



TAX POLICY IN THE POST-COVID 19 ERA

**Equality and social justice in taxation at the
national and international level**

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David Bradbury, *Head of Tax Policy and Statistics*
OECD's Centre for Tax Policy and Administration



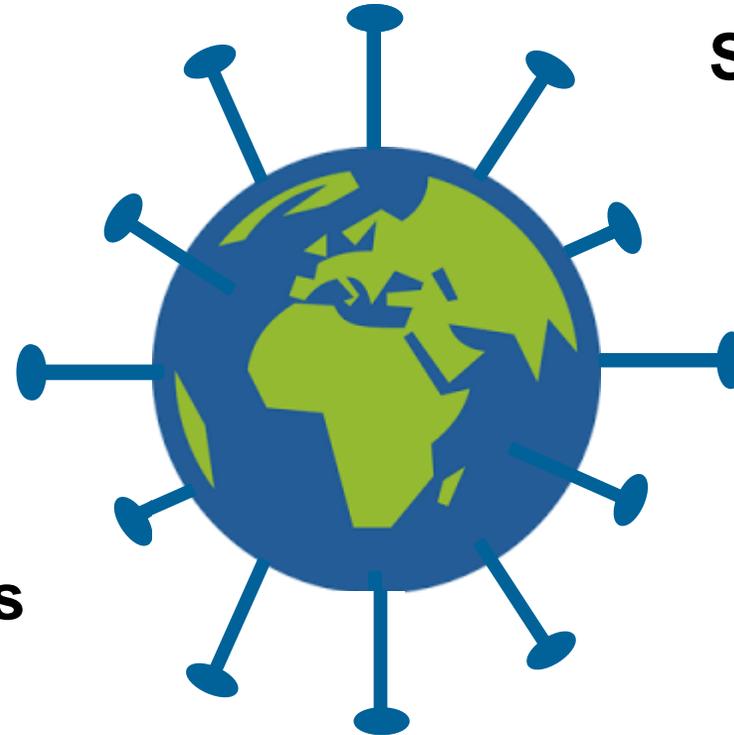
Impact of the COVID-19 crisis

**Unprecedented global health
and economic crisis**

**Sharp differences
across countries, sectors &
demographic groups**

Rising unemployment

Increasing inequalities



**Swift and sustained policy
support**

**Global growth now returning
to pre-pandemic levels**

**Massive increases
in expenditure and tax
revenues hit hard**

**Significant deterioration
in public finances**



A chance to ‘build back better’?

- The **COVID-19 crisis** has caused a significant **deterioration in public finances**, *which calls for a rethink of tax and spending policies once the recovery is well underway*
- Most G20 economies are in the **recovery phase** where it will be essential to create the conditions for **robust, resilient and inclusive economic growth**, *which will in turn support government finances in the future*
- A return to “**business as usual**” **will not suffice** *as, in addition to the impacts of the pandemic on public finances, countries are facing many long-term structural challenges*
- The crisis presents an **opportunity to “build back better”**



TIME TO REBUILD



Long-term trends, structural shifts & challenges

Public finance challenges

Low growth & productivity

Accelerating digitalisation

Environmental risks/climate change

Ageing populations

Increasing inequality

Gaps in social protection

Sustainable Development Goals



Objectives of public finance strategies

In addressing these challenges, policymakers must ensure that the following objectives are placed on an equal footing

Growth

Equity

Sustainability



International Tax Agreement

- **Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy:** *137 member jurisdictions of the G20/OECD Inclusive Framework on BEPS (IF) agreed*
 - *Including all OECD and G20 countries and representing more than 94% of global GDP*
- **Pillar One** *seeks to reallocate taxing rights to give market jurisdictions the right to tax a share of the profits of large and profitable MNEs, regardless of physical presence*
 - *Taxing rights on more than USD 125 billion of profits will be reallocated*
- **Pillar Two** *seeks to put a floor on tax competition, through the introduction of a global effective minimum corporate tax rate of 15%*
 - *Around USD 150 billion in additional tax revenues globally per year*



Growth-friendly tax policies

- **Stimulate investment in R&D**, *targeting young, small and low-productivity firms*
- **Improve tax incentive design**, *including by moving from income-based to expenditure-based incentives*
- **Strengthen labour market participation**, *through an expansion of earned-income tax credits or related in-work benefits, and reduce disincentives for second earners*
- **Look to shift the tax mix from social security contributions (SSCs) to general taxes** (*e.g. personal income taxes*) (*and lower SSC rates at lower incomes*)
- **Consider refundable credits** *to incentivise investments in skills*
- **Strengthen international co-operation** *to address challenges of digitalisation and tax avoidance and evasion*



Tax policies for equitable societies

- **More important role for taxes on personal capital income and property** *in the future to combat rising inequalities*
- **Raise effective tax rates at top earners and wealth holders** *by:*
 - *Removing regressive tax expenditures*
 - *Closing loopholes and limiting arbitrage opportunities (particularly cross-border)*
- **Provide adequate income support** *at the bottom end of the distribution*
- **Limit explicit and implicit gender biases** *in tax systems*
- *Reduce differences in the tax treatment of “standard” and “non-standard” workers*



Taxation for a sustainable environment

- **Better align our tax systems with environmental objectives**
- **Broaden the base of energy-related CO₂ emissions that are priced** *(whether via a carbon tax, an ETS or other instruments)*
- **Increase carbon pricing** *to more accurately reflect their true price*
- **Remove fossil-fuel subsidies**
- **Greater cross-border co-operation** *to limit negative spillovers on trade, development and growth*
- *Ensure a **just transition**, by providing **targeted transfers and selective personal income tax cuts** to support vulnerable individuals and workers*



Tax policy challenges faced by developing countries

- **Encourage greater formalisation** *through simplifying administrative requirements and tax burdens of simplified and presumptive tax regimes and providing social security incentives to workers in the formal sector*
- *Improve the design of* **investment tax incentives** *and limit regressive expenditures*
- **Broaden the contribution base for social security contributions** *and expand the use of* **health and environmental taxes**
- **Strengthen the functioning and design of VAT systems**, *including by implementing OECD standards on digital trade*

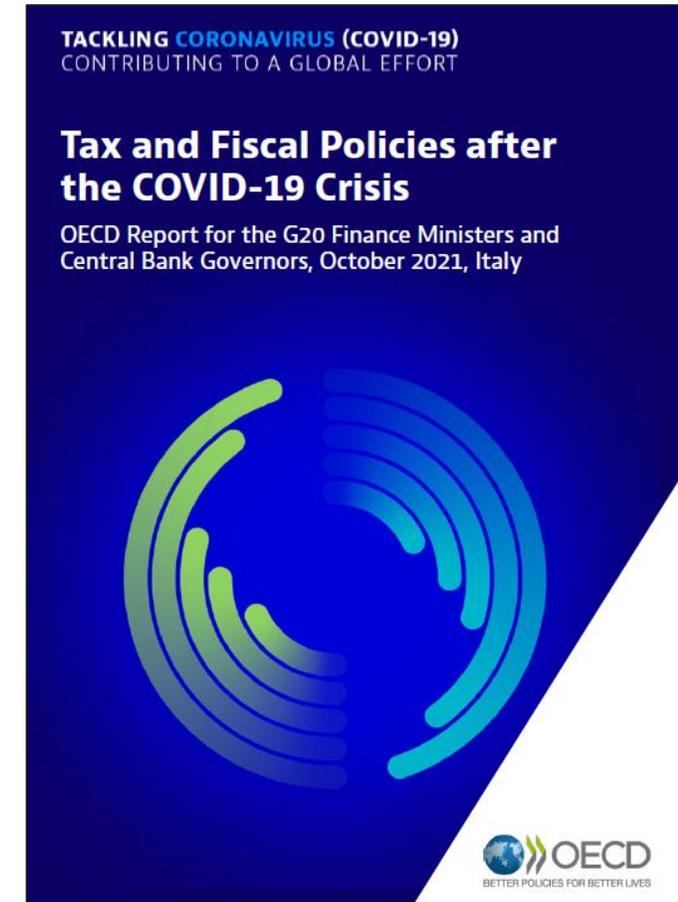


ANNEX



OECD Report to the G20 Finance Ministers

- **Recent report to the G20 Finance Ministers and Central Bank Governors, October 2021. Requested by the Italian G20 Presidency**
- **Principal research question:** *What is the optimal mix of policies (tax, spending and fiscal frameworks) to ensure that countries are able to support **inclusive** and **sustainable economic growth**?*





Contact details



David Bradbury

*Head of the Tax Policy and Statistics Division
Centre for Tax Policy and Administration*

*2, rue André Pascal - 75775 Paris Cedex 16
Tel: +33 1 45 24 15 97 – Fax: +33 1 44 30 63 51*

David.Bradbury@oecd.org || www.oecd.org/tax