Chapter 17
Identifying Challenges for Sustainable Tax Policy

Pernilla Rendahl and Katarina Nordblom[1]

17.1. Introduction

When reading the call for the GREIT conference held in Lund in 2019, several questions related to sustainability were addressed and called to our attention.[2] However, as we started discussing the 17 UN sustainability goals (SDGs) from both an economic and a legal perspective, we soon realized that we, to some extent, had different perspectives and understandings of both the goals and their targets.[3] These differences induced us to use a transdisciplinary approach to identify the immanent challenges for sustainable tax policy found in the SDGs and their targets.

This transdisciplinary methodology can be linked to the thoughts used and explained by Brown and Harris in the theories on transformational science,[4] but the scope of the transdisciplinary approach in this chapter is limited to economics and law. The transdisciplinary approach gave rise to a critical perspective on the SDGs and to an identification of underlying values and policies that need to be part of a sustainable tax policy. From a theoretical point of view, the critical perspective is thus both conceptual and immanent based on the transdisciplinary approach.[5] This also made us realize that it is a challenge in itself to apply all the 17 SDGs in tax policy since they can be contradictory, and as the SDGs can be understood differently, the challenge is even greater. The trade-off between underlying values and policies, identified in the SDGs, is a challenge for establishing rational and legitimate tax policies transformed into sustainable tax laws discussed at the end of this chapter (*see* section 17.5.).

There are several societal challenges affecting the rationality and legitimacy of taxation, which are both required for sustainable tax policies. Looking at a revenue perspective, for instance, globalization and digitalization make tax bases increasingly mobile and, in order not to lose tax revenues, countries may need to adjust to other countries' tax rules. From a specific country's point of view, it may be rational to reduce taxes in order to attract, for example, foreign capital, but would that also be rational at an international level?

Other challenges, more from a social perspective, are demographic changes due, for instance, to ageing and migration, which both significantly tend to affect personal income tax bases. It is also likely that the dependency ratios change with an ageing population, making it harder to sustain a high standard of living for all age groups. This will have implications on how tax policy could be used to reach goals such as reduced inequality (SDG 10) or good health and well-being (SDG 3). Moreover, sustainable development requires justice and strong institutions (SDG 16). For this to be obtained, legitimacy is absolutely necessary.

One overall critical reflection after studying the SDGs and their underlying values is that they seem to a large extent to be understood from an anthropocentric point of view, which is unsustainable if we consider the ecological boundaries of the ecosystem of our planet. Hence, policies that are economically, socially and legally rational and legitimate need to adhere to the ecological boundaries of the ecosystem to really be both rational and legitimate. The SDGs also seem to be understood as a set of global policy objectives that can be achieved by pursuing certain specific policies, but this one-size-fits-all approach may not be suitable in different settings because societal challenges need to be understood locally to reach global sustainability.

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1. Pernilla Rendahl is Associate Professor in Tax Law and Katarina Nordblom is Associate Professor in Economics, both at the School of Business, Economics and Law at the University of Gothenburg.
2. *See* C. Brokelind, *Chapter 1: Introduction to GREIT 14th Annual Conference on Tax Sustainability in an EU and International Context* in this volume.
3. All the sustainability goals and their underlying targets are found at https://sustainabledevelopment.un.org (accessed 31 May 2019).
4. *See* V.A. Brown & J.A. Harris, *Transformation Science: Seven Collective Questions for a Just and Sustainable Future*, 9 Knowledge Management for Development Journal 2, pp. 53-66 (2013).
5. For a discussion of immanent critiques, *see*, for example, T. Stahl, *Immanent Critique and Particular Moral Experience* pp. 1-21 (Critical Horizon 2017).

In research focusing on corporate social responsibility, some of these societal challenges have also been addressed but from other perspectives, linking tax law to corporate law and discussing the limitations of legal norms compared to, for instance, ethical norms.[6] The approach taken in this chapter can add to such perspectives, but does not focus on the limitations of legal norms as such, but brings that limitation also into the critical perspectives and as part of the challenges for sustainable tax policy. Besides the SDGs presented by the UN, the European Union has also discussed how the sustainability goals for 2030 can be met.[7] This chapter does not analyse the particular EU goals, but the underlying basic values and core policies identified in the UN SDGs are relevant also for the EU goals. The findings in this chapter are also related to the Ottawa Taxation Framework Conditions, used by the OECD for meeting the societal challenge of taxing digital businesses.[8]

17.2. Identification of relevant SDGs

All 17 SDGs are relevant for tax policy discussions to a greater or lesser extent, depending also on their underlying targets. As a first step, we have categorized the SDGs into three different categories: directly relevant, indirectly relevant and structurally relevant for tax purposes. Taxes can be relevant for achieving a sustainability goal based on different rationales. First, taxes can be used as an incentive, to enable redistribution, or as an instrument for diversifying between different behaviours or products based on their impact on society. Such goals are categorized as directly relevant. Secondly, taxes are relevant from the perspective that they raise tax revenue for a state, municipality or other local/regional government with the purpose of financing public expenditures related to the SDGs. These goals are categorized as indirectly relevant. Thirdly, taxes may be affected by a sustainability goal due to the structural impact non-tax structures have on how taxes can be introduced, collected and controlled, and avoiding abusive practices (tax avoidance/evasion). In such cases, SDGs are categorized as structurally relevant from a tax point of view.

The distinction between direct and indirect relevant goals is not strict, it is a scale where different values of sustainability are balanced against different tax measures concerning both the levying of tax and tax expenditures. A sustainability goal may also be more or less relevant for different types of taxes, such as environmental taxes or income taxes. In the categorization of sustainability goals as directly or indirectly relevant, different tax bases or expenditures have not been diversified. If connected to any tax policy, the goal as such is considered as directly or indirectly relevant. The categorization of direct and indirect relevant goals may also vary over time because the goal may be more or less difficult to achieve. Once a goal is achieved, the objective becomes to protect the underlying value. Tax policy can in those situations still be affected by the goal or affect the protection of the value underlying the goal.

The systematization of the different SDGs as directly, indirectly or structurally relevant from a tax policy perspective is found in Table 17.1.

Table 17.1. Systematization of the relevance of the SDGs from a tax policy perspective

Directly relevant	Indirectly relevant	Structurally relevant
SDG 1 End poverty in all its forms everywhere	SDG 3 Ensure healthy lives and promote well-being for all at all ages	SDG 5 Achieve gender equality and empower all women and girls
SDG 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture (directly relevant for the agricultural sector)	SDG 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	SDG 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

6. *See*, for example, R.P. Österman, *Perspectives on Corporate Taxation from a Sustainable Business Perspective* in *Challenges in Managing Sustainable Business* pp. 371-397 (S. Arvidsson ed., Palgrave Macmillan 2019).
7. *See*, for example, Commission Reflection paper COM(2019) 22 final, *Towards a Sustainable Europe by 2030* (30 Jan. 2019).
8. OECD, *Electronic Commerce: Framework Conditions, A Report by the Committee of Fiscal Affairs, as presented to the Ministers at the OECD Ministerial Conference*, "A Borderless World: Realising the Potential of Electronic Commerce" on 8 October 1998.

SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	SDG 6 Ensure availability and sustainable management of water and sanitation for all	SDG 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development
SDG 10 Reduce inequality within and among countries	SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all	
SDG 12 Ensure sustainable consumption and production patterns	SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	
SDG 13 take urgent action to combat climate change and its impact	SDG 11 make cities and human settlements inclusive, safe resilient and sustainable	
	SDG 14 conserve and sustainably use the oceans, seas and marine resources for sustainable development	
	SDG 15 protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity.	

SDG 1 (end poverty in all its forms everywhere) is one example of an SDG that is directly relevant for taxation. Taxation within a single state can be used for redistributive purposes within the country, but taxation in one state can also serve as redistribution between different states if the revenue is spent on foreign aid. In addition, several other goals and targets require actions at the expenditure side, such as education, health care and sanitation, etc. Such expenditure could be financed by taxes and evidence suggests that this is actually superior to financing them by, for example, grants, especially in developing countries. However, in general, developing countries raise only about 10%-20% of GDP in tax revenues,[9] increasing tax capacity could therefore be of great importance for developing countries to reach the sustainability goals.

However, although the tax-to-GDP ratios are lower and poverty is higher in developing countries, increased taxation does not automatically result in development, redistribution and reduced poverty. Pritchett and Aiyar make a distinction between taxes as a "price" of improved welfare and taxes as a "tribute" to rent-seeking politicians.[10] For instance, if politicians are highly corrupted, increased taxation is unlikely to improve welfare. Only when increased taxation comes hand-in-hand with the construction of a functioning legal system that makes politicians accountable is there a real opportunity for welfare improvements. Therefore, in order for other SDGs to be achieved by tax policy, also target 16.5 (to reduce corruption) becomes crucial. This is a complex matter, because when taxes are raised, responsible politicians would have to use revenue wisely to sustain a high willingness to actually pay the tax. Research has shown, for instance, that Brazilian municipalities, when they became more able to raise tax revenue, spent more on educational infrastructure, whereas increased grants did not have the same effect.[11] Likewise, Martinez studied local governments in Colombia and found that increased tax revenues, unlike increased revenues from oil royalties, had a positive impact on local public spending.[12] For legitimacy reasons, people need to feel that they get something in return when being taxed. Local politicians may thereby get accountability by wise taxation, something which cannot be attained if financial resources come from

9. *See*, for example, C. Long & M. Miller, *Taxation and the Sustainability Goals*, ODI Briefing note (2017), available at https://www.globaltaxjustice.org/sites/default/files/11536.pdf (accessed 13 Aug. 2019) and T. Besley & T. Persson, *Why do developing countries tax so little?*, 28 Journal of Economic Perspectives 4, p. 99 (2014).
10. *See* L. Pritchett & Y. Aiyar, *Taxes: Price of Civilization or Tribute to Leviathan?*, Center for Global Development Working Paper No. 412 (2015).
11. *See* L. Gadenne, *Tax Me, but Spend Wisely? Sources of Public Finance and Government Accountability*, 9 American Economic Journal: Applied Economics 1, p. 274, (2017).
12. L. Martinez, *Sources of Revenue and Government Performance: Evidence from Colombia*, available at https://ssrn.com/abstract=3273001 (accessed 13 Aug. 2019).

grants or aid. Hence, there are potentially many positive effects from increasing tax capacity in developing countries.

Taxes can also be directly relevant when used to change behaviour, for instance, by means of tax incentives (in the form of exemptions, deductions, reduced rates or tax credits) or when tax disincentives make goods or services more expensive (e.g. by adding excise taxes). One example of such a goal is SDG 12, ensuring sustainable consumption and production patterns. Another example of the same relevance for tax policy is SDG 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Two goals were first categorized as partly directly relevant. However, the relevance for tax policy is directly relevant but may need to be further explained for these specific goals, SDG 2 and SDG 13. SDG 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture) has a scope where a specific sector, the agricultural sector, may be directly affected by the tax policies. From an overall perspective the SDG is, however, indirectly relevant for tax policies, since ending hunger is more related to securing that there is enough food to provide for the community. Since this is also related to ending poverty (SDG 1), taxes are indirectly relevant. If poverty ends, more people will have the means to buy food. The access to food depends, however, on the structures for how agriculture is promoted. To reach a sustainable agricultural sector in all parts of the world, different tax policies may be used to achieve this. Hence, the sectoral goal of promoting sustainable agriculture is directly relevant for tax purposes.

The other goal that was first categorized as partly directly relevant is SDG 13 concerning taking urgent action to combat climate change and its impacts. Environmental taxes such as CO_2 taxes can be used to assist reaching this goal, but perhaps stronger measures such as prohibitions of emissions and instructions how to deal with natural disasters are also needed. Reaching SDG 13 is also, from our perspective, a prioritized goal since it affects achieving other sustainability goals. If floods occur and it affects farmland, less food may be produced and it will be more difficult to achieve SDG 2 (ending hunger). Also, other natural disasters as a result of climate change affect economic growth and the possibility to achieve SDG 1: ending poverty. Hence, even if the UN SDGs themselves do not prioritize SDG 13, our perspective is that it needs to be prioritized since it affects the possibilities for reaching the other SDGs.

Structurally relevant SDGs are those that affect how taxes can be structured, enforced and controlled, but which do not always lead to specific tax policy choices. As an example, SDG 5 on equality between men and women needs to be adhered to from a tax policy perspective to avoid inequality, which has been discussed at an EU level in the tax fairness project.[13] Also, Hemels reaches the same conclusion in Chapter 7 in this volume.

All 17 SDGs have underlying targets (in total 169). All of the targets are not relevant for tax policy. Due to the limitations of scope of this chapter, a list of the targets is not presented here. However, one example of where the legal and economic perspective may differ is target 1.4[14] related to SDG 1 (end poverty in all its forms everywhere). From a legal perspective this target is directly relevant since it focuses on equal rights to economic resources, whereas it is indirectly relevant from an economic perspective.

17.3. Basic values

Analysing the 17 SDGs and their underlying targets, we have identified three basic values underlying most of the SDGs. These values refer to (i) equity and equality, (ii) environmental protection and (iii) coherence, which are further discussed and explained in this section. The basic values show the contradictions and complexity of the SDGs, serving as a tool to create understanding of the immanent challenges for creating sustainable tax policies.

Equality and equity can be understood differently from both a legal and economic perspective. This section does not go into depth into all differences between these concepts, but shows the terminological challenges found within the SDGs and our understanding of them. Equity is in economic terms understood as a goal of redistribution from

13. *See* Å. Gunnarsson, M. Schratzenstaller & U. Spangenberg, *Gender equality and taxation in the European Union*, Directorate General for Internal Policies (2019), available at http://www.europarl.europa.eu/RegData/etudes/STUD/2017/583138/IPOL_STU(2017)583138_EN.pdf (accessed 13 Aug. 2019).

14. By 2030, ensure that all men and women, in particular, the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

those that have more to those that have less (e.g. SDG 1, no poverty). It thereby differs from equality which refers to ensuring the same opportunities, creating a level playing field. From a theoretical perspective, equality and equity are used with different purposes and have different underlying concepts, depending on whether one has an economic or legal perspective. For example, legal equality does not automatically imply horizontal equity, i.e. that those with the same income should pay the same tax amount. In many countries, income is taxed differently depending, for example, on the source of income (e.g. earned income or capital income) or marital status. Legal equality may be upheld, since these people are in different legal situations. Economically, this may, however, result in inequity. Hence, the underlying value of equity found in the SDGs refers to different forms of equity from an economic perspective, but equality from a legal perspective.

Legal equality can also be understood differently depending on which equalities or inequalities are discussed. Considering the discussions on non-discrimination and equality between genders, legal equality generally can be understood in three different ways according to Holtmaat: formal equality; substantive equality and transformative equality.[15] If these concepts are translated into an understanding of the SDGs, formal equality refers to the legal right to be treated equally, substantive equality refers to the possibility to secure ones right to be treated equally. And transformative equality refers to removing the cause for inequality.

For example, SDG 5 on gender equality can be understood in a formal sense as the legal right of all to be treated equally and as such it is structurally relevant from a tax policy perspective. However, other SDGs need to adhere to non-discrimination to also be achieved as a substantially equal right. One such example is where institutions (SDG 15 on peace, justice and strong institutions) also need to de facto give possibilities to women to secure their rights. To ensure transformative equality, which refers to the structural level, also other SDGs need to adhere to non-discrimination based on gender. Hence, other goals, such as SDG 4 on quality education, also need to secure gender equality (as in target 4.1 which refers to the right to education for all boys and girls). From a wider societal perspective, the value of non-discrimination, not only based on gender but also other forms of discrimination, needs to be ensured in all norms of society if transformative equality is to be ensured. Other cultural norms and their relation to legal norms, the application and interpretation of legal norms by different institutions all need to adhere the underlying value of non-discrimination to reach legal equality.

Overall, legal equality is required to uphold non-discrimination and to reach equity in terms of fairness. If equity is based on inequalities, non-discrimination and transformative equality cannot be upheld.[16] Hence, equity, needs to be based upon legal equality to reach distributive justice.

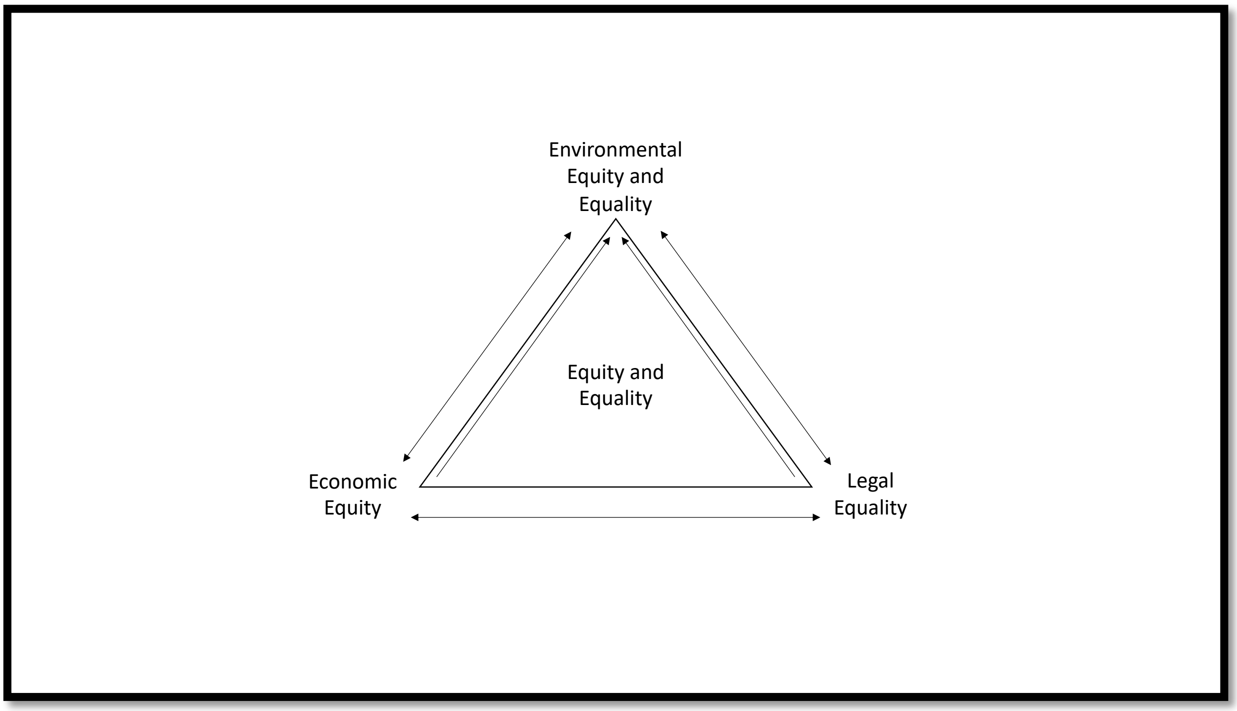
Economic equity and legal equality values are also linked to environmental equality and environmental equity. Environmental equality can be understood differently and using equity, equality and even environmental justice gives tools to nuance the discussion. In some aspects, environmental equity has been described as ensuring that no group or community carries a disproportionate burden of harmful effects due to pollution or environmental hazards. In other terms, it has also been described and developed into environmental justice, which put emphasis on stopping pollution and environmental hazards as such, instead of equalizing the burden of pollution.[17] Environmental equality can be compared to the notion of legal equality if the goal is to restore balance between human and other species in nature. Hence, environmental equality refers to non-discrimination of the environmental interests of different living organisms in making a policy choice, i.e. balancing humans as part of the ecosystem, but with the ultimate responsibility of protecting the balance of the entire ecosystem. With the goal of an ecological system in balance, it is questionable whether the norm of not using resources in such ways that future generations have to carry the burden of our behaviour, i.e. a form of intergenerational environmental equity, can lead to environmental justice, not only in a short term but also in a long-term perspective. In fact, to reach environmental equality, the balance between humans and the environment needs to be ensured within one entire ecological system and not simply, within an anthropocentric view, as a balance between different generations of humans. This is translated into certain SDGs, such as SDG 13 on combating climate change and its impacts and SDGs 14 and 15 on the need to stop the loss of biodiversity.[18] Without a functioning ecosystem and environmental

15. *See* R. Holtmaat, *The CEDAW: A holistic approach to women's equality and freedom*, in *Women's Human Rights, CEDAW in International, Regional and National Law* pp. 106-108 (R. Hellum ed., Cambridge University Press 2013).
16. *See* D.D. Raphael, *Equality and Equity*, 21 Philosophy 79, p. 132 (1946).
17. *See* H. Kruize, *On Environmental Equity*, Netherlands Geographical studies 359, pp. 15-16 (2007).
18. References to biodiversity can be found not only in targets 14.2 and 5 (protection of marine and coastal ecosystems and biodiversity) and targets 15.1, 15.4 and 15.5- 9 (conservation of terrestrial ecosystems and biodiversity), but also in targets 2.5 (genetic diversity of seeds) and 6.6. (water related ecosystems).

equality, the other goals cannot be upheld. The protection of the ecological balance is closely linked to the value of environmental equality.

Figure 17.1. illustrates the different perspectives of equity and equality found in the different SDGs. The three underlying aspects of equity and equality, thus need to be understood as different values that tax policy needs to reflect. It may help understanding the societal challenges that a sustainable tax policy needs to meet and which values need to be prioritized in a short term and long-term perspective. The prioritization of the different perspectives may vary between different SDGs. For example, economic equity is prioritized to reach SDG 1 (end poverty), whereas legal equality is prioritized for SDG 5 (equality between men and women). From an overall long-term perspective, environmental equity and equality need to be prioritized since we have limited resources on the Earth. When the ecological system is unbalanced, it will be more difficult to reach sustainability, if at all possible, for the other SDGs.

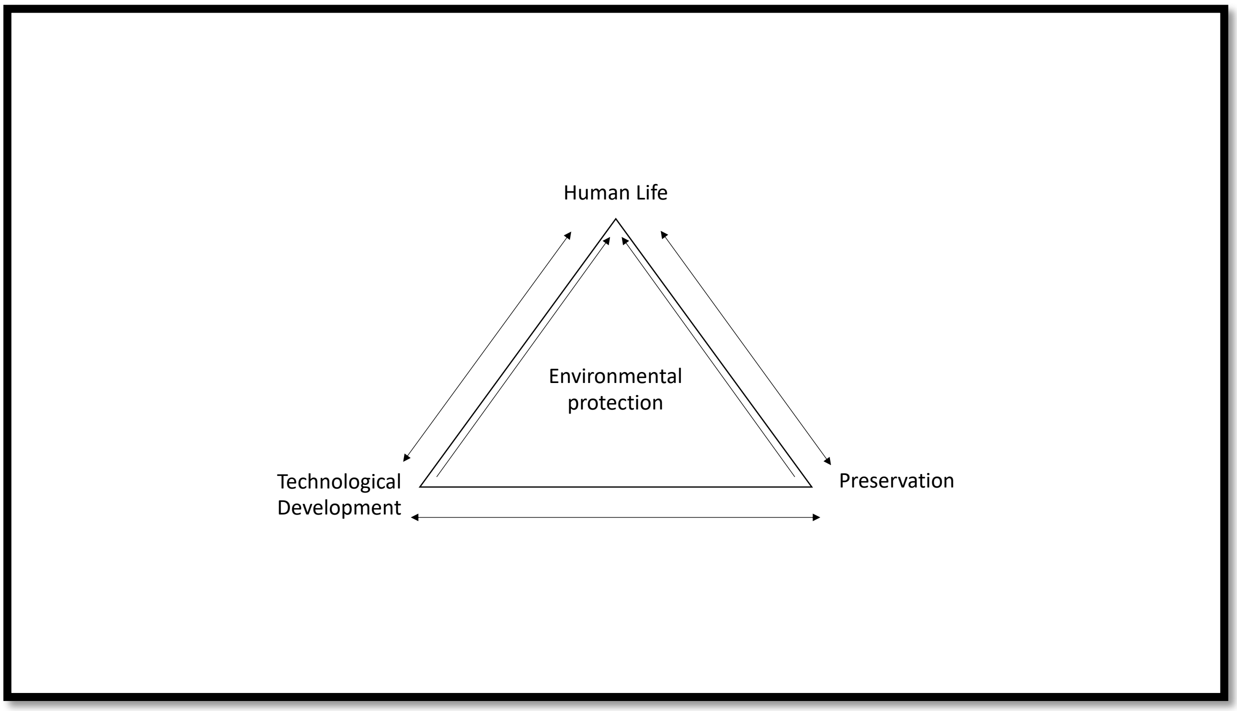
Figure 17.1. Equity and Equality



The second basic value underlying the SDGs is *environmental protection*. It is connected to the notion of environmental equality and equity, but the main objective of some of the SDGs and the underlying targets is to protect the environment. There are three different aspects of how environmental protective objectives are described in the SDGs. First, the rationale behind protecting the environment is to protect human health, such as securing clean water, minimizing harmful substances as in SDG 6, particularly target 6.3. Another example is target 3.9 (by 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination), which is also based upon the rationale of protecting human health. Secondly, the rationale for protecting the environment is to increase economic growth through developing technology and research, as in SDG 9 (industry, innovation and infrastructure). Thirdly, the rationale for environmental protection is to address situations where environmental equality has not been upheld or where species are almost extinct, and the objective is instead to preserve natural and cultural heritage, including animal protection such as SDG 14 (life under water) and 15 (life on land) in an attempt to safeguard the balance of the ecosystem.

Figure 17.2. illustrates the three different perspectives on environmental protection found in the different SDGs. One can discuss if the prioritization of human life is too much of an anthropocentric view, because preservation of animals close to extinction is more acute. The main reason for prioritizing human life in Figure 17.2. is that only humans can take the responsibility required to protect the environment in accordance with the overall SDG view, by safeguarding the ecological system and creating balance at a global and local level.

Figure 17.2. Environmental protection

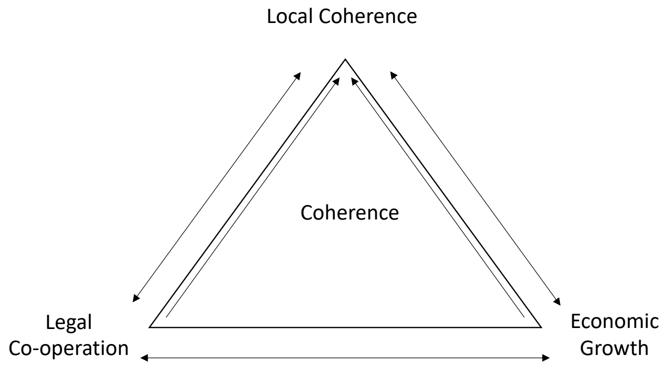


The third basic value identified in the SDGs is *coherence*. Coherence in the sense that several of the SDGs and their targets aim at increasing cooperation and coordination (e.g. SDG 17, concerning strengthening the means of implementation and revitalizing the global partnership for sustainable development). It is thus a normative value on how to achieve sustainable policies and regulations. Coherence can also be discussed from three different perspectives. First, reaching coherence can improve economic growth, which is closely linked to the understanding of the rationale behind competition rules in creating a level playing field. Examples of SDGs that refer to this type of coherence are targets 2.C[19] and 17.3.[20] Secondly, coherence can also be understood as the question whether there is one common view of how sustainability is perceived. Perhaps there is instead a need to discuss local coherence to help achieve a global SDG and we should avoid imposing a one-size-fits-all view of how a society should be sustainably structured (e.g. SDG 17.15 referring to the respect for each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development). Thirdly, coherence can also be discussed from a policy and regulatory perspective: how to reach further international agreement on goals such as SDG 16 (promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels) and how to understand and implement target 16.3 on promoting the rule of law at the national and international levels and ensuring equal access to justice for all. From a tax perspective, the third perspective of coherence is a key issue when discussing sustainable tax policies. Who has the right to impose and to collect a tax? Traditionally; that right is reserved to independent states even if they can choose to cooperate and harmonize their legislation as partly done within the European Union.

Figure 17.3. illustrates the three different perspectives of coherence found in the different SDGs. The main reason for prioritizing local coherence is that legal systems are based on pluralism where different levels of regulations (national, regional and international) need to function in parallel and coherently. At the same time, both the priority of and the solutions for reaching the different SDGs need to be understood based on the local circumstances. Are there specific concerns locally that are affecting the prioritization and how the SDGs best can be met? A Western view of society may not be functional in a different societal setting, nor may a developing country view be functional in a highly developed society. Hence, local coherence is a necessity for realizing legal cooperation and economic growth, and at a global scale further achievement of the SDGs.

19. Target 2.C refers to adopting measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility.
20. Target 17.3 refers to mobilizing additional financial resources for developing countries from multiple sources.

Figure 17.3. Coherence



17.4. Core policies

17.4.1. General

When analysing the tax relevance of the various SDGs in section 17.2. we identified the basic values as explained in section 17.3., and four core policies for sustainable tax policy are presented in this section. Keeping these four policies and the basic values in mind when formulating tax policy would cover a considerable share of the SDGs. The four core policies are:
- Redistributive taxation;
- Environmental taxes;
- International legal cooperation; and
- Efficient, legitimate non-discriminatory tax law.

For most of SDGs that may be affected by tax policy, these four policies, alone or in combination, would play an important role. The first two policies relate to the direct relevance of taxes for achieving the SDGs, while the latter two relate to the tax structure requirements as a consequence of the SDGs.

17.4.2. Redistributive taxation

In section 17.3. we identified equity and equality as important basic values for several SDGs. Specifically, SDG 1 on ending poverty and SDG 10 on reducing inequality. Redistributive tax systems could assist meeting these goals and the basic value of both equity and equality. There could be direct effects from using progressive income or property taxes, where tax revenues are used to finance transfers to households with the lowest economic standards. Alternatively, tax revenue could be used to finance goods and services that are mainly demanded by the poor.

It is likely that optimal redistributive policies look different in developed and developing countries, depending on initial distributions of income and wealth, on possibilities to raise taxes and on institutions. This is a reflection linked to the understanding of the basic value of local coherence, as presented in section 17.3. Many developed countries have highly redistributive income tax systems, which could be an effective tool to reduce inequality within a country. However, there is a trade-off between equity and efficiency, so that highly redistributive tax schemes may be very inefficient if firms and people act strategically to avoid taxes. If the tax base is earned income, labour supply may be distorted, and the distortion tends to be worse the higher the degree of progressivity.[21] Financial capital would, from an equity point of view, be a preferred tax base, but it is also a very mobile tax base. Hence, financial capital could not be taxed too heavily without international agreements. International agreements are also linked to the basic value of coherence, requiring legal cooperation to reach international agreements.

Developing countries generally have much lower tax revenues than industrialized countries and they use income taxes to a much lower extent. In order to reduce poverty (to meet SDG 1) and finance education and infrastructure (SDGs 4 and 9), these countries would need to increase taxation as such and implement redistributive income and property taxation. However, income taxation requires much more administration than, for example, trade taxation, which implies that shifting to more income taxation would require a lot from tax administrations in developing countries. Moreover, individuals and firms would have to receive income from the formal sector in order for taxation to be possible. For example, in Africa only a small share of the citizens work in the formal sector and an even lesser proportion pay income taxes: in Kenya only 10 % and in Tanzania only 1% of the population pays income taxes.[22] This makes it very difficult to use income taxes for redistributive purposes in the same way as in industrialized countries, where the vast majority of economic actors operate in the formal sector and pay taxes accordingly. Bird and Zolt argue against relying too much on personal income taxes in developing countries, partly for these reasons.[23] Inefficient redistributive systems could thus also affect equity and equality negatively, directly contrary to the SDGs. Progressive income taxation has not contributed to redistribution in developing countries to the same extent as in industrialized countries. Land taxes are much easier to administer and could also be highly redistributive. Currently, however, they do not contribute very much to total tax revenue and they are mostly used at local level. In a policy reform in Sierra Leone, improving local tax capacity concerning property taxation substantially increased local tax revenues.[24]

Redistributive fiscal policy could also have an effect on SDG 8 (to promote economic growth). For example, Stiglitz argues that extreme inequality hampers economic growth and that redistributive taxation could therefore play a role in enhancing growth.[25] Naturally, too high levels of taxation would impede growth, but applying modest taxation to somewhat redistribute resources and to finance public services, institutions and infrastructure would likely promote growth in several developing countries.

Taxation with focus on redistribution could also increase the possibilities to achieve other SDGs, such as 2 (end hunger), 3 (ensure healthy lives) and 4 (education), because part of the challenges to reach these SDGs stems from widespread poverty. Reducing inequality (e.g. through redistributive taxation) in a way that radically reduces poverty would therefore also help achieving the SDGs that indirectly depend on poverty.

17.4.3. Environmental taxes

One of the identified basic values of the SDGs is environmental protection and it is also linked to the basic value of equity and equality. SDG 13 (and 14) as a whole and several targets in other SDGs point at the importance of changing, for instance, climate-harming behaviour of firms and individuals to more climate-friendly behaviour. One possible role for taxation is to tax unwanted phenomena or to steer behaviour by economic incentives. There are examples of taxation as a successful tool to reduce activities and substances that are harmful to the environment and the climate, such as taxes on CO_2. This kind of taxes often has a higher degree of acceptance than income taxes.[26] The purpose of these taxes then needs to be clearly expressed to people so that they would agree with it.

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21. *See* M. Feldstein, *Tax Avoidance and the Deadweight Loss of the Income Tax*, 81 The Review of Economics and Statistics 4, p. 674 (1999).
22. *See*, for example, OECD, *Revenue Statistics in Africa 2018*, available at https://read.oecd-ilibrary.org/taxation/revenue-statistics-in-africa-2018_9789264305885-en-fr#page1 (accessed 13 Aug. 2019).
23. R. Bird & E. Zolt, *The Limited Role of the Personal Income Tax in Developing Countries*, 16 Journal of Asian Economics 6, p. 928 (2005).
24. *See* S. Jibao & W. Prichard, *Rebuilding Local Government Finances After Conflict: Lessons from a Property Tax Reform Programme in Post-Conflict Sierra Leone*, 52 The Journal of Development Studies 12, p. 1759, (2016).
25. J. Stiglitz, *The Great Divide – Unequal Societies and What We Can Do About Them* (WW Norton and Company 2015).
26. *See*, for example, H. Hammar, S. Jagers & K. Nordblom, *Attitudes towards tax levels - A multi-tax comparison*, 29 Fiscal Studies 4, p. 523 (2008) and D. Waldenström, S. Bastani & Å. Hansson *Kapitalbeskattningens förutsättningar*, SNS Förlag (2018), available at https://www.sns.se/aktuellt/konjunkturradets-rapport-2018-kapitalbeskattningens-forutsattningar-2/ (accessed 13 Aug. 2019).

However, in industrialized countries, there may be a tension between environmental protection and global environmental equity on the one hand and economic and social equity on the other. Consider the CO_2 tax on fuel, which has been put forward as an effective means of reducing CO_2 emissions and slowing down climate change. Such a tax creates economic incentives to turn to more climate-friendly alternatives than gasoline-hungry cars, but it may have unwanted distributional effects between rich and poor and between urban and rural areas. Taxation of fuel, for example, could increase the gaps between rich (who can afford environmentally friendly cars) and poor (who drive older cars). Also, a rural population depends more on travelling by car, whereas increased public transport is a reasonable alternative mainly in urban areas. Hence, increased environmental taxation should be accompanied by redistribution in order to offset such regressive tendencies. Otherwise, environmental equality is contradicting the overall basic value of equity and equality. Using environmental taxes primarily as a control means to steer behaviour, tax revenues should therefore preferably be transferred back to the taxpayers as a lump-sum transfer. The tax would then only have a substitution effect, with no income effects, so that low-income and rural households would not suffer from reduced disposable income.

The above-mentioned tension between economic and environmental equity potentially caused by environmental taxes in industrialized countries would be much less likely in developing countries. In low-income countries fuel taxes are much more likely to be progressive.[27] The poor in poorer countries do not own cars at all and the vast majority of cars are found in urban areas. The same reasoning holds for many other environmental taxes as well. However, climate change is a global issue, so national taxation could be inefficient unless legal international cooperation to reach a basic value of coherence can be achieved. If one country unilaterally imposes a tax on an activity such as pollution, the effect could be that production just moves to another country. Hence, in many cases international agreements would be of utmost importance for such taxes to be efficient in combatting climate change.

SDG 12 dealing with sustainability in consumption and production is another example of an SDG where environmental taxation can be of importance. Excise taxes may be used to reduce emissions and prevent people from consuming too many environmentally harmful goods. Such taxes can be introduced at different stages of production, distribution and consumption. However, taxes may have to be combined with other regulatory measures such as prohibitions. According to economic theory, the actual burden of the tax, the incidence, is independent of who has the formal tax liability, but it depends on how sensitive consumers and producers are to price changes (price elasticity of demand and supply). It is also important in a globalized world where not all countries have the same tax system to consider the mobility of production and consumption schemes. Taxing producers in one country may lead them to move their production to another country without taxation of emissions. Taxing consumption could suffer from similar problems. If an excise tax is levied on a particular good in one country, it may be possible to buy the same good from another country without the tax (at least if there is free trade between the countries). One example is the tax on chemicals in electronic products introduced in Sweden in 2017. Although the consumer is supposed to pay the tax in the country where the good is consumed, it may be difficult to monitor and thus inefficient in both economic and environmental terms.

17.4.4. International legal cooperation

The third basic value discussed in section 17.3. is coherence, which also covers legal cooperation. As discussed above, national taxation can be inefficient when it comes to mobile tax bases or environmental taxation. Financial capital and pollutants are mobile across national borders and efficient taxation calls for some kind of international cooperation. It could be formal tax treaties, harmonization of tax rules or other kinds of international agreements. However, taxes decided on a supranational level are a sensitive matter. Such policies would jeopardize the national sovereignty in tax matters, which may be considered illegitimate. Moreover, countries are very different and common tax rules may actually even be inefficient if the countries are sufficiently different from each other. As mentioned in section 17.2., there may be a contradiction between legal cooperation and local coherence, which would affect legitimacy negatively. Hence, sustaining local coherence in international legal cooperation is necessary to gain legitimacy.

The more globalized the world becomes, the more international considerations have to be taken into account when formulating tax (and other) policy. Moreover, since climate change is global in nature, so are the means by which we can most effectively combat it. Hence, agreements such as the Paris Agreement are important, but in order to

27. T. Sterner, *Fuel Taxes and the Poor* (Taylor and Francis 2012).

really have effect, they need to be materialized in coherent national tax laws. This is crucial to many of the SDGs, but particularly SDG 17.

The main reason for striving for coherence is therefore to connect the regulatory structures of each state to different forms of regional and international cooperation. Hence, the legal structures necessary for reaching coherence require cooperation between states at different policy levels.[28] Taxes are mainly imposed nationally or locally, depending on the legal structure in each individual state. There are also different forms of harmonization as within the European Union. One critical question, however, is how we understand the value of coherence. There are also differences in the understanding of what a tax is and how it is legally defined.[29] Due to the pluralism of the legal systems with parallel norms at national, regional and international levels, sometimes conflicting and contradictory, sometimes coordinated or harmonized, coherence is a utopia. Nevertheless, it can be a driving force in how we understand the plurality of the legal norms.

From a tax policy perspective, one area where legal coordination is a reality is how we allocate the right to tax between different states. For income tax purposes the resident and source principle can allocate tax revenue to different states based on whether a company or an individual is resident within the territory of a particular state or whether the income derives from a source within that territory. The OECD Model Tax Convention and the web of bilateral and multilateral tax treaties between different states are examples of how international coordination through legal cooperation is achieved. The driving force behind that cooperation is economic, avoiding double taxation and unintentional double non-taxation of income. For other taxes, such as the value added tax, the international agreed upon OECD guidelines primarily opt for taxation at the place of consumption, based on the understanding of valued added taxes as consumption taxes.[30] For environmental tax purposes on specific goods, another principle for allocating taxing rights is whether the goods are produced or sold within that territory, depending on the stage at which the tax is levied.

Depending on the tax base we discuss, there are different forms and different levels of international cooperation. The allocation of taxing rights between states is an example of how the core policy of redistribution of taxes, as discussed in section 17.4.2., is incorporated in the legal structure of norms at different levels, supported or conflicted by the underlying value of coherence.[31] Whether there is support for or a conflict between the policy of redistributive taxes and the basic value of coherence, depends on how we understand the parallelism of the norms and how the policies are given legal effect at national level. For example, different interpretative methods by authorities and courts in different states may increase the parallelism instead of upholding coherence, even if there is coherence at a policy level.[32] How the different norms are given effect at national level and in individual cases affects the legitimacy and non-discriminatory effects of tax policy, which is another core policy underlying the SDGs and sustainable tax policy. Using the Ottawa Taxation Framework Conditions as an example of coordination at a policy level for meeting the taxation of digital commerce for both VAT and income tax purposes, the principle parts of the framework conditions have a level of complexity that also needs to be understood in a similar manner to increase coherence, instead of parallelism.[33] How are these principles incorporated into legal norms, interpreted and given effect at national level in individual cases? How do such frameworks affect the legitimacy of taxes?

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28. For a discussion of the limits of unilateral measures in relation to double taxation and unintentional double non-taxation, *see* P. Rendahl, *Unilateral Measures to Avoid International Double (Non-)Taxation: VAT/GST v. Direct Taxation* in *Value Added Tax and Direct Taxation: Similarities and Differences* pp. 1119-1143 (M. Lang, P. Melz & E. Kristoffersson eds., IBFD 2009), Books IBFD.
29. For a discussion of the notion of tax, *see* M. Helminen, *General Report*, in *The notion of tax and the elimination of double taxation or double non-taxation* sec. 2. (IFA Cahiers vol. 101B, 2016), Books IBFD. For a discussion of how to distinguish direct taxes from indirect taxes, *see* P. De' Capitani di Vimercate, *VAT/GST and Direct Taxes: How can We Distinguish Them?* in *Value Added Tax and Direct Taxation: Similarities and Differences* pp. 151-168 (M. Lang, P. Melz & E. Kristoffersson eds., IBFD 2009), Books IBFD; C. Garbarino, *Hybrid Taxes and the Distinction between VAT/GST and Direct Taxes: The Case of IRAP* in *Value Added Tax and Direct Taxation*, id., at pp. 169-184, and M. Sentsova, *VAT and Direct Taxes: How to Distinguish* in *Value Added Tax and Direct Taxation*, id., at pp. 185-200.
30. For a discussion of the principles underlying allocation of taxing rights for direct and indirect tax purposes, *see* A. Schenk, *Worldwide v. Territorial Tax Systems: Comparison of Value Added Tax and Income Tax* in *Value Added Tax and Direct Taxation: Similarities and Differences* pp. 257-274 (M. Lang, P. Melz & E. Kristoffersson eds., IBFD 2009), Books IBFD and R.M. Millar, *Echoes of Source and Residence in VAT Jurisdictional Rules* in *Value Added Tax and Direct Taxation*, id., at pp. 275-322.
31. The prevention of abuse in multi-layer structures of norms is further discussed in L. De Broe, *International Tax Planning and Prevention of Abuse*, Books IBFD.
32. *See* P. Rendahl, *Parallel rättsbildning och skatteflyktsperspektiv*, 8 SkatteNytt Akademisk Årsskrift, pp. 85-97 (2018).
33. The Ottawa Taxation Framework Conditions are further discussed as an evaluation model for evaluating double taxation and non-taxation of digital supplies for value added tax purposes in P. Rendahl, *Cross-Border Consumption Taxation of Digital Supplies* Chap. 3, Books IBFD.

From a perspective of sustainability, coherence and cooperation do not only focus on reaching economic, but also on environmental sustainability. Hence, a basic understanding of how the ecological system sets boundaries for legal structures is essential for reaching environmental equality. Our understanding of the ecological system is often referred to as there is no planet B. This means that certain climate goals, such as in SDG 13, need to be prioritized, especially considering the long-term consequences. Where one or more legal structures do not incorporate the notion of the ecological boundaries, sustainability cannot be upheld. Hence, even if economic sustainability can be upheld in a short-term perspective, regardless of the ecological boundaries, it cannot be upheld in a long-term perspective unless the value of environmental equality is adhered to. SDG 2, and particularly the underlying targets 2.3, 2.4 and 2.A, show an attempt to protect the environment with the objective of securing food for humans to minimize hunger, but also to increase economic growth in developing countries. However, that cannot be achieved in a long-term perspective unless SDG 13 is effectively met. Another aspect of the SDG of securing food for humans is also the need to consider the underlying value of equity and equality. The redistributive measures that may be needed to increase sustainable food production, within the ecological boundaries, also need to secure equality between men and women and other groups of society. If the value of legal equality is not upheld, social sustainability cannot be upheld.

17.4.5. Legitimate and non-discriminatory tax policy

SDG 16 states that all levels should be characterized by justice and effective and accountable institutions. Hence, the way the tax law is constructed and how it is de facto applied affects sustainability. Here, the Ottawa Taxation Framework Conditions can be used as principles for international taxation.[34] The principle of "certainty and simplicity" is important for both efficiency and legitimacy reasons. When taxpayers have certain rules to follow, less resources are needed for the correct raising of tax revenues; thus, efficiency is enhanced. Moreover, when tax rules are clear and well known, legitimacy is also enhanced since taxpayers understand how much they are supposed to pay and can easily verify that the rules are the same for everyone. If the tax law is fair, but very complicated, people may doubt the fairness. If one does not know how much and on which grounds tax should be paid and if one distrusts the politicians, one may believe that one pays more than appropriate. Simplicity therefore enables perceived fairness of a fair tax system.

Also, the question of non-discriminatory taxation affects both efficiency and legitimacy. From an efficiency point of view, tax bases should be neutrally taxed, irrespectively of whether women or men, natives or immigrants earn income or own taxable resources. Regarding legitimacy, whether or not such laws are legitimate may depend on who makes the judgement. Many would consider discriminatory laws as illegitimate and unfair. However, in economies characterized by a strong patriarchal structure, equalizing rules between men and women could be regarded as illegitimate as they violate old traditions. Hence, ending discriminatory tax laws (e.g. in order to fulfil target 5.1) needs to be done in a way where public opinion is also changed accordingly.

According to the OECD, tax-administration reforms are at least as important as tax-policy reforms in developing countries.[35] Taxpayer registration is important for legitimacy and rationality of taxation, since it is a prerequisite for actual taxation and it is perceived as unfair if some are able to escape taxation. This concerns not only registration to raise income taxes, but also registration of land ownership to enable fair property taxation. This is particularly challenging in post-conflict areas, where it may be hard to determine the rightful owners to specific land plots. Jibao and Prichard studied the situation in Sierra Leone and found that foreign technical assistance and local political leadership were important ingredients for a successful property-tax reform. A local connection and transparency were important in shaping voluntary compliance.[36]

There are many factors affecting legitimacy, such as the quality of government and perceived procedural fairness.[37] However, when focusing on taxation, we identify the following four specific requirements that have to be fulfilled

34. The principles are (i) Neutrality, (ii) Efficiency, (iii) Certainty and Simplicity, (iv) Effectiveness and fairness and (v) Flexibility. *See* Rendahl, id.

35. OECD *Examples of Successful DRM Reforms and the Role of International Co-operation* Discussion Paper (2015), available at https://www.oecd.org/ctp/tax-global/examples-of-successful-DRM-reforms-and-the-role-of-international-co-operation.pdf (accessed 13 Aug. 2019).

36. S. Jibao & W. Prichard, *Rebuilding Local Government Finances After Conflict: Lessons from a Property Tax Reform Programme in Post-Conflict Sierra Leone*, 52 The Journal of Development Studies 12, p. 1759, (2016).

37. M. Levi, A-Sacks & T. Tyler*, Conceptualizing Legitimacy, Measuring Legitimating Beliefs*, 53 American Behavioral Scientist 3, p.354 (2009).

in order for a tax or a tax system to be perceived as legitimate. These cornerstones relate to the four maxims introduced by Smith in 1776 covering fairness or equality, certainty, convenience such as simplicity of administration of the tax and efficiency, but are structured in a different manner below.[38]

17.4.5.1. Taxation should be perceived as fair

When speaking about fair taxation, we distinguish between horizontal fairness and vertical fairness similarly to Smith. To be horizontally fair, individuals or firms with the same tax base should pay the same tax, while vertical fairness stipulates that those with a higher income or wealth should pay a larger tax amount than those who have a lower income or are less wealthy.

International agreements and harmonization help to promote horizontal equity of taxes. The same activity is taxed similarly irrespective of where it is situated, which would mean, for instance, that one firm cannot avoid an environmental tax by moving to another country. However, the concept of procedural fairness is also important and supranational decisions far from the citizens may be regarded as unfair and impeding with national sovereignty. Legitimacy may be reduced when the motives for the tax are different from those of the own country and the tax is regarded as imposed by a supranational level.[39]

Example: A global CO_2 tax (or tax on any other pollutant) would be much more efficient in reducing emissions than a national one, but a global tax would probably be perceived as illegitimate by many since it would interfere with national sovereignty. A voluntary cooperation between some countries could have a higher degree of legitimacy initially, but could be counter-productive for both efficiency and legitimacy reasons: if production is moved to jurisdictions where pollution is untaxed, the global effect on climate change could be very small. Moreover, when citizens in countries with the negotiated CO_2 tax realize that they have a higher tax burden than citizens of countries that benefit (in the short run) from having lower taxes on the same pollutants, they could start questioning the tax and perceive it as unfair.

17.4.5.2. Tax rules should be easy to understand

In order to decide whether a tax or a tax system is fair, one has to understand the content and the structure. If tax rules are too complex, one may question the basis for the tax and whether it actually is levied in a fair way. Transparent taxes, easy to understand, gain a higher degree of legitimacy because the taxpayer may foresee his own tax burden and conclude that it is just. And, on the other hand, if taxes are fair, but the political administration is corrupt, this is more easily detected with simple tax rules. Hence, understandable tax rules may be one means of fostering accountable governments at different levels.

17.4.5.3. Taxes should be regarded as a means for acquiring welfare

Taxes are seen as more legitimate if taxpayers perceive a clear link between taxes paid and public spending. If the governing politicians are trusted, their capability of administrating the tax revenue in the best way for the common good also tends to be trusted. If people, in general, perceive that they get something in return for their tax payments, they become more willing to contribute. Put in another way, governments wanting to tax their citizens will have to deliver in terms of public services in order to make them willing to contribute. Hence, accountable politicians who are not stained by corruption are crucial for citizens to perceive tax payments as a means for acquiring welfare. This channel of legitimacy is likely to be clearer the closer decisions are made to the citizens. For example, Gadenne found that when Brazilian municipalities improved their tax capacity, they increased their tax revenue and used this revenue to improve educational infrastructure. Increased grant revenues did not have a similar effect on spending, which indicated that tax revenues can be spent so as to obtain or maintain legitimacy for the tax.

17.4.5.4. One should perceive that "everyone else" contributes their fair share

38. A. Smith, *Wealth of Nations* (1776, reprint 1910).
39. M. Hartner et al., *Perceived Distributive Fairness of EU Transfer Payments, Outcome Favorability, Identity, and EU-Tax Compliance*, 33 Law and Policy 1, p. 60 (2011).

Related to the fairness aspect, one is willing to contribute if others are also contributing, which is often referred to as *conditional cooperation*.[40] Hence, making sure that taxes are not evaded or avoided is important for tax legitimacy. This also implies a challenge of having an efficient tax administration, so that who gets to pay taxes and who not, does not become arbitrary. For example, making sure that all citizens are registered is important for personal income taxation to be legitimate. This may be one reason why income taxation is not that widely used in developing countries where the tax administration is inefficient. Hence, not only the tax policy, but also the tax administration has to be fair. Absence of corruption in the tax administration is important for the perception that everyone is treated equally.

One example is related to target 12.C which refers to environmental taxes. They cannot be neutral per se because if neutral they could not function as incentives to change an unsustainable behaviour. To reach the environmental goal (such as minimizing harmful substances such as CO_2), the tax base should decrease at the same rate as the environmental goal is fulfilled. Even if such tax bases may have fiscal incentives, the CO_2 use needs to be radically reduced to reach the overall goal for global warming, which in the longer run may also have fiscal effects. Both from a legal and from an economic point of view, we could argue that the CO_2 tax has a high degree of both legitimacy and rationality today. However, in future, the mix of optimal policies may change in relation to climate challenges, which may also have consequences for legitimacy as well as for rationality.

The four cornerstones for legitimate taxation, and also some of the core policies, are found in the Ottawa Taxation Framework Conditions. Neutrality is related to creating a level playing field, which can be linked to both non-discrimination and the underlying basic value of equity and coherence as a means of reaching economic growth. Sometimes, neutrality may not be upheld due to redistributive purposes, but that also needs to be understood from the perspective that neutrality is relative. Also, redistributive tax policies can be neutral between the actors and incomes that are relevant to compare. Efficiency is related both to how one perceives how everyone else contributes to the overall good and to coherence in the form of legal cooperation, particularly since the legal structure for taxation is based on the principle of territoriality (as discussed in section 17.4.2.). Efficiency is also needed to achieve equality and non-discrimination not only de jure, but also de facto. Certainty and simplicity are both linked to legitimate taxation since they affect how the tax rules are perceived and the principle of legal certainty is one cornerstone in achieving legitimate legal structures at all regulatory levels. Effectiveness and fairness are closely linked to efficiency, but also to how equity and equality are upheld in tax systems. Generally, the focus has been on economic equity and legal equality, but looking at other SDGs, environmental equity and equality also need to be adhered to. Therefore, for a tax policy to be considered legitimate in a long-term perspective, environmental equity and equality also need to be upheld, which is valid not only for environmental taxes, but for society at large. The fairness of a tax policy is a cornerstone of legitimate taxation, and fairness then needs to be perceived as one of the underlying basic values of the SDG. Flexibility refers to how to cope with technological changes, which is one of the societal challenges, but also determines the possibilities that we have in society. Flexibility, however, is a principle that may be less prioritized compared to, for example, certainty and fairness.

17.5. Conclusions: A trade-off between rationality and legitimacy to reach sustainable tax policies?

The SDGs have a global perspective of improving sustainability in a wide context, but sometimes interests conflict with each other, particularly when adding the tax policy perspective. Just as the underlying values of the SDGs of equity and equality, environmental protection and coherence affect how we understand the SDGs and their targets, they also affect how we understand which tax policies may assist or contradict sustainability. The underlying basic values are partly incorporated into the four core policies found in the SDGs, underlying sustainable tax policy, as discussed in section 17.4. We discussed the core principles showing how they may relate in different aspects to the basic values. The main conclusion of the discussion is that the vast complexity of demands to reach the SDGs is a major challenge for creating sustainable tax policy and that constant trade-offs are needed between the values found in the SDGs and in other policy documents, such as the Ottawa Framework Conditions. For taxes to be sustainable, they need to be both rational and legitimate in how they meet the complexity immanent in combining

40. *See*, for example, U. Fischbacher, S. Gächter & E. Fehr, *Are People Conditionally Cooperative? Evidence from a Public Goods Experiment*, 71 Economics Letters 3, p. 397, (2001).

the SDGs and other policies. This requires balancing the basic values and the core policies, as discussed in sections 17.3. and 17.4.

One important question is then how that balancing act can be perceived as rational and legitimate. Even if a certain tax policy can be both rational and legitimate in a short-term perspective, it may well be perceived as illegitimate in the long run and thus an obstacle for reaching the SDGs in a longer perspective. For instance, when introducing a new environmental tax, there may be a problem if that tax measure does not uphold the core policies of sustainable tax policy and the cornerstones for legitimate taxation in the longer run.The trade-off between rationality and legitimacy is hence a fundamental dilemma in reaching sustainable tax policies.

An example of a trade-off between rationality and legitimacy for reaching sustainable tax policy within the scope of how the SDGs are understood is the urgent need of prioritizing SDG 13, combating climate changes and its impacts. Another example is that the functioning of the legal structures as discussed in SDG 16 (promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels) is necessary not only for introducing taxes in a society, but also for how they can be implemented and controlled in a legitimate manner.