



TAX, INEQUALITY AND GROWTH

**Regional Outreach Meeting on International Tax Developments
for
Europe and Central Asia**
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OECD Multilateral Tax Centre (MTC), Vienna, Austria

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Background

- At the last Inclusive Framework (IF) Plenary in Cape Town in April 2025, delegates endorsed the Secretariat's proposal to launch a new project on **Tax, Inequality, and Growth**
- The project is designed to support jurisdictions in exercising their sovereign power to address inequality and support growth through their tax systems *should they choose to do so*
- The focus is on tax policy analysis, mutual learning, the sharing of good practices and the identification of possible areas for further cooperation
- The project will adopt a phased and analytical approach, beginning with a scoping and diagnostic phase (Phase 1)
- The work plan for Phase 1 was agreed by IF delegates in July 2026

Phased approach

Phase 1 – Scoping and diagnostic: Understand considerations and diagnose the challenges and opportunities countries face in addressing inequality and supporting growth through their tax systems. Evidence based and analytic approach



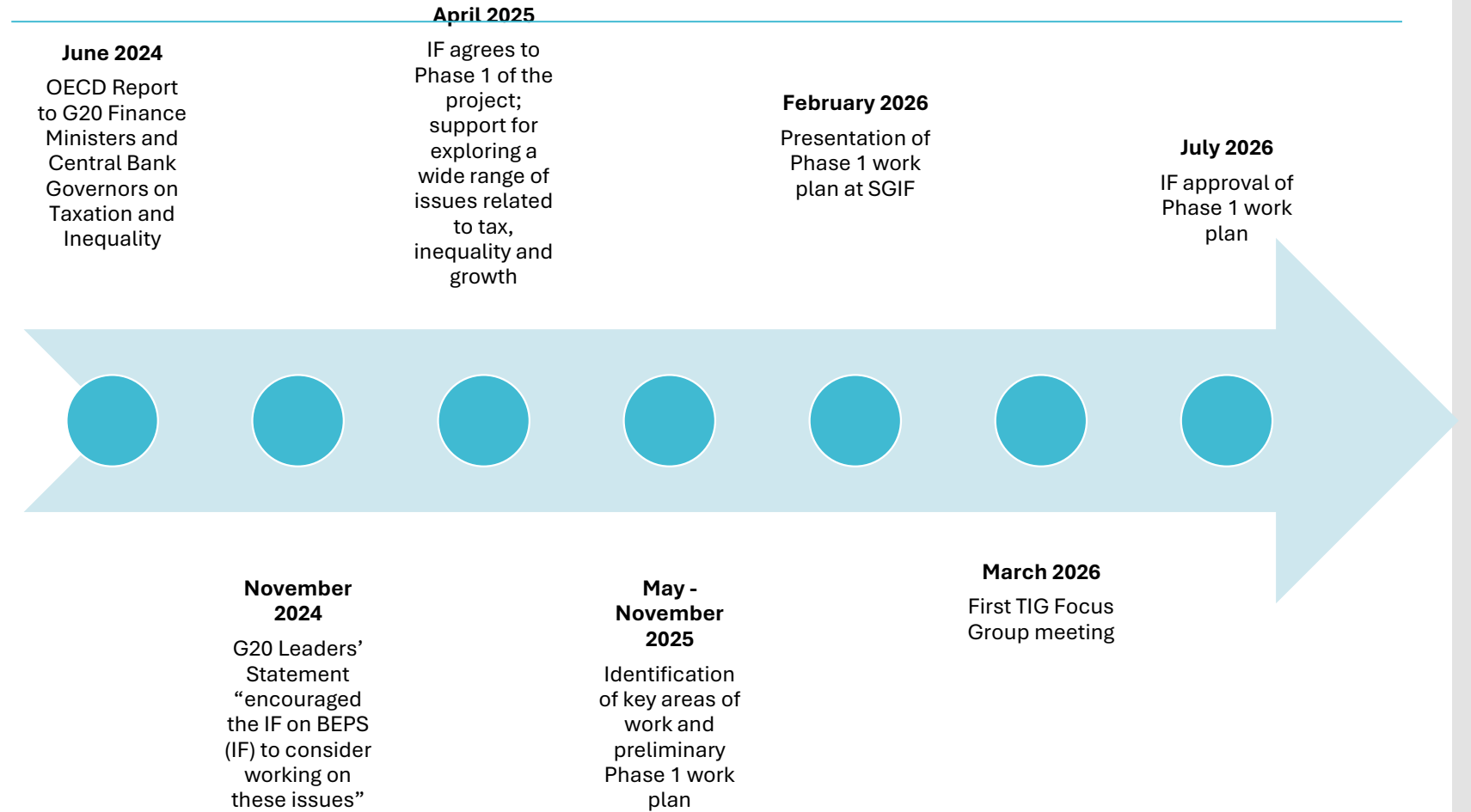
Phase 2 – Identify policy tools: Understand the range of policy actions that mitigate or exacerbate inequality and the intersection with growth outcomes



Phase 3: Consider opportunities for further work including possible international cooperation: Identify the value of continued analysis to inform domestic policy considerations and appetite for and value of possible international cooperation.

Timeline to date

Key dates



Phase 1 workstreams

1

Effective and efficient taxation of capital

- Explores the domestic and cross-border challenges to taxing capital with a focus on implications for growth and progressivity

2

DRM, inequality and growth

- Focuses on the linkages between domestic resource mobilisation and growth and distributional objectives

3

Supporting dynamism and entrepreneurship

- Considers how capital taxation can support or hinder savings, economic dynamism, entrepreneurship, and growth

4

Strengthening quantitative evidence base

- Strengthens evidence base with which to assess different domestic and cross-border challenges

Effective and efficient taxation of capital

- Workstream 1 explores the domestic and cross-border challenges to taxing capital, especially at the top of the distribution, with a focus on implications for progressivity and growth
- Some themes related to capital taxation cut across workstreams
- Areas of focus :
 - Tax treatment of personal capital income and assets
 - Implications of capital taxation for growth
 - Challenges of taxing capital income and assets in differing country contexts
 - Gaps and mismatches in the international tax system
 - Aggressive tax planning strategies
 - Enforcement and compliance issues
 - Policy and administrative challenges relating to the mobility of taxpayers

Interest in capital taxation amid fiscal pressures & structural changes

- **Growing pressures on public finances and revenue needs**
 - Long-term fiscal pressures associated with population ageing
 - Rising defence expenditure
 - Additional budgetary pressures from support measures introduced in response to higher energy prices
- **Structural developments are also increasing attention to capital taxation**
 - **Population ageing:** expected downward pressure on labour tax bases and rising public expenditure
 - **AI and automation:** may affect labour and capital tax bases

The importance of capital taxation for equity

- **Capital taxation matters for equity**
 - **Horizontal equity:** different tax treatment of taxpayers with similar incomes derived from different sources
 - **Vertical equity:** preferential taxation of capital income may reduce progressivity, given the concentration of capital income and wealth at the top of the distribution
 - **Intergenerational equity:** capital income and wealth tend to be more concentrated among older generations
- **Effective progressivity is often lower than statutory progressivity**
 - The design of capital taxes can reduce effective progressivity
 - Evidence suggests that **effective tax rates often decline at the very top**, due to e.g. the retention of earnings in closely held corporations and deferral of capital gains

Channels through which capital taxation affects growth

Savings, investment and capital accumulation

- Taxes on capital income may affect household saving decisions, portfolio choices
- Lower after-tax returns can reduce incentives to save and accumulate capital

Capital allocation

- Preferential tax treatment can encourage some investments while discouraging others
- Tax-induced distortions may reduce the efficient allocation of capital

Entrepreneurship and innovation

- Taxes on capital income can affect incentives to start, expand or finance businesses
- Tax treatment of entrepreneurial income may influence risk-taking and innovation

Financing decisions

- Capital taxation can affect how firms finance investment, which may influence the level/type of investment and productivity

Mobility

- Individuals may relocate in response to taxation, which may affect economic activity

Potential trade-offs

Potential equity gains from strengthened capital taxation

- Enhances vertical equity and progressivity
- Enhances horizontal equity
- Can improve equality of opportunity
- Raises revenue for public investment and redistribution

Potential efficiency losses from strengthened capital taxation

- Lower incentives to save and invest
- Reduced incentives for entrepreneurship and risk-taking
- Lock-in effects

Evidence-gathering approach



Focus Group meetings



Informal discussions with tax administrations



Surveys of tax policy officials and tax administrations



Desk research using external and internal resources



Internal Secretariat discussions

Key issues raised to date

- **Designing capital taxes** to balance revenue, efficiency and equity objectives
- Obtaining comprehensive **information on taxpayers' capital income and assets**
- The use of **aggressive tax planning** (ATP) schemes by individuals
- Potential challenges arising from differences in the design and interaction of **domestic and international tax rules**
- **The mobility of taxpayers**, especially at the upper end of the income and wealth distribution

Evidence gaps

- Scale and prevalence of aggressive tax planning and evasion, and associated revenue losses
- Behavioural and economic impacts of certain capital tax reforms
- Take-up of preferential regimes
- Effectiveness and revenue forgone from capital tax reliefs and preferential regimes
- Use of trusts and other complex asset-holding structures
- Scale and impacts of gaps and mismatches in the international tax system
- Comparable data on ETRs paid by HNWIs

Broader issues & other workstreams

- Countries often face similar challenges, but **specific circumstances shape their priorities** and policy options
 - e.g. countries with high levels of informality may require different approaches to supporting growth, equity and revenue mobilisation
- **Tax sovereignty** is central, shaping approaches for potential cooperation where policies interact
- **Policy design, implementation and administration** need to be considered jointly
- Understanding **interactions across workstreams** is key to successfully diagnosing policy challenges and evidence gaps
 - e.g. links between different types of taxes and investment, business dynamism and entrepreneurship

Next steps

- IF meeting – plenary session and breakout discussions
- Launch of tax policy and tax administration surveys
- Presentation and discussion of initial findings and survey results with delegates
- Phase 1 report to IF delegates (2027)

Questions

- What are the main challenges your jurisdiction faces in designing and levying taxes on personal capital income and assets?
- What factors (domestic and cross-border) most constrain your jurisdiction's ability to reform the taxation of capital?
- What are the key administrative and compliance challenges associated with taxing capital income and assets in your jurisdiction?
- In which areas could greater knowledge sharing or international cooperation help address these challenges?