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Rational Taxation on Stock Variables and Externalities: Alignment with SDGs Achievement

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ABSTRACT:

This paper explores the theoretical implications of rational taxation on stock variables (such as property) and environmental externalities, while removing taxes on flow variables (such as income), and their alignment with the achievement of Sustainable Development Goals (SDGs). It integrates concepts from optimal taxation theory, Pigovian taxation, and environmental economics to analyze how these fiscal policies can enhance economic efficiency, promote sustainable resource use, and support equitable growth. By addressing the impact of such tax policies on market efficiency, environmental sustainability, and institutional governance, the paper provides a framework for understanding their potential contributions to SDGs. The findings suggest that rational tax policies can significantly advance goals related to economic growth, environmental protection, and social equity.

Keywords: Rational Taxation, Property Taxes, Environmental Externalities, Sustainable Development Goals, Economic Efficiency, Fiscal Policy

Introduction:

The Sustainable Development Goals (SDGs) were developed in response to global challenges. Following the conclusion of the Millennium Development Goals in 2015, the UN created the SDGs as a comprehensive plan to tackle environmental, social, and economic issues worldwide. Sustainable Development Summit held in New York on September 25, 2015, the heads of state of the 193 member United Nations General Assembly formally accepted the SDGs Agenda 2030, which went into effect in January 2016. By 2030, it aims to combat climate change, combat inequality and injustice, and eradicate poverty with 17 goals and 169 targets. The SDGs serve as a guide for achieving a more sustainable and better future for everybody. They tackle the world's problems, such as those pertaining to wealth, peace, justice, poverty, inequality, and environmental degradation as well as climate change.[1]

These nations require substantial investment in order to provide basic public services that address important concerns like poverty, food security, education, healthcare, infrastructure, and government administration (SDGs 1, 2, 3, 4, 6, 7, 9, 10, and 16). In addition to ensuring that fundamental requirements are met, this spending is essential for promoting economic growth and guaranteeing the equitable distribution of public resources (SDGs 5, 8, 11, 12, 13, 14, 15, and 17). Numerous nations are striving to develop their economy in a more environmentally friendly and sustainable manner (SDGs 6, 7, 9, 11, 12, 13, 14, 15, and 17).For governments, tax money is still the most sustainable source of income, and it is essential to funding the Sustainable Development Goals (SDGs). It lessens the need for foreign aid and helps pay off heavy debt, which eventually makes a nation more resilient to shocks from the outside world. [2]

Taxation appears to be a promising answer to the ongoing poverty and rising inequality problems. Progressive fiscal regimes have the potential to effectively reduce wealth and income gaps, as evidenced by data gathered for the 2018, World Inequality Report that demonstrates differing patterns in inequality between the United States and Europe during the 1980s. The 2018 Oxfam Commitment to Reducing Inequality Index, which examines how fiscal policy influences economic inequality, highlights recent developments in South Korea and Chile. In South Korea
, the government raised corporate taxes and increased social spending, tax rates on the wealthy, and the minimum wage.[3]

The UNDP started the Tax for SDGs Initiative in 2022 with the goal of assisting nations in advancing their progress towards the SDGs and improving domestic resource mobilisation. Under the Initiative, taxes are viewed as a tool for raising money as well as a policy tool to support strategies for sustainable growth and sway public opinion in favour of desired results in the areas of the environment, well-being, climate change, and governance[1].

So The aim of this paper is to find the reasoning of taxation on wealth , capital gains and property and externalities in alignment with SDGs. Inequality can be decreased, environmental issues can be resolved, innovation can be encouraged, and sustainable economic growth can all be achieved with the help of rational taxes on stock variables and externalities. The rest of the paper is structured into 5 sections. Section 2 presents a brief outline of the methodological aspects of this study .Section 3 reviews overview of theoretical framework. Section 4 reviews the existing empirical and qualitative literature on this issue available at national and international levels section 5 final concludes and Discussion.

Methodology:

In this section, focuses on studies on taxation on stock variables and externalities collected after a thorough search of multiple scientific sources: Google Scholar, jstore, Science Direct, and from various Journals: E3S Web of Conferences; sustainability; International Journal of Public Health; Commonwealth Law Bulletin ; Regional Sustainability; Heliyon and, As a result, this review identified relevant articles that articulate the importance of fiscal policy and taxes on externalities for achievement in SDGs.

OVERVIEW OF THEORETICAL FRAMEWORK:

According to the ability-to-pay tax perspective, a person's tax liability should be determined by their capacity to pay. This implies that those with greater incomes should tax their income at a higher rate than those with lower incomes. This is based on the notion that people and companies with higher earnings can afford to pay more. This idea, known as progressive taxation, is based on the idea that everyone should experience taxation in the same way. Richer people find it easier to pay greater taxes since they don't depend as much on every extra dollar.[4]

According to the benefits-received theory of taxation, which promotes fairness, taxpayers should be charged according to the services they use from the government. You should pay taxes for the public products and services you use and profit from. Conversely, you shouldn't be taxed for government services that you don't use.[5]. The goal of a Pigovian tax is to curtail actions that result in expenses for society and other people that aren't covered by the producers. Due to the fact that producers do not fully pay the costs of production, market economies are prevented from properly balancing by these unfavourable side effects, or externalities, as noted by economist Arthur Pigou.

. Negative externalities occur when a company or an individual doesn't fully cover the costs of their actions; they aren't always "bad" things. In these cases, the additional expenses are ultimately borne by society and the environment.[6]

Rich people and huge corporations should bear a greater proportion of the tax burden, andthereshould be no opportunities for them to avoid paying it altogether through the use of loopholes. Taxation should be equitable and based on what people can truly afford to pay. The value-added tax (VAT), which is a flat, universal tax that disproportionately affects the poor, shouldn't be the primary emphasis of the tax system. Rather, we ought to give priority to enacting more progressive income taxes, corporate taxes, and wealth and asset-related taxes such as capital gains, inheritance, and real estate. It's crucial to give enacting comprehensive wealth taxes serious thought. [7]

Economists such as Mansfield and Canard established the Diffusion Theory, which describes how taxes travel across society and don't just effect the individuals or companies they are initially levied upon. A tax imposed by the government affects everyone in the long run by increasing costs, decreasing earnings, or causing other changes. It does not benefit just one set of people.

Mansfield and Canard contend that it is illogical to concentrate too much on the original tax payer because this spreading occurs organically. Rather, they contend that the effects of taxes ultimately affect every member of society.

Because the burden of indirect taxes is more likely to be distributed as people buy and sell commodities, this theory generally favours indirect taxes (which are taxes on goods and services) over direct taxes (which are taxes on income or wealth). The idea also favours older taxes over new ones because the former's weight has already been absorbed by the economy, while new taxes may have greater immediate consequences before gradually spreading out as well.[8]

Taxation on stock variables and externalities

The SDGs serve as a reminder that eradicating poverty requires more than just meeting basic necessities; it also entails guaranteeing that individuals have access to fair economic opportunities, high-quality healthcare, and education. We need consistent financial sources to implement these reforms, and one of the most sustainable ways to do so is through taxes. An analysis of a nation's income distribution both before and after taxes demonstrates how effective they are at promoting more equitable wealth distribution.

Taxes are one of the main tools used in wealthier nations to reduce income disparity. For instance, an OECD research across 35 of its member nations revealed that taxes reduce income inequality by around a third on average.The nations that effectively redistribute wealth through taxes and transfers are the ones that reduce inequality the best.

In addition to raising revenue, wise fiscal policies can promote more sustainable lifestyles and assist in closing the wealth gap, both of which are essential for accomplishing the SDGs.[9]

.Examined the concept of property taxation from philosophical point of view of Aristotle work politics and other , where as in his views property is vital factor for state development. He further explained necessity of taxation property . He pointed that tax should be pay by both ruling and ruled class to avoid corruption .He further explained the importance Aristotle theory on property taxation as today as taxation should not be punishment but as a noble duty for every citizen and more burden should be on rich then poor which ensure the equity in todays world.[10]

How net wealth taxes might lessen inequality and finance the SDGs was the main topic of discussion at the ECOSOC Special Meeting on International Cooperation in Tax Matters. There is a growing desire to tax wealth, particularly through annual net wealth taxes, as worries about wealth disparity increase inside and between nations.

Although these tariffs are difficult to apply, they have the potential to improve asset utilisation and make the tax system more progressive. In-depth discussion will be provided on the creation of these laws, the challenges associated with implementing them, and the ways in which nations might cooperate to improve the efficacy of net wealth taxes[11].

Our behaviour is shaped by taxation, and this has an impact on how our society evolves. Consider green taxes, which can promote environmental preservation and enhance public health by lowering smoking rates. However, there are instances where the structure of taxes inadvertently leads to gender inequities and unfair results.

There are two primary approaches to solving environmental issues: (1) market-based instruments like taxes and fees, and (2) command-and-control policies that establish guidelines and standards. By holding those who harm the environment accountable, both strategies seek to curtail harmful behaviour. Historically, stringent laws have been the mainstay of pollution control. However, market-based strategies have gained popularity recently, particularly for lowering carbon emissions from the generation of energy. Both strategies are now combined in many nations.

More and more countries are experimenting with carbon pricing these days, while the most effective way to set these levies up is still being researched. Global threats like environmental degradation might eventually hurt a nation's economy. It will be critical to both adjust to these issues and find solutions to reduce them through regulation or price.[12]

More nations ought to consider enacting "property speculation taxes" because they are a significant contributing factor to the rise in inequality, homelessness, and housing insecurity. These taxes are derived from the way housing is considered as an investment. Speculators, owners of numerous residences, and owners of vacant properties would pay higher rates under this type of tax, which is currently in place in Germany in a rudimentary version[13]

REVIEWS

Rahman (2023) used data from 38 OECD nations to investigate the effects of various tax regimes on the accomplishment of the Sustainable Development Goals. Effective average tax (EAT), personal income taxes (TPI), corporate profit taxes (TCP), and goods and services taxes The existence of cross-sectional dependency was tested and analysed using TES variables, and the second generation panel unit root test for stationery used revealed that positive changes in these taxes can result in positive changes in the SDGs, suggesting that taxes can be useful policy tools for promoting sustainable development.TCP has the least positive impact on the SDGs overall, and the theory of TCP suggests that OECD nations should concentrate on tax policy in order to achieve the 2030 agenda for SDGs.Rahman et.al (2022)Using a panel data set covering the years 2000–2012 and a regression model to analyse the data, the study attempts to investigate the impact of company tax rates on sustainable development in the BRIC and CIVETS nations. Additionally, the unit root and cross-sectional dependency tests were passed, and the results indicate a positive and substantial relationship between the corporate tax rate and the SDGs. The study applies to corporate tax, personal income tax, sales tax, and effective tax rate with SDGs and finds a significant and positive association between taxation and SDG. It also includes theoretical arguments and covers personal income tax, sales tax, and corporate tax rate. The study adds to the discussion on corporate tax rate and SDG achievement in emerging countries. discovers a strong and positive correlation between taxes and the SDG, opening up a discourse with academics, policymakers, and government agencies in the BRIC and CIVETS nations.Chen et.al (2023) found that environmental taxes positively impact China's green economy efficiency, with spillover benefits to neighboring regions. While vehicle and vessel taxes are effective, industrial structure negatively affects green economy efficiency. To support China's green economy, Chen recommends improving tax policies, optimizing industrial structure, and enhancing intergovernmental cooperation.Richards' (2021) it was explored how Nigerian taxation principles may be used to raise additional funds for the SDGs, which are frequently hindered by a lack of money.He underlined that taxes provide a means of completing the collaboration between the state and its citizens as development partners, as envisioned by SDG 17.He makes the case that taxes may act as a trigger to help the SDGs succeed.He suggests creating a robust tax structure in order to maintain the funding of SGDs.Benazzou et.al (2024)The goal of the study is to investigate how Morocco's environmental taxes help the country achieve its goals for sustainable development, which include pollution prevention and environmental conservation. Morocco needs a variety of laws and regulatory measures, including eco taxes, to achieve sustainable development. He underlined that eco taxes will be a benefit that will quicken sustainable growth and that, financially speaking, they will be more advantageous than using regulatory measures.Shannon et.al (2022) assesses the anticipated impact of an increase in tobacco taxes on Columbia's sustainable development goals. He created an artificial society using microsimulation to imitate how people would react to a tax hike and how it would affect every social development objective.There were fewer smokers overall, and their smoking was less intense. Tobacco taxes are a potent tool for advancing the 2030 Sustainable Development Agenda and an effective public health intervention.Bengtsson et.al (2014) covered how the sustainable development objectives relate to sustainable consumption and production as well as how to successfully incorporate these goals into the evolving global policy framework. It is discovered that the SDGs for various global challenges accurately represent the SCP.He also went over the advantages and disadvantages of having SCP as a stand-alone goal and of having it as a cross-cutting goal integrated within the other goals.He offered advice on how to include SCP-related indicators, including as total material use, consumption-based indicators, and human well-being, into the SDGs framework.Mpofu (2022) study provides an analysis of green taxes, examining their purpose and potential impact on environmental sustainability as well as the achievement of the Sustainable Development Goals (SDGs) in Africa. He underlined that taxes are these nations' primary means of raising money, that they allow them to expand their tax bases, and that they may need to be utilised in concert with other tools of policy.He emphasised that while green taxes increase inequality, the cost of energy, the rise in black marketing, and other issues, they also present a chance for policy reforms related to green transformation and improve revenue mobilisation to support inclusive and sustainable growth.Swain et.al (2022)The study investigates the effects of electricity taxes in the EU on a number of energy-related Sustainable Development Goals (SDGs). Using data from 28 EU member states, it examines the consequences on the environment as well as the economy.The findings demonstrate that increased home power prices cut unemployment and carbon emissions (SDG 8). These taxes have a definite positive correlation with employment and environmental advantages. With SDG 9 (innovation and sustainable industry), there is a trade-off, though. Although families benefit from these taxes and they aid in achieving environmental goals, industrial sectors require tax adjustments to encourage innovation and cleaner manufacturing methods.

Discussion and Conclusion:

In this paper the analysis focus on theoretical implications of rational taxation on stock variables (such as property) and environmental externalities, while removing taxes on flow variables (such as income), and their alignment with the achievement of Sustainable Development Goals (SDGs). So these are analysed as follows: here it is suggested that in order to fully reap the benefits of such levies on the environment, reform is required, especially with regard to the electricity tax component. Industries, particularly those that rely heavily on electricity, are not sufficiently encouraged by the current EU Emissions Trading System (EU ETS) policy or industry electricity tax policy to innovate or adopt less polluting production processes. Therefore, the industry tax policy should be changed to improve its efficacy if EU officials place a higher priority on attaining environmental benefits than industry competitiveness. And substantial and positive correlation was found between taxation and the Sustainable Development Goals (SDGs) in both scenarios when the individual and combined effects of corporation tax rates, personal income tax, sales tax, and effective tax rates were examined. The tax rates and policies of rising economies have a direct bearing on the attainment of the SDGs. Nations are attempting to strike a balance between economic expansion and environmental preservation. In order to maintain this balance and address environmental issues, green taxes are essential.The SDGs can be improved by a positive adjustment in taxes (EAT, TPI, TCP, and TGS), indicating that taxes are a useful instrument for advancing sustainable development. Their influence does, however, differ depending on one's income level; generally speaking, higher-income nations experience a greater positive impact on the SDGs than do lower-income nations.Increasing private sector and citizen participation in domestic resource mobilisation can expedite the SDGs' successful implementation. Creating a strong tax structure that provides a steady stream of income to support government initiatives is an efficient strategy.Eco-taxes will be a useful tool for quickening the shift to a green economy. also, environmental tax encourages economic growth that is environmentally sustainable.A fundamental component of a good environmental tax policy is utilising the tax system to efficiently protect the environment and minimise pollution. Several effective taxes and levies targeted at environmental protection are part of the Moroccan tax system.

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