FCC) initiated a process of comprehensively reforming its property tax system.

Plans for reforming the property tax system in Freetown emerged from a technical working group convened by Mayor Aki-Sawyerr, that included representatives from central government agencies, (including the Ministry of Finance and the National Revenue Authority), the International Centre for Tax and Development (ICTD) and the International Growth Centre (IGC). A small-pilot in two wards of the city was carried out, which led to the development of a system for the identification of properties with satellite images and handheld devices, a points-based valuation methodology and a new IT system for management of the property tax system. The introduction of the new system attracted support from the United Kingdom government. A key element of the reforms was the decrease in the tax liability of the two lowest quintiles of properties in terms of value, and a significant increase in the tax liability applied to the two highest quintiles.

Significant increases in revenues have been achieved through the introduction of the new property tax system. As FCC was able to identify and calculate the taxes for a larger number of properties, the total potential level of revenue increased from about 8 billion Leones (USD 650,000) prior to the reform to almost 45 billion Leones (USD 3.65 million) in 2020. In terms of actual revenue levels, these increased from 4.25 billion Leones (USD 340,000) in 2017 – just over half of total FCC revenue – to 15 billion Leones (USD 1.2 million) in 2020 out of a total of 25 billion Leones (USD 2.12 million) – just over 60% of total FCC revenue – despite the impacts of the COVID-19 pandemic (FCC 2021).

Uganda – Strengthening the administration of taxes paid by High-Net-Worth Individuals

Tax compliance for individual taxpayers is generally low in Uganda, including amongst those with high incomes and wealth, who could provide a significant source of revenue. Raising revenues from this group is thought to be constrained by their political influence; the under-utilisation of available data by tax authorities; and siloed operations and information-sharing across relevant institutions. This results in severe inequities in the distribution of the tax burden, with taxes revenues mainly being generated by taxes on goods and services, which are mainly regressive, and the average employee shouldering the burden of personal income tax over their wealthy counterparts.

In an effort to promote compliance with existing tax policies by wealthy individuals, the Uganda Revenue Authority (URA) – a semi-autonomous revenue agency – established a High-Net-Worth Individuals (HNWI) Unit in 2015. The Unit began its work by developing a formal set of criteria to identify HNWIs (supported by ICTD), thereby generating a list of key individuals it needed to engage. It also began to improve its collection of information on these individuals, to professionalise its approach to managing relationships with HNWIs and develop an approach to undertaking taxpayer education. There were also initially high levels of support from senior management in the URA for the work of the HNWI Unit.

The initial impact of the work of the HNWI Unit was to help facilitate a gradual increase in revenue generated from HNWIs, from 19.2 billion UGX in FY 2015/16 to 22.4 billion UGX in FY 2017/18, with the proportion of HNWI's initially targeted by the Unit filing tax returns increasing from 13% to 78%. However, over time the Unit's impact has declined, as HNWIs have engaged in complex and aggressive tax minimisation and avoidance schemes, which the Unit had only limited capacity to address and required stronger collaboration across government to address. Nevertheless, filing activity has increased amongst some HNWIs and overall revenues increased marginally.