

Summary of evidence reviewed in section two of this topic guide, on taxation, tax reform and development outcomes

Limitations of the evidence base

The evidence base on tax reform is limited, but has been growing significantly recently. The evidence is mostly secondary non-systematic reviews, though there are some systematic reviews, such as on the impact of tariff reductions on employment and fiscal revenue in developing countries¹ and on tax and behaviour change, such as on diet.² The remaining evidence comes from observational, mostly econometric, studies. A small number of experimental studies look at behavioural responses from actions that mimic taxpaying, and quasi-experimental studies such as natural experiments have also been conducted.

Until the end of the last decade, relevant evidence on tax reform primarily consisted of econometric studies of high-income countries, which looked for relationships between taxation and factors such as growth and revenue. There is also a significant theoretical literature, including economic modelling studies of different tax systems. In 2010 the International Centre for Tax and Development (ICTD) was set up as a “global policy research network focusing on the political economy of taxation policies and practices in poorer parts of the world”³ funded by the UK (DFID) and Norway (Norad). While producing significant amounts of evidence and analysis on tax reform in developing countries, the ICTD’s dominance in this field means that the current evidence base is primarily limited to a small group of researchers associated with the centre. The evidence base is increasingly moving beyond a focus on growth and revenue to wider issues such as effects on statebuilding and redistribution. It is increasingly focusing on developing countries, with better data on them becoming available.

Evidence summary

The tables on the following two pages summarise the findings of the evidence selected for inclusion in Section 2: Development outcomes. It is not a comprehensive review of the entire body of evidence on this topic.

¹ The systematic review finds that, based on econometric evidence, overall employment is likely to decrease slightly in the short term following tariff reductions, but there may be an expansion of employment in the export sector in the longer term. Tariff reductions are likely to reduce trade tax revenue in the short term, but the impact in the medium term could be positive, especially if complementary tax policies and increases in customs tax collection efficiency are implemented. Source: Cirera, X., Willenbockel, D., Lakshman, R. (2011). *What is the evidence of the impact of tariff reductions on employment and fiscal revenue in developing countries?* Technical report. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London. <http://r4d.dfid.gov.uk/PDF/Outputs/SystematicReviews/TariffReductions2011Cirerareport.pdf>

² One 2014 systematic review finds that taxes and subsidies are likely to be an effective intervention to improve consumption patterns associated with obesity and chronic disease, with evidence emerging showing a consistent effect on consumption across a range of tax rates. Source: Thow, A. M., Downs, S., & Jan, S. (2014). A systematic review of the effectiveness of food taxes and subsidies to improve diets: Understanding the recent evidence. *Nutrition reviews*, 72(9), 551-565. <http://dx.doi.org/10.1111/nure.12123>

³ International Centre for Tax and Development: About us <http://www.ictd.ac/en/about-us-1>

	<i>Activities affecting economic growth</i>				<i>Activities affecting revenue sustainability</i>	
	General tax increases	Shift from trade and consumption taxes to income taxes	Corporate taxes	Tax exemptions to promote investment	Domestic taxation (excluding natural resource taxation)	Aid
Evidence of positive impacts in:					Low-income countries (F)	
Evidence of neutral impacts in:		Latin American (high- and middle-income) countries (B)		Multiple countries (E)		Multiple countries (G, H)
Evidence of negative impacts in:	High- and middle-income countries(A)	High- and middle-income countries (A, C); Low-income countries (D)	Argentina, Mexico, Chile (B)			Multiple countries (I)

	<i>Activities affecting statebuilding</i>			<i>Activities affecting equality</i>	
	Building state apparatus for taxation	Greater public demands following taxation	Local taxation	Personal income taxes	Targeted consumption tax reforms
Evidence of positive impacts in:		Multiple countries (K, L)	Sri Lanka (M)		Multiple countries (O)
Evidence of neutral impacts in:	Multiple countries (J)			Multiple countries (N)	
Evidence of negative impacts in:					

Letters in parentheses refer to studies listed on the following page.

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Key to research descriptors

[P&E] Primary and Empirical

[EXP] Experimental

[OBS] Observational

[S] Secondary

[SR] Systematic Review

[OR] Other Review