FOREWORD

A central challenge for fiscal policy today is to reconcile revenue needs with the imperative of protecting growth. How specific taxes are designed and implemented is crucial to meeting that challenge, alongside the overall level and mix of taxation. Complementing last year's *Fiscal Monitor* focus on how to spend more efficiently, this chapter asks how countries can tax better to support growth. It focuses on options for tax design and implementation that minimize distortions hampering investment, work, and production, while safeguarding revenues. The chapter takes the tax mix as given, although some taxes—notably value-added taxes (VAT) and property taxes—are well known to be less distortive than others, such as income taxes. Further, it recognizes that revenue mobilization and equity—which have been the focus of other recent IMF publications—remain central and will continue to shape reform choices in each country

The potential gains from taxing better are sizable. For example, removing VAT-related distortions could lower firms' input costs by about 2 to 9 percent across industries, while reducing tax-induced distortions to investment could raise GDP by about 2 to 3 percent over the longer term.

There is, however, no universal reform blueprint. Priorities depend on countries' existing tax systems, distributional objectives, administrative capacity, and other constraints. In some countries, the greatest opportunities may lie in restoring VAT neutrality; in others, in improving the tax treatment of investment, strengthening work incentives, better targeting support for innovation, or improving tax implementation. The reforms discussed in this chapter seek to ease the revenue-growth trade-off, too often framed as a choice between competing objectives.

Beyond these immediate gains, better tax design is increasingly important as economies confront profound structural pressures—from population aging and climate change to rapid technological transformation. These forces will reshape tax bases and spending needs, making stronger and more adaptable fiscal systems essential. The chapter's analysis therefore points toward a broader agenda: a long-term transformation of public finances that enables countries not only to respond to today's fiscal pressures, but also to build the foundations for sustainable growth and resilience in the decades ahead.

This is where the IMF's country work becomes essential. Through surveillance, capacity development, and program design, the IMF will continue to work with national authorities to translate the chapter's insights—as well as the broader analytical foundations for stronger public finances—into country-specific reform options that reflect their circumstances and policy objectives.

To strengthen capacity development for effective fiscal policy—a key pillar of economic growth and development—the IMF launched the Global Public Finance Partnership (GPFP) in 2024 as its flagship vehicle for fiscal capacity development. Through the GPFP, the IMF supports more than 70 countries across five regions, with a strong focus on low-income and fragile states. The GPFP helps countries mobilize domestic revenues and improve spending efficiency by strengthening tax policy, revenue administration, expenditure policy, and public financial management. This support is carefully sequenced, anchored in a medium-term perspective, and centered on country needs. The GPFP is a vital instrument for translating reforms such as those discussed in this chapter into action. This effort is possible thanks to the commitment of the GPFP's 14 donor partners—Belgium, Denmark, the European Union, France, Germany, Japan, Korea, Luxembourg, The Netherlands, Norway, Saudi Arabia, Sweden, Switzerland, and the United Kingdom. Their contributions enable

the Fiscal Affairs Department to deliver robust support that helps countries strengthen their public finances—and, with them, the foundations of a more resilient and prosperous future.

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