RING-FENCING TAXATION

How and why the earmarking of tax revenues is widespread across the world

STAMP OUT Poverty

Authors

David Hillman

David Hillman developed his research, advocacy and campaigning skills in the campaign to ban landmines and the Drop the Debt campaign. As campaign coordinator of Landmine Action (1996–2000) he worked to achieve legislation to ban the manufacture, transfer, sale and military use of landmines, representing the organisation for the presentation of the Nobel Peace Prize in 1998.

As Director of Stamp Out Poverty, he has worked for a number of years on new sources of finance for climate and development, helping to create the Robin Hood Tax (RHT) campaign for greater taxation of the financial sector. In 2012, France implemented the Financial Transactions Tax, followed by Italy in 2013 and, most recently, Spain at the start of 2021, raising between them many billions of euros. Since 2018, his focus has turned to the fossil fuel sector, proposing far greater taxation on their activities, particularly extraction, to generate substantial revenues to help pay for the escalating costs of climate impacts being borne by vulnerable communities and countries.

Miles Litvinoff

Miles Litvinoff is an independent researcher, writer and editor for NGOs, non-profits and values-based organisations. He has more than 30 years' experience working in the UK and internationally on environmental sustainability, international development, human rights, good governance and related issues. From 2011 to 2021, he led the work of Publish What You Pay UK, the UK chapter of the global civil society coalition working to achieve transparency, accountability, justice and sustainability in the extractive (oil, gas and mining) industries. He is the author and volume editor of several books and editor of numerous published reports. www.mileslitvinoff.info

Stamp Out Poverty

Stamp Out Poverty was founded in 2006 to campaign for new and additional sources of finance to fight poverty and climate change at home and abroad, helping to create the political space for initiatives such as UNITAID, which has to date generated several billion dollars for HIV/AIDS, TB and malaria treatments, with more than half the revenue raised from aviation levies. Stamp Out Poverty led work internationally for the Financial Transactions Tax, creating the very popular Robin Hood Tax campaign that spread across the world in the aftermath of the financial crisis. In 2018, work pivoted to the climate emergency, most particularly to the issue of loss and damage. To build this campaign, Stamp Out Poverty established the Make Polluters Pay coalition in 2021, working with international partners to win agreement for the setting up of a Loss and Damage Fund at COP27.

Most recently, Stamp Out Poverty has been working with the Global Solidarity Levies Task Force on the taxing of various areas of international economic activity, including the broadening of financial transactions taxes on equity trading and increasing taxation of the fossil fuel industry, whose activities have yielded trillions in profit whilst at the same time causing today's climate crisis.

Acknowledgements

Thanks for their encouragement to undertake this project to Avinash Persaud and Tal Harris. Special thanks to Rebecca Newsom of Greenpeace International for her advice in the evolution of this paper and subsequent valuable comments and additions.

Design: www.wingfinger.co.uk

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Foreword

In the parade of arguments lined up against new initiatives to fund public goods, one of the most persistent is that you can't hypothecate taxes or levies: directly taking the revenues from one particular source and directing them to a specific use. Stony-faced bureaucrats shake their heads and say it would never pass: "Treasury won't allow it." This report makes that argument unsafe.

The case that Treasuries and Finance Ministries make is that hypothecating revenues makes public finances hard to manage and undermines proper governance, accounting and common standards around value for money. We can all sympathise with this argument. However, as this paper demonstrates, hypothecation is far more widespread than people think, and to my knowledge, has not compromised public finances but instead protected them.

Before reading this report, when confronted with the hypothecation argument, I was unsure whether it was entirely accurate, given the limited examples I had encountered in my finance work. I would share US examples, as the US has a healthy tradition of scepticism regarding any form of taxation dating back to the Boston Tea Party. The 1934 Securities Exchange Act established a small fee on financial transactions to fund the US Securities and Exchange Commission (SEC). The SEC collected the fee up to mid-May of this year, at which point they reached their annual budget and were able to reduce the rate to zero for the remainder of the year. In 1986, the US Congress established the Oil Spill Liability Trust Fund, which levies 9 cents on every barrel of oil produced or imported into the US to fund oil cleanups and restoration costs. And the big daddy of them all is US social security, which raised $1.2 trillion last year through a dedicated payroll tax that goes into a trust fund, invested in US Treasuries to fund social security costs. This report compiles some comprehensive numbers and shows that the practice is even more widespread than I thought. There may be no hypothecated taxes in Treasury Heaven, but in the real world, they are everywhere, collect big money and function.

There can be numerous reasons against a new tax, but if hypothecation is the primary one, this report may empower you to push back. It shows that hypothecation is a common practice, and it can function effectively, raising substantial funds. Where this is for a use that would especially benefit from long-term planning and investment, it may be desired because it can ring-fence the funds against the temptation to divert them to the latest hot issue.

Avinash Persaud is Special Advisor to the President of the Inter-American Development Bank; he is writing in his personal capacity.

Setting the scene

In the context of growing concerns about fiscal deficits from governments around the world, spending commitments are increasingly being cut back or constrained. When it comes to international spending, this is illustrated by the 9 to 17% projected drop in official development assistance (ODA) across OECD countries in 2025,[1] and the inadequate international climate finance outcome at COP29. This was characterised by an insufficient commitment to provide public finance for Global South countries for their climate mitigation, adaptation and loss and damage needs.

Meanwhile, the economic and non-economic costs of the climate crisis are escalating, illustrated by over 150 unprecedented extreme weather events[2] which happened across the world in 2024, fuelled largely by the greenhouse gas emissions of the oil and gas industry. It has been estimated that climate loss and damages in lower-income countries will cost upwards of $300 billion per year by 2030.[3]

Therefore, the gap between the amount of public finance being made available by governments to invest in public goods – particularly those that involve servicing international climate and development obligations – versus the amount of money that is needed to support the poorest and most vulnerable communities around the world is growing. In this context, taxes and levies – especially those that involve ring-fencing revenues raised from polluting industries or super-rich polluting individuals in order to serve climate and development goals – could provide an innovative and popular solution to unlocking funds to deliver on governments' spending commitments.

Taxation sits at the heart of the contract between a state and its citizens. It speaks of an agreement to make such payments in exchange for spending on public services (health, education, adult social care etc.), infrastructure, protection (at home and from external threats) and overseas, to serve a country's best interests and deliver on its international obligations. The legitimacy of this arrangement is underscored by oversight of government spending through scrutiny by both parliamentarians and the public, monitoring that tax money is allocated effectively.

A further aspect of legitimacy is that taxes are collected fairly, based on the taxpayer's ability to pay, whether as an individual or a company, and distributed according to societal needs. The evidence of clear benefits resulting from their tax payments delivering social goods engenders trust from citizens in their governments.

Definitionally, the ring-fencing, hypothecation or earmarking of taxes and other public revenues refers to the allocation of all, or part, of a specific source of revenue to a pre-determined purpose.[4] Ministries of Finance can sometimes be hostile to the idea of the ring-fencing of specific taxes, preferring the simplicity of receiving all revenue into the Consolidated Fund. Arguments include that ring-fencing introduces unnecessary complexity leading to administrative costs and lack of flexibility to adjust spending in response to unexpected challenges.

However, as this paper shows, there is a wealth of evidence demonstrating the extent to which the ring-fencing of public finance from tax revenues currently exists in numerous countries, and across multiple economic sectors worldwide.[5] The ease with which this can be administered by governments has been enhanced through the digitalisation and automation of financial systems and transfers over the last few years, meaning that there is no longer any technical barrier to the earmarking of a specific tax receipt to a particular area of spending. Finance ministries may well say that earmarking of revenues is not something they are used to or practised in; however, the argument that it is too complex and therefore not feasible is of the last century. From an operational standpoint, ring-fencing is now entirely within the competence of tax authorities.

1 https://www.oecd.org/en/publications/cuts-in-official-development-assistance_8c530629-en/full-report.html#:~:text=The%20OECD%20projects%20a%209,poorest%20countries%20and%20vital%20services.

2 https://www.theguardian.com/environment/2025/mar/19/unprecedented-climate-disasters-extreme-weather-un-report#:~:text=Climate%20crisis-,More%20than%20150%20'unprecedented'%20climate%20disasters%20struck,world%20in%202024%2C%20says%20UN&text=The%20devastating%20impacts%20of%20the,the%20UN's%20World%20Meteorological%20Organization.

3 https://us.boell.org/en/unpacking-finance-loss-and-damage

4 We use the terms 'ring-fencing', 'hypothecation' and 'earmarking' interchangeably in this paper.

5 This research has aimed to draw mainly on more recent published sources, but some sources cited are at least 10 years old. All websites were accessed during May and June 2025.

To be clear, there is no country where there is an outright ban on the practice of ring-fencing for specific spending purposes, although Germany is sometimes cited in this regard. In Germany, it is not legislatively illegal though it is disfavoured on the grounds of constitutional and fiscal principles. That said, the solidarity surcharge (Solidaritätszuschlag) that was introduced in 1991 (then reintroduced permanently in 1995) was levied to help pay for the costs of German reunification. The revenue was not formally ring-fenced but the government politically and publicly justified the surcharge in this way. If we grant that governments are not being disingenuous in justifying the imposition of certain taxes alongside pronouncements about how the revenues will be spent, it needs to be accepted that ring-fencing not only occurs but is a good and useful practice, which can help win political acceptability for particular measures. Through this framing, governments can often achieve dramatic success, turning what might first appear to be a bitter pill to swallow into something that instead wins widespread approval.

Ring-fencing occurs in different forms and to varying degrees. In some cases, governments channel revenues directly to a specific fund or beneficiary category without the money entering the Consolidated Fund. In other instances, ring-fencing is more symbolic, representing a political commitment that governments will allocate funds raised by a particular measure to a specific purpose. This paper sets out, beyond ring-fencing's evident feasibility, that it is a well-trodden path, and a political opportunity for governments to deliver their obligations and commitments in a way that can be popular with voters.

Explanation of examples

The examples cited below are an illustrative sample but not exhaustive. We have organised them in the following sections (with considerable overlaps between them):

1. Sovereign wealth funds
2. Health
3. Social protection
4. Environmental protection/conservation, fossil fuels/natural resources and transportation
5. Miscellaneous examples

While many of the examples of the taxes selected deliver important public goods, this report does not necessarily endorse the specific design of each one. Rather, these examples have been selected as an illustration of the extent to which governments implement hypothecated taxes and levies across multiple sectors around the world, in order to prove the feasibility and political advantages of this approach for raising money to deliver on key public policy objectives and international obligations. Alongside using the tax system to disincentivise climate and biodiversity destruction and to incentivise environmental solutions, it is crucial that governments take steps to prevent knock-on increases in prices and the cost of living, especially for people living in poverty. Taxes must also be designed to ensure that their distributional impacts are progressive – i.e. the financial strain on lower-income individuals and households should be lessened, while those who can pay more have a higher tax burden.

We have included four text boxes to provide additional illustrative detail. Their location in the text does not indicate thematic links to the main sections.

1. Sovereign wealth funds (SWFs)

SWFs, mainly capitalised by natural resource revenues, have been established by a number of countries to invest more than $13 trillion from a narrow range of sources and 'usually [with] a targeted purpose'.

These state-owned funds, which are usually ring-fenced, include (in descending order of fund size) Norway ($1.7 trillion), China Investment Corporation ($1.3 trillion), China SAFE Investment Company ($1 trillion), Abu Dhabi ($1 trillion), Kuwait ($1 trillion), Saudi Arabia ($925 billion), Singapore ($800 billion), Indonesia (Danantara: $600 billion) and Qatar ($525 billion).[6] SWFs also exist in some African countries, including Ghana, Guinea, Namibia and Nigeria.[7]

In the case of Norway, it limits expenditure from its invested SWF to 4% of the fund's annual returns, with the final form of fund expenditure still to be decided. Many Norwegians are said to consider the priority to be insulating the country's ageing population from the pension crisis facing many mature welfare states.

2. Health

Worldwide 80 countries – including Belgium, Brazil, Colombia, Costa Rica, Czechia, Estonia, France, Germany, Ghana, Japan, Luxembourg, Poland, Rwanda, Slovenia, South Africa, South Korea, Tanzania, the UK and the USA – ring-fence taxes for health spending. Income or payroll taxes are commonly used (62 countries); 4 countries use dedicated value added tax (VAT); many ring-fence taxes on products deemed unhealthy (35 countries ring-fence tax revenues from tobacco sales, 9 from alcohol sales and 10 from sales of other goods that can negatively affect health, e.g. sugar-sweetened beverages); 8 countries ring-fence a portion of national-level transfers or revenue generated at subnational level; 2 countries ring-fence lottery funding; and 1 uses a levy on personal foreign money transfers and mobile phone company revenues.[8]

- **Brazil's** earmarking of public health expenditure has resulted in an estimated public health care spend of $772 billion over the 10 years to 2023.[9]
- **USA:** Part of federal-level Medicare resources comes from earmarked taxes (although non-earmarked general revenue is the main source of financing).[10] In the Mississippi Delta region, earmarked taxes 'improved public health outcomes'.[11]
- **Belgium, Colombia, Japan and Luxembourg** have healthcare systems funded mainly through government transfers and social contributions.[12]
- In **Costa Rica, Slovenia, Germany, Poland, Estonia and Czechia**, a 'half or more of healthcare system financing' is through citizens' social insurance contributions.[13]
- **Estonia** finances almost two-thirds of its total health expenditure through a payroll tax that covers both health and pension contributions.[14]
- **Germany** – one of the world's highest spenders on health per capita and as a share of GDP – funds public healthcare largely through earmarked social insurance contributions, totalling an estimated $2,566 billion over the 10 years to 2023.[15]

6 www.investopedia.com/terms/s/sovereign_wealth_fund.asp

7 ciaotest.cc.columbia.edu/journals/cceia/v28i1/f_0030898_25028.pdf; www.nbim.no/en/about-us/about-the-fund; www.swfinstitute.org/profile/598cdaa60124e9fd2d05bc49

8 www.econstor.eu/bitstream/10419/305548/1/cesifo1_wp11306.pdf; portal-uat.who.int/fctcapps/sites/default/files/kh-media/e-library-doc/2020/07/earmarking-for-health-from-theory-to-practice.pdf; learninggeneration.org/wp-content/uploads/2025/04/EDC-Report-Feb25-Proof10_compressed.pdf; researchbriefings.files.parliament.uk/documents/SN01480/SN01480.pdf

9 https://www.taxnotes.com/tax-notes-international/healthcare-taxation/financing-healthcare-earmarked-taxes/2024/06/10/7k861; in practice, 'The municipal governments, which deliver most health programs and services, [have] exceeded their designated spending levels, while the federal government and state governments [have] failed to meet their targets' – ibid.; estimate based on ourworldindata.org/grapher/public-health-expenditure-share-gdp and data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=BR

10 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf

11 www.econstor.eu/bitstream/10419/305548/1/cesifo1_wp11306.pdf

12 www.econstor.eu/bitstream/10419/305548/1/cesifo1_wp11306.pdf

13 www.econstor.eu/bitstream/10419/305548/1/cesifo1_wp11306.pdf

14 portal-uat.who.int/fctcapps/sites/default/files/kh-media/e-library-doc/2020/07/earmarking-for-health-from-theory-to-practice.pdf

15 www.econstor.eu/bitstream/10419/305548/1/cesifo1_wp11306.pdf; economy-finance.ec.europa.eu/document/download/b2b30d3e-dad9-4fa5-b98c-5cbf5613907b_en?filename=joint-report_de_en.pdf; estimated at 64.4% of total public health spending: ourworldindata.org/grapher/public-health-expenditure-share-gdp; https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=DE

- **France** stopped funding healthcare exclusively with payroll taxes in 1998, but in 2017 53% of funding still came from payroll taxes, 34% from earmarked income taxes, 12% from alcohol, tobacco and pharma taxes plus voluntary health insurance, and the remaining 1% from state subsidies.[16]
- **UK:** A proportion of national insurance contributions charged on employees, employers and the self-employed is allocated to the national health service (rather than going to the National Insurance Fund to pay for contributory benefits).[17]
- **Ghana:** Part of the revenue from VAT and the national fuel levy is earmarked for health and education spending, with about 90% of the national health insurance scheme funding from ring-fenced funds.[18]
- **Kenya** allocates 16% of revenue collected on digital money transfers to support universal health care.[19]
- **Rwanda and Tanzania** earmark revenue for health financing.[20]

School feeding programmes

- **Bolivia** has since 2005 assigned shares of its hydrocarbons tax revenue to municipalities to finance health, education and social services, including 70% of its school meals programme, reaching over 2.5 million state school children.[21]
- **Guatemala's** feeding programme for all children in state schools is fully financed from VAT revenue lines stipulated in national legislation; the school meals budget equates to just under 1% of total VAT receipts.[22]
- **India's** school feeding programme, the world's largest, is part-financed by revenue allocated from a 4% national education 'cess' levy (see box on page 9) on basic income tax and corporation tax.[23]
- **UK:** Municipal authorities in London formerly financed a universal primary school meals programme by earmarking revenues from business rates.[24]

'Sin' taxes for health spending

- **UK:** The soft drinks industry levy, introduced in 2018, applies to imported or domestically produced soft drinks, investing levy funds in school sports and physical education to address childhood obesity, in healthy school breakfast clubs and in upgrades to sports facilities;[25] total receipts June 2018 to Aug. 2024 were between £1.8 bn and £2.0 bn.[26]
- **French Polynesia's** tax on unhealthy food products introduced in 2002 in response to concerns about poor nutrition and non-communicable disease was earmarked for public health and other cultural, educational and youth-focused initiatives.[27]
- **The Philippines:** From 2012 the government has earmarked revenues from tobacco and alcohol taxes to the health sector (subsequently expanding the range of taxes to sugar-sweetened soft drinks). 85% of funds were earmarked for health spending, chiefly national health insurance for low-income households, reaching over 15 million people by 2015. By 2020, 50% of sugar-sweetened beverage taxes, 20% of tobacco taxes, 100% of vaping product taxes, and 40% and 50% respectively of Philippine Charity Sweepstakes Office and Philippine Gaming Corporation profits were earmarked for healthcare, helping increase national health insurance coverage to 89% of the population by 2022.[28]
- **Uganda** earmarks all revenue from its soft drinks tax to fund HIV/AIDS treatment.[29]
- **Vietnam** funds its WHO-aligned tobacco control programme with a 1% levy on factory prices of all domestically produced and imported cigarette packs.[30]

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16 portal-uat.who.int/fctcapps/sites/default/files/kh-media/e-library-doc/2020/07/earmarking-for-health-from-theory-to-practice.pdf
17 researchbriefings.files.parliament.uk/documents/SN01480/SN01480.pdf
18 learninggeneration.org/wp-content/uploads/2025/04/EDC-Report-Feb25-Proof10_compressed.pdf; portal-uat.who.int/fctcapps/sites/default/files/kh-media/e-library-doc/2020/07/earmarking-for-health-from-theory-to-practice.pdf
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27 bmcpublichealth.biomedcentral.com/counter/pdf/10.1186/s12889-017-4497-z.pdf
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30 portal-uat.who.int/fctcapps/sites/default/files/kh-media/e-library-doc/2020/07/earmarking-for-health-from-theory-to-practice.pdf

BOX ONE

India's cess tax

India's cess is an earmarked or ring-fenced levy or tax collected by the federal government on other taxes (a 'tax on tax') to raise funds exclusively for particular purposes such as health, education, public welfare, roads or other infrastructure ('till the time the government gets enough money for that purpose'); cess tax revenue is credited to the Consolidated Fund; but, distinct from general revenue, the government may then, after appropriation from Parliament, use it for the specified purpose. Proceeds of a cess may or may not be shared with state governments, unlike regular tax proceeds which must be shared; a cess may be implemented to fund emergencies like natural disaster relief.

Examples include:

- Health and education cess – introduced to meet the needs of people living below the poverty line – is paid by income taxpayers including organisations at 4% on their total income tax amount
- Road and infrastructure cess is levied on imported four-wheelers and other heavy vehicles
- Clean energy cess is a carbon tax on the production and import of coal, lignite and peat based on the 'polluter pays' principle
- National calamity contingent duty is a cess on cigarettes, chewing tobacco and pan masala.[31]

Indian central government cess receipts for the 10 years to 2023/24 totalled an estimated $287.6 billion (INR 21 trillion).[32]

3. Social protection

Many OECD countries finance social spending from earmarked revenues – for example, Austria, Belgium, Czechia, Estonia, France, Hungary, Ireland. Italy, the Netherlands, New Zealand, Poland, Slovakia, Slovenia, Spain, Switzerland, the UK , the USA and several US states. Some OECD countries ring-fence a portion of VAT for this purpose.[33]

- **UK:** National insurance contributions 'have always been a hypothecated tax which pays principally for current State Pensions, some NHS [health] spending and a few social security benefits'; about 75% of contributions go via the national insurance fund to pay state pensioners.[34] National insurance contribution receipts ring-fenced for social protection (mainly state pensions) and health spending totalled an estimated $1,474 billion (£1,086 billion) in Great Britain over the 10 fiscal years to 2023/24.[35]
- The **USA's** social security programme 'is financed through a dedicated payroll tax. Employers and employees each pay 6.2 percent of wages up to the taxable maximum ... while the self-employed pay 12.4 percent. Total income, including interest, to the combined OASI [Old-Age and Survivors Insurance] and DI [Disability Insurance] Trust Funds amounted to $1.351 trillion in 2023'; the social security trust funds 'represent funds dedicated to pay current and future' social security benefits.[36]

31 cleartax.in/s/cess-on-income-tax; www.business-standard.com/about/what-is-cess; taxjustice.net/2017/12/11/indian-cess-taxes-call-accountability-guest-blog

32 Estimated from Indian Ministry of Finance annual receipts budgets from www.indiabudget.gov.in/budget2016-2017/ub2016-17/rec/allrec.pdf to www.indiabudget.gov.in/doc/rec/allrec.pdf

33 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf; www.icaew.com/-/media/corporate/files/technical/tax/tax-faculty/policy/income-tax-and-nic-four-options-a-hard-choice.ashx

34 www.icaew.com/-/media/corporate/files/technical/tax/tax-faculty/policy/income-tax-and-nic-four-options-a-hard-choice.ashx

35 Data from www.gov.uk/government/publications/national-insurance-fund-accounts; 'Great Britain' excludes Northern Ireland, in this case accounted for separately; see also www.icaew.com/-/media/corporate/files/technical/tax/tax-faculty/policy/income-tax-and-nic-four-options-a-hard-choice.ashx; obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-pensioner-benefits

36 www.ssa.gov/news/press/factsheets/HowAreSocialSecurity.htm; www.congress.gov/crs-product/RL33028

- **Singapore:** Citizens pay a 20% deduction on income, in addition to a 'modest' level of income tax, plus 17% from their employer, into the taxpayer's individual central provident fund (CPF) account. The CPF is a government body, although taxpayers personally own their accounts, and the government guarantees a minimum interest rate per year. CPF accounts are to meet individuals' lifetime needs of tertiary education, standard medical care, house deposit, retirement pension and other post-working-life needs; in effect this is a combined retirement, medical and savings fund with a clear link between contribution and benefit. CPF accounts are 'rigidly ring fenced'.[37]
- **New Zealand:** A compulsory 1.7% charge to the Accident Compensation Corporation as compulsory injury insurance to cover the cost of non-work-related injuries is deducted from salary or wage income.[38] New Zealand also earmarks Climate Emergency Response Fund carbon-pricing revenues for social protection.[39]
- **Austria, Switzerland and Ireland** earmark carbon-pricing revenues for social protection.[40]
- **France:** Social security deductions are paid by all taxpayers in a multi-deduction insurance system. Costs start from 21% for employees and 33% for employers; the system was established in the late 1940s, influenced by the UK Beveridge Report, and expected to meet all health costs plus pensions, family benefits and occupational accident and disease cases. The fund runs at a historic deficit, topped up from general taxation.[41] Social contributions 'now represent some 60% of [social] spending' in France. To partly compensate for the resulting financing gap, revenues from health-related taxes (excise duties on alcohol and tobacco) have been allocated to social protection; a 'generalised social contribution' (contribution sociale généralisée, CSG) was introduced in 1991, scaled up and now accounts for two thirds of general revenue allocated to social spending. Despite its name, CSG is 'in fact an income tax'.[42]

  In France, with the OECD's highest level of public social spending, the contribution sociale généralisée (CSG) is 'earmarked for health and solidarity benefits, including … pensions and related benefits', totalling an estimated $2,771 billion over the 10 years to 2022.[43]
- The **Netherlands:** Up to an upper earnings limit, fixed percentages of 31.15% of income tax are paid as insurance premiums for health, old age pension and widow's benefits after collection; employers pay insurance premiums of 19.38% on earnings to cover health, unemployment, child care and disability; income tax and national insurance contributions are 'split at government rather than employer payroll level'.[44]
- **Czechia, Estonia, Hungary, Slovakia and Slovenia** 'rely predominantly on contributions' for social protection spending.[45]
- In **Belgium, Italy and Spain** social insurance programmes 'account for more than 60% of support payments to working-age individuals and their families'.[46]
- **Austria's** Familienlastenausgleichfonds, established in 1967, is an 'earmarked autonomous fund … that pays for … child and family benefits'.[47]
- **Poland** post-2019 operates an 'earmarked payroll tax paid by employers': 0.15% of the wage bill for most employees, increasing to 4% for annual wages above PLN 1 million (so-called 'solidarity income'); receipts are earmarked for social assistance benefits for people with disabilities, including cash benefits, in-kind assistance and paying for carers.[48]
- **US states Colorado, Florida and Iowa** (possibly others) levy taxes 'earmarked for social assistance purposes'.[49]

37 www.icaew.com/-/media/corporate/files/technical/tax/tax-faculty/policy/income-tax-and-nic-four-options-a-hard-choice.ashx
38 www.icaew.com/-/media/corporate/files/technical/tax/tax-faculty/policy/income-tax-and-nic-four-options-a-hard-choice.ashx
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43 Data from www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf; www.statista.com/statistics/467495/social-spending-share-france; tradingeconomics.com/france/gdp; www.macrotrends.net/global-metrics/countries/fra/france/gdp-gross-domestic-product
44 www.icaew.com/-/media/corporate/files/technical/tax/tax-faculty/policy/income-tax-and-nic-four-options-a-hard-choice.ashx
45 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf
46 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf
47 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf
48 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf
49 www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/financing-social-protection-in-oecd-countries_34b2b3d2/0d53155c-en.pdf

- **Barbados:** Under arrangements dating from 1967, seeking to reinforce the principle of 'mutual solidarity', working people aged 16-67 must be insured under the National Insurance and Social Security Act; contributions are determined as a percentage of insurable earnings up to a maximum, and paid by employees, employers and the self-employed. The 'main aim is to give the worker and family in Barbados a greater measure of security against economic and social distress that might otherwise be caused by a stoppage or reduction in income resulting from sickness, maternity, injury, disability, unemployment, old age and death'.[50]
- **Colombia:** Payroll taxes were in 1988 reported as mostly assigned to social security institutions, including a 2% payroll tax to provide child care services for working couples.[51]

BOX TWO

USA Section 31 fees

The Securities Exchange Act 1934 Section 31 requires exchanges and broker-dealers to pay the Securities and Exchange Commission twice annually a fee based on the aggregate dollar amount of covered sales of securities (equities); this fee on equity trading is allocated to pay for the SEC's operational costs ('to help offset the ... costs associated with regulating the equities market'); the fee rate may change annually as part of the SEC's budget appropriation for the fiscal year.[52]

The Section 31 fees are effectively a very small Financial Transactions Tax on equity trading created for the specific purpose of paying for the government agency tasked with regulating the securities market in the US for the protection of investors. The fees were introduced in response to the stock market crash of 1929 to ensure fair and efficient markets and prevent fraud and other financial crimes.

In the 10 fiscal years to September 2024, the SEC reported collecting $18.3 billion in Section 31 fees.[53]

4. Environmental protection/conservation, fossil fuels/natural resources and transportation

- **UK:** Under government plans announced in 2022 ('Water company fines to be channelled into environmental improvements'), money from fines would be 'ring-fenced for work to improve water quality';[54] although the commitment was not implemented, in 2025 the UK government 'committed to the "polluter pays" principle ... [T]he Secretary of State [has] secured an agreement from water companies and [the regulator] to ring-fence money [paid as fines] for vital infrastructure upgrades.'[55]
- **New Zealand:** Fuel duties are earmarked for spending on roads.[56]
- **Belize's** tourist tax of $4 per passenger arriving by plane or cruise ship funds a national conservation trust to support protected areas and other conservation activities.[57]

50 taxsummaries.pwc.com/barbados/individual/other-taxes; www.barbadosparliament.com/uploads/sittings/attachments/65be3fbd5c1ad870cc72723d5cd3ee73.pdf; www.centralbank.org.bb/viewPDF/documents/2022-02-22-08-14-07-WP1996-01.PDF
51 www.elibrary.imf.org/downloadpdf/view/journals/001/1988/018/001.1988.issue-018-en.pdf
52 www.sec.gov/rules-regulations/fee-rate-advisories/section-31-fees-basic-information-firms; www.investopedia.com/terms/s/secfee.asp
53 Total aggregated from table 1.4 ('earned revenues') in SEC annual financial reports from www.sec.gov/about/secpar/secafr2015.pdf to www.sec.gov/files/sec-2024-agency-financial-report.pdf
54 https://www.gov.uk/government/news/water-company-fines-to-be-channelled-into-environmental-improvements
55 hansard.parliament.uk/lords/2025-02-06/debates/92E18FE2-3171-47EF-BDD1-72B54BC10D94/WaterCompaniesFines
56 www.globalgovernmentforum.com/coming-generation-tax-vehicles
57 www.ramsar.org/sites/default/files/documents/library/iucn_handbook5_financing_protected_areas.pdf

- **California state, USA:** Vehicle registration fees since 2020 address decreases in gasoline tax revenue by charging zero-emission vehicles a fee of up to $275 and earmarking revenue for road infrastructure investments.[58]
- The **Adaptation Fund (AF)** developed under the UNFCCC Kyoto Protocol finances climate adaptation projects for climate-vulnerable countries. It was initially funded by 2% of certified emissions reductions under the Clean Development Mechanism; through this and other contributions, the AF had total contributions of $1.5 billion in 2023.[59]
- **Bolivia, Botswana, Indonesia and other countries** have earmarked natural resource revenues to invest in social sector priorities. Botswana's budget rules stipulate the share of diamond revenues to be directed to physical and human capital investment and the share saved for future generations through a sovereign wealth fund (worth $4.1 billion in 2022).[60]
- **International Oil Pollution Compensation Funds** (the 1992 Fund and the Supplementary Fund) provide states with compensation for oil pollution damage resulting from tanker spills of persistent oil. The funds are financed by pro rata contributions paid by entities that receive certain types of oil by sea transport and cover expected claims and administration costs. Since establishment in 1971, the funds have been involved in 158 incidents worldwide, with most claims settled out of court.[61]

BOX THREE

The UK's BBC (television) licence fee

Payment of the BBC licence fee is compulsory for people who watch and download television programmes in the UK.

The licence fee is the BBC's single largest income source. It finances the BBC's television channels, radio stations, online services and (in part) the BBC World Service, keeping services free of advertisements. The BBC also earns income through commercial subsidiaries.[62]

The licence fee is, 'in effect, a hypothecated fee' [that] 'allows the public to make a simple, direct link between the benefits they receive from the BBC, and the outlays they make … it connects those providing the services to those paying for them and allows the BBC to be held to account' for how the fee is spent.[63]

Under the Communications Act, the BBC pays all licence fee revenue it collects via contracted parties (minus collection costs and refunds), into the UK government's Consolidated Fund. The revenue then returns to the BBC as 'grant-in-aid' from the UK Department for Culture, Media and Sport, which may retain a proportion of the revenue for other purposes.[64]

Gross BBC licence fee income for the 10 fiscal years to 2023/24 totalled approximately $51 billion (£37.2 billion).[65]

58 www.lse.ac.uk/granthaminstitute/wp-content/uploads/2023/06/Strengthening-the-role-of-Ministries-of-Finance-in-driving-climate-action.pdf
59 developmentreimagined.com/wp-content/uploads/2023/10/Making-Finance-For-Reparations-and-Loss-and-Damage-Report_7-November.pdf
60 learninggeneration.org/wp-content/uploads/2025/04/EDC-Report-Feb25-Proof10_compressed.pdf; www.investopedia.com/terms/p/pula-fund.asp
61 iopcfunds.org
62 BBC Television Licence Fee Trust Statement for the Year Ending 31 March 2024; publications.parliament.uk/pa/ld5803/ldselect/ldcomm/44/4404.htm; www.bbc.com/aboutthebbc/governance/licencefee
63 BBC blog, Why the licence fee is the best way to fund the BBC, 2014
64 www.tvlicensing.co.uk/about/foi-financial-information-AB19
65 commonslibrary.parliament.uk/research-briefings/cbp-8101; totals to 2019/20 totals included a government grant for people aged over 75, withdrawn in 2020

5. Miscellaneous examples

- **UK:** In January 2025, VAT at 20% was introduced on the fees at the country's 2,500 private schools. A government spokesperson said this would raise £1.8 billion a year by 2029/30 to pay for '6,500 new teachers and raise school standards, supporting the 94% of children in state schools'.[66]
- **Ghana:** In 2000, to secure public acceptance of a VAT increase from 10% to 12.5%, the government committed all the new revenues to an education trust fund for scholarships and educational infrastructure.[67]
- **Colombia:** Earmarked taxes accounted for about 45% of total tax revenue in 1978 (as reported in 1988), with taxes levied on coffee exports the largest element, largely spent via the national coffee fund including 7% of the fund's earmarked receipts to support coffee growers with agricultural inputs, infrastructure investment, and health and education services in coffee-producing areas. Other Colombian taxes were reported as earmarked for health, social welfare, roads and education spending.[68]
- **UN Compensations Commission:** A UN-operated mechanism from 1991/92 to 2022 provided compensation for loss and damage suffered as a result of Iraq's invasion and occupation of Kuwait, financed by a tax on sales of exported Iraqi petroleum and related products; approximately 2.7 million claims worth $352.5 billion were filed, with 1.5 million claimants successful.[69]

BOX FOUR

Taxing cross-border services for global public goods: the case of the French solidarity levies[70]

1. A scalable lever for political action

The solidarity taxes were launched at the initiative of French Presidents – the airline ticket tax in 2006 by President Chirac and the Financial Transactions Tax (FTT) in 2012 by President Sarkozy – and their revenues have served their international priorities as well as the international priorities of their successors, President Hollande and President Macron. The solidarity levy on airline tickets is an additional tax paid by every passenger boarding in French territory, regardless of their nationality or the airline they are flying on. The amount of this tax depends on the passenger's final destination, from €7.40 to €40 for economy class, and from €30 to €120 for business/first classes according to the new 2025 Financial Bill. The FTT is a 0.4% compulsory tax on the purchase of shares in French companies with a market capitalisation exceeding €1 billion. By modifying the parameters of the levies, government and Parliament were able to scale up international solidarity to meet their political ambition, without adding budgetary pressure on domestic spending. For example, the FTT revenues allocated to international solidarity grew from €60 million in 2013 to €528 million in 2024.

2. Protecting global public goods as well as domestic spending

The levies were initially conceived as a way to scale up support for global public goods without adding financial burdens on domestic expenses. In 2006, a new extrabudgetary fund – Fonds de Solidarité pour le Développement (FSD) – was created alongside the airline tax, to channel the levy's revenues directly to Unitaid (90%) and IFFIm (10%). Over time, the model evolved to protect France's contributions to global public goods and also support its domestic spending. After the creation of the FTT in 2012, the revenues were allocated in part to international solidarity via the FSD, and in part to the general budget. Between 2019 and 2024, the revenues of both taxes were allocated to international solidarity in a stable and predictable manner, with a cap fixed at €210 million of the airline tax revenues and €528 million of the FTT revenues per year. Over the same time period, revenues generated above this cap were made available for the general budget, with the annual surplus ranging from €900 million to €1.2 billion annually, and totalling €7.4 billion.

66 www.bbc.co.uk/news/articles/c8xqz49dnjyo
67 learninggeneration.org/wp-content/uploads/2025/04/EDC-Report-Feb25-Proof10_compressed.pdf
68 www.elibrary.imf.org/downloadpdf/view/journals/001/1988/018/001.1988.issue-018-en.pdf
69 developmentreimagined.com/wp-content/uploads/2023/10/Making-Finance-For-Reparations-and-Loss-and-Damage-Report_7-November.pdf
70 Extract from a briefing by Friends of the Global Fund Europe, June 2025: https://friendseurope.org/wp-content/uploads/2025/06/Note_SolidarityLevies_FoGFE.pdf

Conclusion

At a time when governments have been pressured by geopolitical circumstances into spending less on priorities beyond their own borders, such as hunger, poverty, healthcare, basic education and the adverse impacts on frontline populations of a warming climate, the importance of raising additional sources of revenue to meet these needs has never been stronger.

Initiatives such as the Global Solidarity Levies Task Force, spearheaded by France, Kenya and Barbados, are leading the way in identifying sectors of globalised activity that have not been sufficiently taxed, such as premium air-travel (including private jets), financial transactions and fossil fuel production, to provide new sources of finance at scale to urgently meet these challenges. Such efforts are importantly underpinned by the 'polluter pays' principle. As set out in BOX FOUR, France's extrabudgetary fund – Fonds de Solidarité pour le Développement – serves as an excellent precedent for the ring-fencing of tax revenues in this way, providing (through Unitaid) health treatments for HIV, malaria and TB, helping to save many thousands of lives over the last 20 years.

In this paper we have demonstrated that the ring-fencing of tax revenues for specific purposes, contrary to the protestations of some Finance Ministries, is a common practice. It is certainly not unusual for governments to claim, when introducing new taxes, the tangible benefits they will bring in order to justify them to their electorates. Whether that is the solidarity surcharge (Solidaritätszuschlag) introduced in Germany in the 1990s to pay for the country's reunification or, as recently as this year, the introduction of VAT on private school fees in the UK to pay for 6,500 new teachers in the state sector, these justifications are important from a narrative perspective to help bring taxpayers on side.

From India's cess tax (see BOX ONE), whose receipts for the 10 years to 2023/24 totalled nearly $300 billion, to Brazil's earmarking of public health expenditure, resulting in a health care spend of nearly $800 billion over the 10 years to 2023, we have shown that hypothecated spending takes place across the world in a substantial fashion. Arguments that ring-fencing is not possible do not stack up against the many examples cited. In today's world the digitalisation and automation of financial transfers makes the practice of earmarking spending entirely feasible.

Finally, we encourage governments to embrace the ring-fencing of revenues to produce tangible social goods, domestically and internationally, as an opportunity to fulfil their obligations to their citizens, and to the wider world, in a way that tells a positive story that ordinary people can relate to and identify with. This both demonstrates vision for a better society and is also, ultimately, popular.

Appendix: Definitions of 'hypothecation' in public finance

- 'the designation of funds – either from a single tax base or from a wider pool of revenues – to a particular end use'[71]
- 'the process of assigning tax revenues to a specific end'[72]
- 'money from a particular tax is only spent on one particular thing'[73]
- 'Linking specific revenue sources to specific expenditures'[74]
- 'assigning particular tax revenues to a specific public policy goal'[75]
- 'the ring-fencing of a particular tax's revenues for spending in a relevant field'.[76]

71 IMF: www.elibrary.imf.org/downloadpdf/view/journals/001/1988/018/001.1988.issue-018-en.pdf
72 UK House of Commons Library: researchbriefings.files.parliament.uk/documents/SN01480/SN01480.pdf
73 dictionary.cambridge.org/dictionary/english/hypothecation
74 World Bank: documents.worldbank.org/curated/en/317341468335679099/pdf/588150WP0FIAS110BOX353820B01PUBLIC1.pdf
75 Institute of Chartered Accountants in England and Wales: www.icaew.com/technical/tax/towards-a-better-tax-system/hypothecation-of-taxes
76 Global Government Forum: www.globalgovernmentforum.com/coming-generation-tax-vehicles

44-48 Shepherdess Walk, London, N1 7JP, UK
Tel: +44 (0)20 7324 5052
Email: office@stampoutpoverty.org
Web: www.stampoutpoverty.org