



FISCAL AFFAIRS

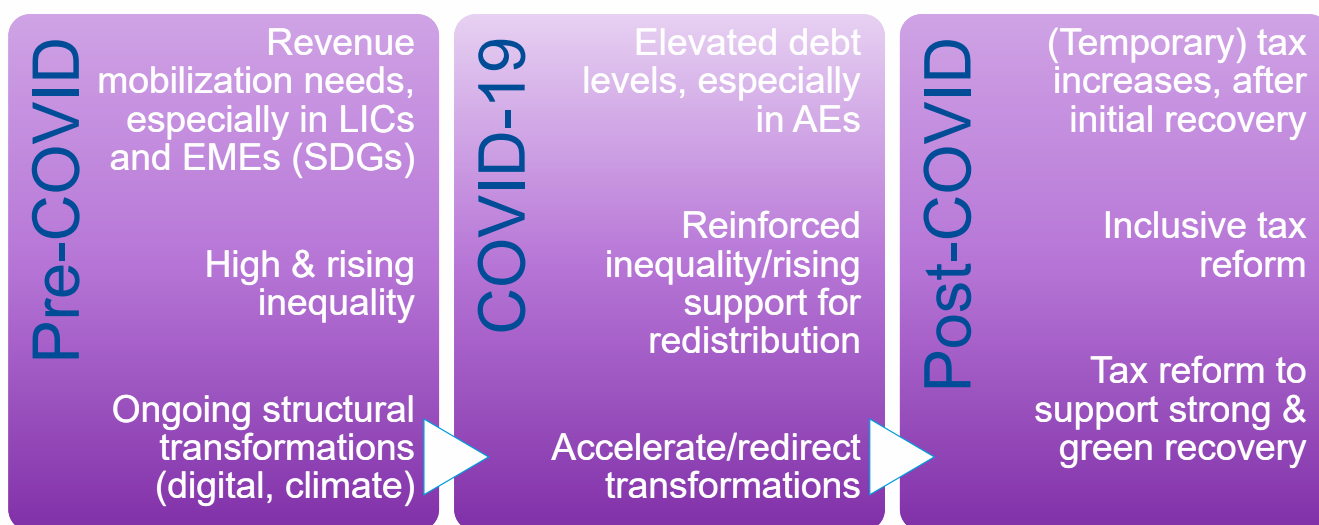
Tax Policy for Inclusive Growth after the Pandemic

WEBINAR STI

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Context: Emerging Tax Challenges



What “Inclusive Growth” means in Taxation?

Inclusive

- Progressive taxes – a rising average tax with income or wealth
- Other dimensions:
 - Gender equity
 - Generational equity
 - Equality of opportunity
- Note that “tax incidence” not always straightforward

Growth

- Minimize tax distortions in e.g.:
 - Employment
 - Investment and saving
 - Innovation/productivity
- Corrective role of tax
 - Environment, health

How Taxation Matters for Inclusive Growth

- **Tax level**
 - Corresponding level of spending
 - Tipping point suggest > minimum level $\approx 15\%$
- **Tax mix**
 - Growth & equity rankings suggest ultimately a trade-off
- **Tax design**
 - Focus of today’s presentation
- **Tax implementation**
 - Often the binding constraint for level, mix & design

Figure 11. Impact of the Tax Threshold on 10-year Cumulative Growth



Source: Gaspar et al 2016

Today – Focus on Tax Design

- **Personal Income Tax**
 - Labor & self-employment income
 - Capital income
- **Wealth Taxes**
 - Net wealth
 - Wealth transfers (estate/inheritance)
 - Property & property transfers
- **Corporate Income Tax**
- **Consumption Taxes**
 - VAT/GST
 - Excises



Special Series on COVID-19

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Tax Policy for Inclusive Growth after the Pandemic

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This note provides guidance on tax policy reforms after economies have recovered from the COVID-19 crisis and fiscal consolidation becomes imperative. The focus is on identifying tax measures that can boost revenue mobilization in a way that is both inclusive and growth friendly. The note concludes that countries have multiple options to enhance the effective progressivity of their tax systems, reduce key tax distortions to growth, exploit corrective taxes to support a green recovery, and adjust tax designs to cope with an increasingly digitalized economy after the pandemic.

1. INTRODUCTION

The pandemic has elevated social inclusion on policy agendas around the world. In many countries, the poor have been hit hard by the COVID-19 crisis—be it in the form of job losses, income reductions, or exposure to health risks—while some of the more affluent have fared better. In response, governments have forcefully intervened through fiscal policies that protect vulnerable groups and reverse the looming rise in poverty and inequality.¹

To support an inclusive recovery, fiscal policy will continue to play an important role. Once vaccines and therapies become widely available, tax and spending measures can—where feasible—continue to support vulnerable households and contribute to a robust recovery. For instance, specific temporary tax relief could support the recovery, and where fiscal space is limited, a more progressive tax structure could still do so by shifting income from people with low to those with high propensity to consume. Beyond the initial recovery phase, however, governments will look to unwind their fiscal interventions and gradually tackle the record-high

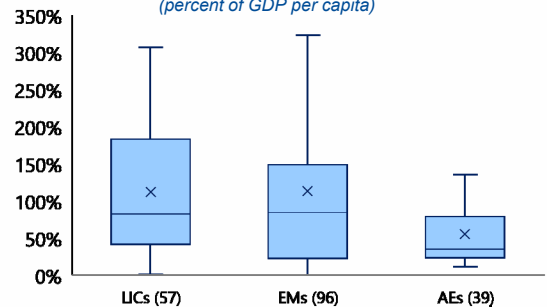
* Please direct any questions and comments on this note to cdesupport@imf.org.

¹ IMF policy tracker [here](#).

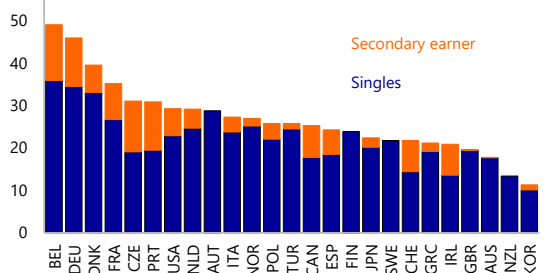
Personal Income Tax - Labor

- **Base**
 - Reasonable threshold level
 - Other credits, deductions – with caution
- **Tax rates**
 - Progressive rate schedule
 - Higher top rates?
- **Tax unit: individualization**
 - ↑ female labor force participation: efficiency gains + gender equity
- **Self-employed entrepreneurs**
 - Simplified presumptive regime

Personal Income Tax Threshold, 2019
(percent of GDP per capita)



Average personal net tax rates when entering employment



Sources: OECD(2016), IMF staff calculations

Personal Income Tax - Capital

- **Controversy**

- Efficiency: zero-tax result has waning support
- Equity: capital income highly concentrated

- **Tax base**

- Classic system with reduced PIT gained popularity due to cross-border issues

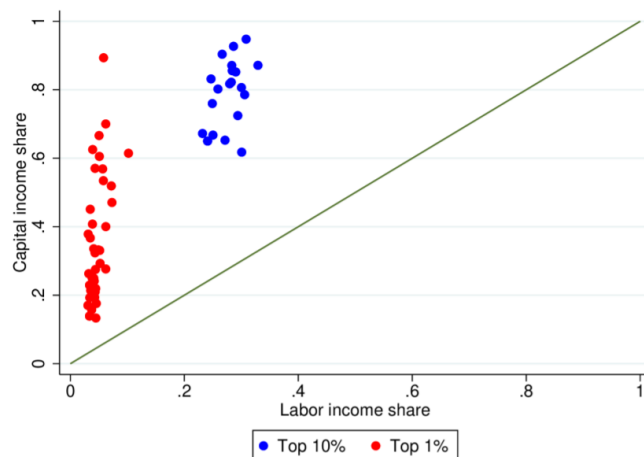
- **Tax rate**

- Dual income tax gained popularity over global income tax
- Uniform rate on interest, dividends and (realized) capital gains

- **Enforcement mechanisms**

- (Final) withholding taxes where feasible
- Exploit third-party information – including international exchange of information

Capital and Labor Top Income Shares, 2018 or latest



Source: LIS and IMF staff calculations

Wealth Taxation

- **Net Wealth Tax**

- Relation to tax on capital returns?
 - Complement (NOR/ESP)
 - Substitute (CHE)
- Repeal in OECD: valuation issues, exemptions, avoidance/evasion *at the top*
- Renewed appetite due to wealth inequality

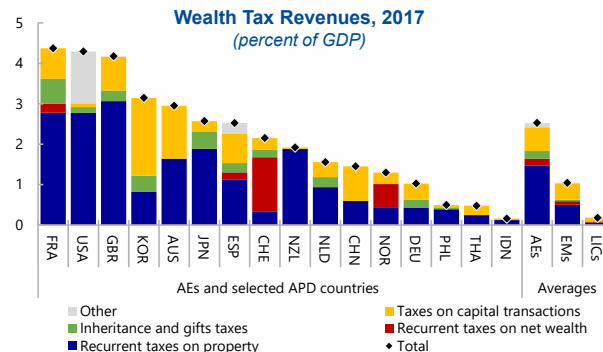
- **(Immobile) Property Tax**

- Efficient, equitable, effective. Stable revenue source for local governments.
- Raise rates, update market values.
- EMDEs: improve cadaster and admin. capacity

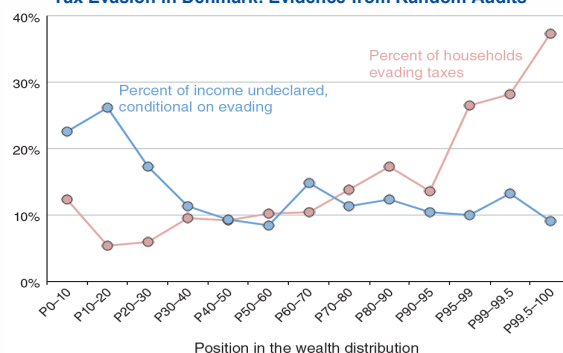
- **Inheritance/gift tax**

- Address inequality of opportunity
- But enforcement constraints

Wealth Tax Revenues, 2017 (percent of GDP)



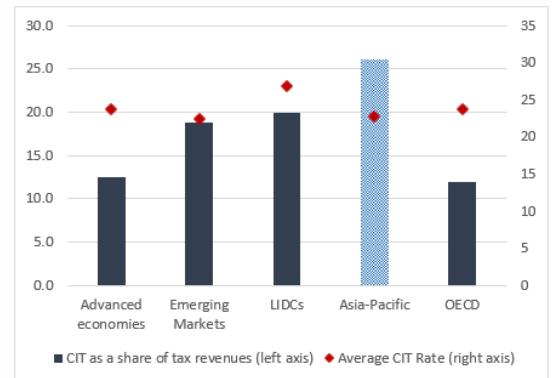
Tax Evasion in Denmark: Evidence from Random Audits



Corporate Income Tax

- **Progressivity**
 - Incidence unclear but if on rents → capital owners
- **Redesigning the CIT?**
 - Rent tax has attractive neutrality properties
 - One example: allowance for corporate equity
 - Special appeal in the context of COVID-19
- **Tax Incentives**
 - Investment incentives generally ill-designed
 - Favor cost-based over profit-based incentives
- **International Tax**
 - Important for Asian countries – tailor to needs
 - Probably need to temper expectations

CIT revenues as a share of total revenues and CIT Rates (2018)



Source: FADTP ECOS Database

Consumption Taxes: VAT/GST

Regressivity of the VAT/GST?

- Not regressive when assessed against expenditures...
- ...but still widely perceived as being problematic

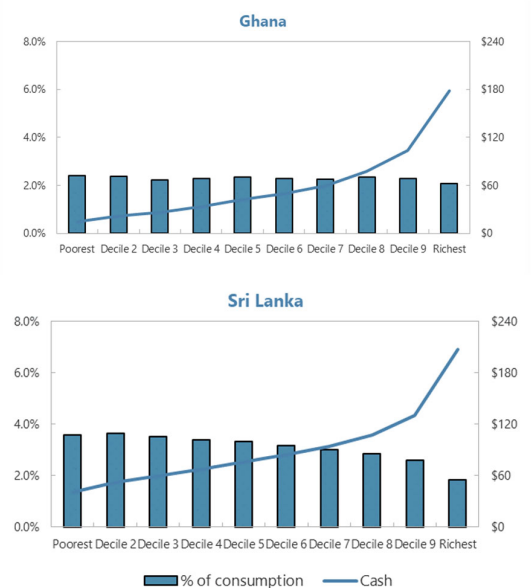
Design issues

- Policy action focused on exemptions/reduced rates
- Blunt instruments to enhance progressivity
- Significant fiscal cost: >2%GDP in tax expenditures
- Complicate enforcement (compliance gap)
- Not always effective either: incidence issue often ignored

Key takeaway

- Need to assess VAT in conjunction with spending
- Adequate registration threshold

Incidence and Cost of VAT Exemptions and Reduced Rates (In 2011 PP USD and percent of consumption)



Source: Philips et al (2018)

Consumption Taxes: Excises

Health-related taxation

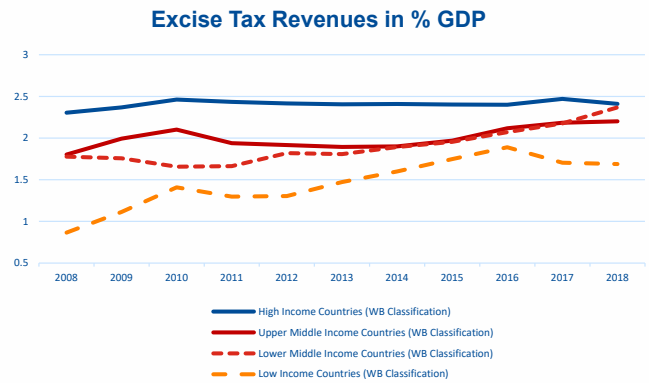
- Tobacco, alcohol and unhealthy foods
- Best designed as specific taxes on volume

Corrective taxes

- Carbon tax – significant potential
- Local externalities: pollution, congestion, waste

Emerging excise taxes

- Telecom – if spectrum not auctioned (?)
- Digital Service Taxes – as a tax on user data (?)



Thank you