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POLICY BRIEF

TACKLING INEQUALITY THROUGH TAX EXPENDITURE REFORM

Task Force 4
SOCIAL COHESION AND THE STATE

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موجز السياسة

حل مشكلة عدم المساواة من خلال إصلاح نظام النفقات الضريبية

فريق العمل الرابع

التماسك الاجتماعي والدولة

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ABSTRACT

Inequality endangers social cohesion and hampers economic growth, and as a consequence of the COVID-19 pandemic, inequality is set to increase. Hence, the commitment of the Group of Twenty (G20) to address inequality in the context of the Sustainable Development Goals (SDGs) is arguably more important than ever. While fiscal policies are the main instruments used to reduce inequality, countries have so far neglected the role of tax expenditures (TEs). This is particularly problematic as TEs, including the provisions that aim to mitigate TEs, may result in higher inequality. It is, therefore, critical for G20 governments to estimate and report the cost of TEs and assess their distributive impact. Thus, reforming TEs will enhance the effectiveness and fairness of tax systems and help to address the rise in inequality resulting from the COVID-19 pandemic.

تهدد مشكلة عدم المساواة التماسك الاجتماعي وتعيق النمو الاقتصادي، ونتيجة لجائحة فيروس كورونا المستجد، يُتوقع أن تتفاقم مشكلة عدم المساواة. ومن ثم، فإنه يمكن القول إن التزام مجموعة العشرين بالتصدي لمشكلة عدم المساواة ضمن سياق أهداف التنمية المستدامة بات أكثر أهمية من أي وقت مضى. وعلى الرغم من أن السياسات المالية هي الأدوات الرئيسية المستخدمة للحد من عدم المساواة؛ فإن البلدان تغضّ الطرف حتى الآن عن دور النفقات الضريبية. وهذه تمثل مشكلة على وجه التحديد لأن النفقات الضريبية، بما في ذلك، المخصصات التي تستهدف الحد من النفقات الضريبية، ربما تؤدي إلى ارتفاع معدل عدم المساواة. لذلك، من الضروري أن تقوم حكومات دول مجموعة العشرين بتقدير تكلفة النفقات الضريبية وإعداد تقارير عنها، وتقييم أثرها التوزيعي. ومن ثم، سيعزز إصلاح نظام النفقات الضريبية فاعلية الأنظمة الضريبية وعدالتها، ويساعد على حل مشكلة ارتفاع معدل عدم المساواة الناجم عن جائحة فيروس كورونا المستجد.

CHALLENGE

Inequality remains a core topic in many countries. While across-country disparities have been decreasing during the last few decades, the rise of within-country inequality—caused by a high concentration of individuals at the top of the income distribution—is striking (Figure 1). However, inequality is very likely underestimated. Although data on wealth are much scarcer and more inaccurate than income data, the available evidence illustrates that the distribution of wealth is heavily skewed toward its top tail.[1]

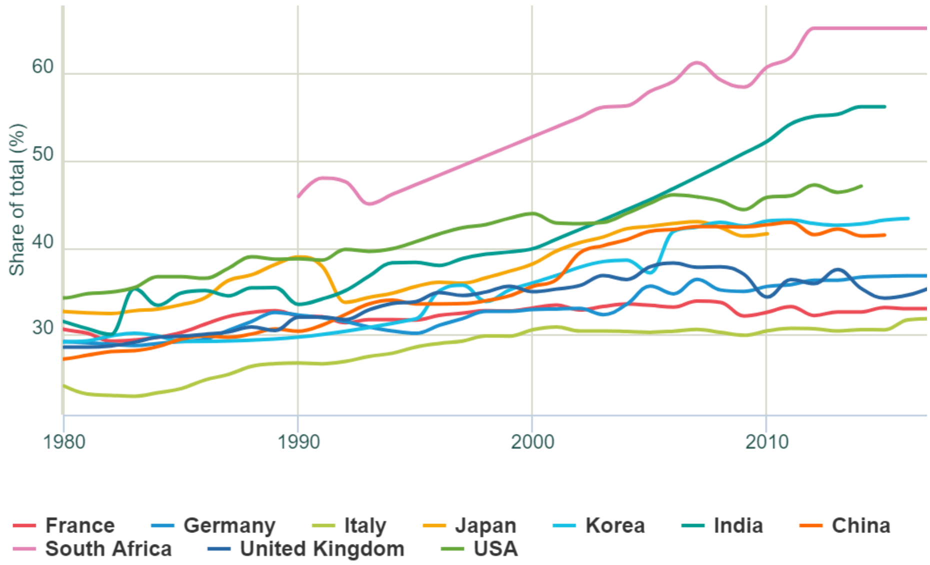

Figure 1: **Top 10 percent national income share**

Source: **www.wid.world**

1. Measuring wealth inequality would require comprehensive information on the wealth owned by the richest households. Accurate data relative to total wealth are crucial. This should include both domestic and foreign assets. The latter is particularly difficult to track as these assets are typically highly mobile, and are thus at the heart of tax avoidance and tax evasion strategies.

Moreover, the current COVID-19 pandemic will have significant effects on inequality, and it will likely be exacerbated in the aftermath of the crisis (Furceri et al. 2020). From a health perspective, the pandemic will have the heaviest impact on those living in deprivation or difficult socio-economic circumstances. Even in richer countries, which tend to have widely available health care, water, and sanitation, poorer households have less capacity to implement social distancing measures. They tend to have considerably higher density, and remote working is often not an alternative. From an economic perspective, the pandemic will hit harder the worse-off, such as informal workers (Redonda 2020). Informality has a compounding effect on inequality, as poverty tends to be both a cause and a consequence of informality. Additionally, as women tend to be more exposed to informal employment in most low- and lower-middle-income economies, the disproportionate impact on informal workers will likely widen gender inequality (ILO 2018). Finally, some of the measures taken to address the health impact of the pandemic, such as school closures, are likely to have long term effects on educational attainment among the poorest households, thus decreasing the scope for social mobility (Andrew et al. 2020).

The G20 committed to the implementation of the 2030 Agenda and the achievement of the SDGs, including "SDG 10: Reduce Inequality Within and Among Countries,"[2] which is particularly significant. Although some G20 members such as France, Germany, Italy, and the UK have maintained relatively low levels of inequality over time, and a few countries have progressed in reducing inequality (e.g., Brazil - see below); much remains to be done, and the COVID-19 pandemic threatens a significant part of this progress.

Taxation is undoubtedly amongst the most powerful policy instruments that can be used to tackle inequality. Debates around fiscal policy design have moved away from the outdated trade-off between efficiency and equity toward a more inclusive perspective that puts growth and distribution on an equal footing.[3] However, up to a large extent, the G20 agenda neglects TEs—that is, provisions such as tax exemptions, reduced rates, deductions, and tax credits that reduce taxpayers' liability and governments' revenues—which have significant potential to mitigate inequality.

This policy brief discusses the interconnections between TEs and inequality and provides policy recommendations to improve the design of these provisions so that economic output is distributed more evenly across society.

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2. More information on the SDGs at https://sustainabledevelopment.un.org/sdgs.
3. See, for example, Brys et al. (2016) and IMF (2017).

PROPOSAL

G20 governments should estimate and report the revenue foregone through TEs as well as comprehensively assess their distributive impact. Reforming TEs will enhance the effectiveness and fairness of the tax systems and help to address the rise in inequality resulting from the COVID-19 pandemic.

Rationale

1. High levels of inequality endanger social cohesion and hamper economic growth. The COVID-19 pandemic demonstrates that not only does high inequality significantly hinder resilience in times of crisis, but that such a crisis is likely to further fuel inequality.
2. The G20 has committed to contribute to the implementation of the 2030 Agenda and the achievement of the SDGs, which include tackling inequality as a priority. This commitment is more relevant, as some of the progress achieved in tackling inequality, is now under threat by the COVID-19 pandemic.
3. Fiscal and tax policies are among the main instruments to mitigate inequality. Although some G20 economies have taken concrete actions in this area, the G20 agenda still neglects the role of TEs.
4. However, the role of TEs is critical. Several TEs are explicitly designed to mitigate inequality (direct effect). Others aim to reach different policy goals such as attracting investment, boosting innovation, or greening the economy but can have significant effects on the distribution of income and wealth (indirect effect).
5. Governments must determine whether TEs explicitly designed to mitigate inequality achieve that goal and whether TEs designed to achieve other policy objectives cause undesired adverse effects on inequality.

Discussion

Some countries have been able to maintain relatively low inequality levels. For instance, the top 10 percent national income shares of France, Germany, Italy, and the UK have remained under 37 percent over the last 40 years (Figure 1). Additionally, a few countries recently managed to reduce inequality. The top 10 percent national income data for Brazil is only available since 2001 and hence was not included among the selected group of countries. However, according to the World Bank, the Gini index—although still strikingly high—has significantly decreased from 63.3 in 1989 to 51.9 in 2015, going up to 53.9 in 2018.[4]

4. See https://data.worldbank.org/indicator/SI.POV.GINI?locations=BR.

South Korea provides a further illustration. The country has faced rapidly increasing inequality over the last two decades, and the government has recently adopted measures to tackle this issue; for example, by increasing taxes on high-income earners, boosting spending for the poor, and dramatically increasing the minimum wage. According to the Inequality Index 2018, South Korea now ranks fourth among the countries "most committed" to reducing the gap between rich and poor in the East Asia and Pacific region, after Japan, Australia, and New Zealand.[5]

However, income inequality remains a worldwide problem, particularly in countries such as India, South Africa, and the US (Figure 1). Moreover, in the wake of the COVID-19 pandemic, much of the progress achieved in curbing inequality in many G20 countries is now under threat. Against this background, achieving the aims set out in the SDG will require renewed commitment and the introduction of equality-driven policies.

Tax and fiscal policies are amongst the most powerful policy instruments to tackle inequality. Indeed, the tax-and-transfer system—the progressiveness of tax and spending policies—is probably the most common instrument countries use to reduce inequality worldwide (Causa and Hermansen 2017). Therefore, it is unsurprising that SDG 10 is a target explicitly urging countries to "adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality" (SDG Target 10.4). Whereas the impact of tax and fiscal policies on inequality is usually highly scrutinized, both the global inequality debate and the G20 agenda often overlook the role of TEs in addressing or contributing to inequality.

TEs, sometimes referred to as tax subsidies, tax relief, or tax breaks, are benefits granted through preferential tax treatment that lower the tax liability of the beneficiary taxpayer, and thus, government revenue. Governments use TEs widely to pursue various public policy goals, such as increasing economic growth, supporting particular industries, boosting innovation and job creation, tackling poverty, and reducing inequality. They also tend to be costly, and often ineffective as well as inefficient in reaching their policy objectives (Redonda 2016).

5. See http://inequalityindex.org.

Why do TEs matter in the fight against inequality?

The use of TEs to pursue different public policy goals is pervasive. These can range from small, targeted initiatives to large programs such as the US Earned Income Tax Credit (EITC), a refundable tax credit targeting the working poor, particularly those with children. While they have similar impacts on national budgets to direct spending, TEs are opaque and rarely face the same level of budgetary scrutiny. As acknowledged by the US Congressional Budget Office, TEs in the US are generally not subject to annual reauthorization, and thus, they are considerably less scrutinized than direct spending (CBO 2012). This lack of transparency and accountability is problematic. First, it creates a scope for corruption and rent-seeking. Second, and critically, TEs are extremely costly and significantly reduce public revenues worldwide.

The US Treasury estimates the revenue foregone by the federal government in 2019 to be more than USD 1.3 trillion, which accounts for 29 percent of direct spending and above six percent of the country's Gross Domestic Product (GDP).[6] Similarly, in Italy, the latest Organisation for Economic Co-operation and Development (OECD) survey indicates that the country's revenue foregone through the implementation of 466 TE policies amounted to EUR 54 billion, with TEs related to personal income taxes (PITs) accounting for 66 percent of the total (OECD 2019). TEs are common in emerging and low-income countries as well. Existing estimates, although limited in scope, indicate that TEs range from 0.7 percent to 6.6 percent of GDP in Latin America and from 0.65 percent to 7.8 percent of GDP in Africa (Redonda et al. 2020).[7]

The magnitude of TEs should be put in the context of its direct and indirect effects on inequality. Several TE policies are explicitly designed to tackle inequality (direct effect). This is the case with most VAT TE, which typically exempts or decreases the tax rate applicable to essential goods and services to increase the affordability of these items for lower-income households. At the same time, several TEs seeking policy goals other than reducing inequality, such as supporting homeownership or boosting pension savings, often provide larger benefits to higher-income families than to low- and middle-income households. Hence, they trigger a significant regressive (indirect) effect on the distribution of income and wealth. This has led some observers to refer to such TEs as upside-down subsidies.

6. All Tax Expenditures Reports published by the US Treasury are available at https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures (accessed 30 Dec. 2019).
7. Data for Latin America are provided by the Inter-American Center of Tax Administrations (CIAT) Tax Expenditure Database (TEDLAC).

Direct effect: VAT-related TEs

Apart from New Zealand's VAT (GST) system—which is characterized by a very wide base, with a single rate and exemptions only for certain financial services and life insurance—most VAT systems include a wide range of exemptions and reduced rates. Thus, they have a considerable level of VAT expenditures (de la Feria and Krever 2013). Governments often implement these expenditures with the explicit goal of yielding distributional and social benefits. However, there are significant concerns about whether these benefits are, or can, be achieved.

The proposition that VAT exemptions and reduced rates protect low-income households and so decrease the regressivity of the VAT, increase the consumption of merit products, or increase employment in labor-intensive, low-skill industries, assumes that firms will pass the tax reduction on to consumers by lowering prices. However, empirical studies indicate that, in practice, retailers generally do not pass the full rate reduction on to consumers. One of the most well-known studies was the "labor-intensive services experiment" conducted in the early 2000s across several European countries. For three years, governments decreased VAT on various labor-intensive industries. In some cases, VAT was reduced by over 15 percent to increase low-skill employment (de la Feria 2015).

In most cases, prices did not decrease. When the prices did decrease in the short term, they returned to the previous levels within one year, and there were no effects on employment. Several other empirical studies on VAT decreases on specific products (e.g., restaurant services in France, Sweden, and Finland) demonstrate identical results. Prices tend not to go down following a rate reduction. The question is then who benefits from the VAT reductions. In theory, it could be different elements of the production chain, including employees (by the creation of higher employment). However, recent empirical studies demonstrate that retailers benefit the most, as they increase their margins in line with the VAT decrease. This result also helps explain why specific industries lobby for lower rates or VAT exemptions: they can broadly maintain the prices they charge consumers while increasing their profit margins (de la Feria and Walpole 2020).

Moreover, when VAT reductions are passed on to consumers, it tends to be the higher income rather than lower-income households that benefit the most. An analysis of global consumption patterns and the distribution of VAT payments by income decile/quantile (household income) indicates that VAT exclusions from the VAT base effectively subsidize the consumption of richer households (de la Feria and Swistak 2020). Although poor income households may spend a large proportion of their incomes on essential items such as food, higher-income households spend more on these essential items in absolute terms. Hence, VAT expenditures tend to benefit the richest 10 percent of households. Thus, contrary to one of their aims, VAT expenditures can increase rather than decrease the regressivity of the tax. This is particularly true for merit goods (such as books and cultural events) and when public and private options are available (healthcare, education), but can still be the case for essential products such as food (de la Feria and Swistak 2020).

Additionally, VAT-related TEs carry significant negative spillover effects that can potentially trigger inequality on the supply side. These provisions lead to significant economic distortions, particularly by creating an unequal playing field amongst suppliers and industries. Exemptions also result in tax cascading (tax on tax) if they apply to the intermediate, or pre-retail stages, and a bias toward vertical integration and against outsourcing. Companies can reduce the tax burden by producing inputs in-house rather than purchasing taxable inputs from third parties. Exclusions from the base also significantly increase compliance costs, which in turn can exacerbate inequality between small and large businesses.

Finally, exclusions from the VAT base incentivize avoidance and create opportunities for fraud. Litigation evidence emerging from several countries indicates that VAT avoidance is often linked to exclusions from the base, particularly exemptions. For example, of all VAT avoidance cases decided by the European Union Court of Justice, only two did not concern exclusions from the base.[8] Similarly, certain types of VAT fraud are also linked to exclusions from the base, and would not be possible without those exclusions, such as misclassification of supplies or certain claims for non-refundable input VAT (de la Feria 2020b). The risks of avoidance and fraud, as well as qualification problems, can significantly increase tax administration costs.

8. Cases C-452/03, RAL (Channel Islands) and Others, ECLI:EU:C:2005:289; and C-419/14, WebMindLicenses, ECLI:EU:C:2015:832, detailed in de la Feria (2020a).

Indirect effect: The regressive impact of mortgage interest deductions

Countries often implement housing TEs to boost homeownership and usually justify them with the alleged positive externalities of homeownership such as property maintenance and improvement, educational achievement, civic participation, and political involvement. While many governments use these provisions widely, the evidence on the social benefits of homeownership is mixed.[9]

The US mortgage interest deduction (MID) is a case in point. The MID subsidizes the debt incurred to purchase or renew an owner-occupied home by allowing taxpayers to deduct mortgage interest payments on i) debt used to purchase or refinance a primary or secondary home (up to USD 1 million); and ii) debt not used to buy, build, or improve a home, but where the home serves as collateral, as in home equity debt (up to USD 100,000). Overall, the MID is the second-largest housing-related TE, and one of the biggest among all TEs in the US, with the revenue foregone by the federal government amounting to roughly USD 65 billion in 2017.[10]

The empirical evidence demonstrates that the MID has a negligible impact on homeownership and is highly regressive. Where it does boost homeownership tenure, it does so only among higher-income households. Around 50 percent of homeowners with mortgages in the US—mainly those from middle and lower-income households—receive no benefit from the MID. Moreover, the value of the deduction to a taxpayer is based on its marginal tax rate; that is, the deduction is worth more for taxpayers in higher tax brackets. Overall, the highest-earning 20 percent of households capture more than 70 percent of the benefit of the MID (Harris and Parker 2014). Likewise, Hilber and Turner (2014) find that the MID has the expected positive effect on homeownership in less regulated cities, namely those with highly elastic housing supply, but only for higher-income sectors. However, in more regulated markets, it has an adverse effect on homeownership and no effect on lower-income earners, no matter the regulatory status of the city in which they reside. Additionally, Bourassa and Yin (2008) demonstrate that this provision has a significant effect on house prices, and thus reduces the homeownership rate of young (and poor) households. Indeed,

9. For instance, Barker (2013) argues that the children of homeowners are not necessarily better-off and that homeownership may have both positive and negative effects. Blanchflower and Oswald (2013) argue that homeownership rates in US states can lead to eventual sharp rises in unemployment.

10. Although the revenue foregone through the MID has considerably declined from 2018, its fiscal cost is still significant (an estimated 30 billion in 2020) and remains among the top ten most costly provisions. See US Treasury (2020).

the MID is likely to induce excessive leverage by lowering the cost of debt financing. Finally, a common tax planning strategy used by homeowners with sufficient financial assets to repay their mortgages is to keep carrying them because of the tax benefits of doing so.

As discussed before, the compounding effect that the COVID-19 crisis will have on inequality only strengthens the case for G20 action. There is a broad consensus that governments need to spend big to mitigate the economic impact of the pandemic. At the same time, it is crucial that the policy responses not only do not increase inequality but reduce it if possible. Against this background, reforming TEs should be at the forefront of post-pandemic policy decisions for governments worldwide. Governments should adopt two specific actions. First, they should regularly estimate and report the costs of TEs. Second, they should phase out provisions that have a regressive effect on the distribution of income to reduce inequality. These actions would ease budget constraints by increasing tax revenue collection and hence fiscal space, which will, in turn, be crucial to weathering the COVID-19 storm.

What should governments do?

TEs are not bad, per se. Some are effective and efficient in reaching their stated policy objectives; others, however, are not value for money.[11] Consequently, as for any other policy instrument, governments must implement comprehensive assessments, such as cost-benefit analyses and impact evaluations, to identify the potential causal effects of TEs on their goals. However, such assessments are strikingly rare. One key factor in this shortage of TE assessments is the lack of transparency. Specifically, several countries do not report the fiscal cost of TEs, or the reports are often very incomplete. Closing these reporting gaps is crucial for evaluating the effectiveness and efficiency of TEs. This can, in turn, inform reforms seeking to rationalize the use of these provisions to enhance the effectiveness of tax systems and decrease inequality. Against this backdrop, this policy brief proposes a three-stage process to drive TE reform. Table 1 summarizes the process, which is discussed in further detail below.

11. The distinction between effectiveness and efficiency is critical. The former refers to the direct effect(s) of a particular TE on its objective(s), while the latter refers to the potential impact on other policy goals that the implementation of a particular TE may cause (Redonda 2016).

Stage	Measure	Progressive Approach
I. Estimating and reporting on TEs	Estimation and publicly reporting the revenue foregone through TEs	TE reporting can start with simply listing TEs and reporting TE estimates for a few important provisions
II. Assessing the disruptive impact of TEs	Comprehensive assessment of the disruptive impact of TEs, including both direct and indirect effects	First, focus on the direct effect on inequality of TEs explicitly designed to tackle inequality and then assess the indirect effects of other provisions. Priority of evaluation should be given to those with a potentially larger impact on inequality
III. Reforming TEs	Evidence-based approach to decide which TEs should be supported and which provisions should be phased out, including, eg. sunset clauses	

Table 1: **Driving TE Reform**

I. Regularly estimating and reporting the fiscal cost of TEs

TEs are opaque, and often not subject to the same level of scrutiny in the budget process as other government spending programs. According to a recent study, eight of the 43 G20 and OECD countries did not report on TEs over the last ten years, 26 published a basic report, and only nine governments published detailed, comprehensive reports regularly (Redonda and Neubig 2018).

The situation is even more worrisome in low and middle-income economies, where for reasons such as data constraints, insufficient human and financial resources, and weaker institutional frameworks, TE reporting remains in its infancy. For instance, out of 54 African countries, only 20 released public reports at least once between 2000 and 2019, while the remaining 34 countries did not publish any reports during this period. Moreover, as in the G20 and OECD countries, the available TE reports differ considerably in quality and scope (Redonda, Haldenwang, and Aliu 2020).[12]

As TE reporting can be resource and time-intensive, countries with limited resources can adopt a gradual approach to reporting adapted to their institutional and data capacities. As Heady and Mansour (2019) suggest, TE reporting could start with a simple annex to the budget that lists all TEs by legal source and reports the revenue foregone for only a few of the most significant provisions. Given the importance of ensuring both transparency and accountability, all TE reports should be publicly available.

12. See also Kassim and Mansour (2018).

II. Comprehensively assessing the distributive impact of TEs
Estimating and reporting the fiscal cost of TEs is an essential task before entering stage II of the process, TE evaluation. In this regard, governments should not only evaluate the effectiveness of TEs against their stated goals but also assess whether their social benefits exceed the social costs. For example, in the case of tax incentives for investment, the social costs include the opportunity cost from the reduction in public revenue as well as the administrative and compliance costs (IMF, OECD, UN, and World Bank 2015).

Likewise, to reduce inequality, governments should increase their efforts to assess both the direct and indirect effects of TEs on the distributions of income and wealth. In this regard, governments should first identify the TEs that effectively mitigate inequality, such as the US EIT, as well as the ineffective provisions, such as most VAT exemptions and reduced rates.[13] Second, governments should assess the distributive impact of the provisions that target other objectives but can nonetheless have significant indirect effects on inequality. For instance, the MID (Gale 2017), pension-related TEs (Duflo et al. 2006; Redonda et al. 2019), and green tax credits (Borenstein and Davis 2016). Germany, for example, evaluates all TE in terms of target attainment, efficiency, and transparency, as well as sustainability (since 2015; BMF 2019). In the US, the Joint Committee on Taxation (JCT) report provides the income distribution of selected TEs. Mexico also provides an analysis of the distribution of certain TEs across income deciles (Government of Mexico 2019).

Similar to Stage I, governments should evaluate all provisions regularly. However, as assessing TE provisions is also a resource and time-consuming task, governments in the initial stages of TE evaluation, can adopt a progressive approach. For instance, by prioritizing the assessment of provisions that have a potentially larger impact on inequality.

III. Safeguarding effective TEs and phasing out ineffective provisions
The political economy behind implementing TE provisions is crucial, as is the political economy behind TE reform. As discussed above, there is a striking lack of transparency in the TE field, hence making these provisions particularly prone to abuse and corruption. Once installed, TEs quickly become locked-in, thus undermining the government's fiscal space, with pressure groups and economic elites often lobbying heavily to influence their governance and design to shape the political process and capture benefits (IMF, OECD, UN, and World Bank 2015).

13. For more details on the US EITC, see, for example, Bastian and Michelmore (2018).

Ideally, governments would base the decision to continue or eliminate a specific TE on empirical assessments of the effectiveness and efficiency of the provision (Stage II). However, even in the rare cases when evaluations exist, their results are not always binding. Often, provisions that prove ineffective remain in place. This is the case of the US MID, for which the evidence regarding its ineffectiveness in boosting homeownership and its regressive impact is conclusive, and yet attempts at reform were systematically blocked (Atkinson and Greer 2015; Fischer and Huang 2013). Applying an evidence-based approach, with clear and transparent rules, could give policymakers a formal justification for TE reform.

A key element that can also mitigate the negative impact of TEs is the introduction of sunset clauses; that is, clauses that put a time limit on newly introduced TEs. Sunset clauses allow a government to eliminate TEs that prove ineffective without high levels of resistance among affected stakeholders (Daude, Gutierrez, and Melguizo 2017). Unfortunately, the use of sunset clauses remains rare. Among the 43 G20 and OECD economies, only a few countries, including Australia, Austria, Brazil, Germany, Italy, the Netherlands, and Korea, added sunset clauses to (some) TEs (Redonda and Neubig 2018). The difficulty in removing TEs once introduced seems to explain the Dutch government's recent move to implement a new assessment framework for introducing new TEs. Embedded in the official "Rules on the Budget" published by the Ministry of Finance, the framework is based on six questions that each require positive answers before the introduction of a new TE provision.[14]

Conclusion

Inequality remains a problem worldwide and is set to rise in the wake of the COVID-19 pandemic. Thus, governments worldwide must renew their efforts to rationalize the use of TEs to increase the effectiveness and fairness of tax systems, ensuring that economic output is more evenly distributed across society. In particular, they should (i) estimate and report the revenue foregone through these provisions; (ii) comprehensively assess their (direct and indirect) effect on inequality; and (iii) support and expand the provisions that are effective and efficient in reaching their stated goals and phase out those that are not.

14. The six questions within the Dutch framework are: (i) Is there a clear problem that requires action from the government? (ii) Is the goal of the provision clear and unequivocally formulated? (iii) Is financial intervention required? (iv) is a subsidy better than a levy? (v) Is a TE better than a direct spending subsidy? (vi) Is an evaluation warranted?

In addition to unilateral action by national governments, the G20 has a crucial role to play in this process. It must collaborate with partner institutions such as the OECD and regional organizations such as the African Tax Administration Forum (ATAF) and International Center for Tropical Agriculture (CIAT). As the Think 20 (T20) has been recommending over the last few years, the G20 should push its member countries to improve their TE reporting, step up technical cooperation with third countries on TE, and contribute to standardizing methods and setting-up best practices in the field (Brosio et al. 2017 and Redonda et al. 2018). Driving TE reform to tackle inequality will contribute to the G20's commitment to reaching the SDGs.

Reform has arguably never been more urgent or necessary. The COVID-19 pandemic has significantly exacerbated inequality, which in turn, is a driver for the spread of the pandemic, with the worse-off hit the hardest. Attention will eventually shift from public health concerns to addressing the economic and social impact of the pandemic. Governments will need every dollar they can spare, and the world can hardly afford to waste billions on tax measures that either fail to address inequality or contribute to its increase. The time for action is now.

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