Tax policy responses to the Covid-19 crisis

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Overview

Countries have focused on emergency responses to the crisis.

Fiscal packages differ in size across countries, but are significant.

Different responses will be expected at different stages of the crisis:

• Emergency response
• Exit from confinement
• Recovery
• Putting public finances on a sustainable footing
Types of measures announced

Measures to support

- Businesses
- Households
- Investment and consumption
- The healthcare sector
Support for Businesses
Support to keep businesses afloat

Main tax priority has been to support business cash flow

- Increased lending to firms, where government takes on some risk (e.g. loan guarantees)
- Subsidies of non-wage business costs and support measures targeted at specific business sectors (tourism, transport, airlines)
- Subsidies for the self-employed: in around 25% of all OECD and G20 member countries
- Tax administration and policy measures, in particular tax deferral, but tax waivers or tax reductions are very rare

Many countries have also introduced measures to help businesses keep their workers

- Short-time work schemes or wage subsidies paid by government to the employer (under the condition that the employer does not fire its employees)
Composition of business support

Main tax measures to support business cash flow in OECD and G20 countries

Percentage of OECD and G20 countries reporting each type of measure

Source: OECD Database on Tax Policy Responses to Covid-19
Specific measures to boost business cash flow

» Tax administration measures

• Tax filing extension : 30% of OECD and G20 countries
• Deferral of tax and/or social security contributions (SSCs) payments, changes in due date of payments and/or reduction or waiver of advance payments: 80% of OECD and G20 countries
• Enhanced tax refunds (VAT and/ or previously withheld taxes that are returned to the business): 30% of OECD and G20 countries

» Tax policy measures

• Reduction in employer SSCs – in particular where the workers face reduced hours, but are retained
• Enhanced tax loss provisions (carry-forward or carry-backward)
Support for Households
Support for vulnerable households

Countries have moved swiftly to protect households, especially the most vulnerable and those most affected by the crisis

- Partial unemployment scheme for workers that continue to be employed, e.g. wage subsidies, but paid to the employee rather than the employer
- Increased eligibility of cash transfers, e.g. extending the availability of unemployment benefits to the self-employed
- Increased access to benefits, e.g. no longer waiting period before sickness or unemployment benefits can be received
- Increased the quantum of benefits
- Decisions over type of support are generally driven by the need to deliver the support quickly, e.g. preference for existing systems and mechanisms over new ones
Support for Investment & Consumption
Very limited number of measures promoting investment and consumption

» Some incentives for investment, e.g. instant asset write off, immediate expensing, accelerated depreciation.

» Potential problems

• Health measures (e.g. lockdowns) have constrained consumption and investment

• These measures, particularly those seeking to boost consumption, could make the health challenges larger, as people should not be incentivised to buy more, but rather stay at home
Support for the Healthcare Sector
Measures to support the healthcare sector

Tax measures to support health sector are common

- Personal Income Tax and/or Social Security Contributions reductions for health sector workers, e.g. bonuses, overtime, etc.
- Measures to increase number of health sector workers, e.g. entice retired workers back into the sector without affecting their pension rights or benefit entitlements
- Business tax rate cuts or accelerated tax depreciation targeted at production of health equipment, goods and services
- VAT exemptions/ rate reductions for medicines, equipment and services rendered in the fight against virus, about 25% of OECD and G20 countries
- Expediting customs clearance of goods in support of the fight against Covid-19
- Tax support for medical and charitable donations
- Encouraging payments by credit card
Measures announced in developing countries

» Overall similar tax measures taken as OECD and G20 countries, with focus on strengthening business cash flow and health sector.

» In some developing countries, also informal sector workers have received support, e.g. cash transfers

» Some developing countries have used this crisis to pass broader tax policy reforms, e.g. introduction of progressive PIT rate schedule and rate reductions
Revenues & the impact of the GFC in Asia-Pacific
Tax-to-GDP ratios in A&P range from over 30% (NZ, Japan) to under 15%

Total tax revenues in Asian and Pacific economies and other regions, 2017
Percentage of GDP

During the global financial crisis, tax-to-GDP ratios decreased in most countries in the Asia-Pacific region.

Changes of tax-to-GDP ratios during global financial crisis, 2007 and 2009

Percentage of GDP

During the global financial crisis, corporate income tax revenues decreased the most, on average in Asia-Pacific.

TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

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