

Broadening the Tax Base: Challenges and Policy Options for Sustainable Revenue Generation

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Abstract

Broadening the tax base is a fundamental requirement for improving fiscal sustainability, especially in developing economies facing persistent revenue shortages and rising public expenditure needs. This paper examines the structural, administrative, and political challenges that constrain tax base expansion, including informality, weak governance, narrow tax structures, and widespread tax evasion. It also evaluates key policy options such as tax system digitalization, reduction of exemptions, strengthening tax administration, and improving taxpayer compliance. Drawing on evidence from international organizations and empirical literature, the study finds that effective tax base broadening depends on institutional capacity, trust in government, and simplified tax systems. The paper concludes that sustainable revenue generation requires not only technical reforms but also long-term governance improvements and inclusive fiscal policies.

Keywords: Tax Base Broadening; Fiscal Sustainability; Tax Administration; Tax Compliance; Informal Economy; Tax System Digitalization; Governance..

I. Introduction

Taxation plays a central role in financing public goods and supporting long-term economic development. However, many developing countries struggle with low tax-to-GDP ratios due to narrow tax bases and inefficient tax systems. Broadening the tax base refers to increasing the number of taxpayers and taxable economic activities, which helps reduce dependence on external debt and improves fiscal resilience[1].

A major challenge in this context is the dominance of the informal sector. According to the International Labour Organization informal employment accounts for a significant share of total employment in developing economies, limiting the reach of income and corporate taxation. This structural issue reduces government revenue potential and creates inequality in tax burdens [2].

In addition to informality, excessive tax exemptions and incentives further shrink the tax base. While such incentives are often introduced to attract investment, they frequently erode revenue

without delivering proportional economic benefits[3]. The World Bank (2022) emphasizes that inefficient tax incentives are a major barrier to effective domestic resource mobilization in developing countries.

Therefore, understanding the challenges and identifying effective policy responses is essential for building a sustainable fiscal system. This paper explores both dimensions using global evidence and policy analysis.

II. Literature Review

The literature highlights that tax base expansion is strongly linked to governance quality and institutional strength. The International Monetary Fund (IMF, 2023) argues that countries with efficient tax administrations and transparent institutions are more successful in mobilizing domestic revenue[4]. According to the OECD (2021), tax system design plays a crucial role in determining compliance behavior. Complex tax codes and frequent policy changes reduce voluntary compliance, while simplified tax systems improve revenue collection efficiency and broaden the tax base. The World Bank (2022) emphasizes the importance of formalization of economic activity[5]. Reducing registration costs and improving access to financial systems encourages businesses to enter the formal sector, thereby expanding the tax net.

Furthermore, the United Nations highlights that equitable taxation policies are essential for ensuring that tax base expansion does not disproportionately affect low-income groups [6]. A balanced tax structure is necessary to maintain both fairness and efficiency in revenue collection[7].

III. Methodology

This paper adopts a qualitative research approach based on secondary data analysis. It reviews policy reports, academic studies, and institutional publications from organizations such as the IMF, World Bank, OECD, ILO, and United Nations[8].

A thematic analysis method is used to identify recurring patterns related to tax base constraints and reform strategies. These themes include informality, tax administration efficiency, policy design, and governance quality [9].

The study also uses comparative analysis to examine how different countries have implemented tax reforms to expand their tax base[10]. This approach helps in understanding both successful and failed policy interventions.

Finally, the methodology integrates conceptual analysis to link tax base expansion with economic structure, institutional capacity, and digital transformation in tax systems [11].

IV. Results and Discussion

The findings indicate that informality remains the most significant barrier to tax base expansion. In many developing countries, a large share of economic activity is not registered, making it difficult for governments to collect income and corporate taxes effectively[12].

Another key issue is the excessive use of tax exemptions and preferential treatments. The IMF (2023) notes that such exemptions can significantly reduce potential revenue and often benefit narrow interest groups rather than the broader economy.

Weak tax administration systems also limit tax base expansion. Countries with outdated tax collection systems face challenges in identifying taxpayers, monitoring compliance, and preventing evasion[13]. Digital tax systems have shown positive results in improving efficiency and expanding the tax base. Trust in government institutions also plays a critical role. Conversely, corruption and poor governance reduce willingness to pay taxes [14].

Overall, the results suggest that tax base broadening requires a combination of administrative reforms, policy simplification, and governance improvements [15, 16].

V. Conclusion

Broadening the tax base is essential for achieving sustainable fiscal stability and reducing dependency on external borrowing. This paper shows that the major challenges—such as informality, tax exemptions, weak administration, and low institutional trust—are interconnected and require comprehensive policy responses. Effective solutions include digitization of tax systems, rationalization of exemptions, and strengthening governance structures. However, technical reforms alone are not sufficient; long-term political commitment and institutional transparency are equally important. A well-designed and inclusive tax system not only increases revenue collection but also promotes fairness and economic stability.

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