

TAXATION FOR AN INCLUSIVE WORLD AFTER COVID-19



Michael Keen

G24 Technical Group: March 5, 2021

Views are mine alone

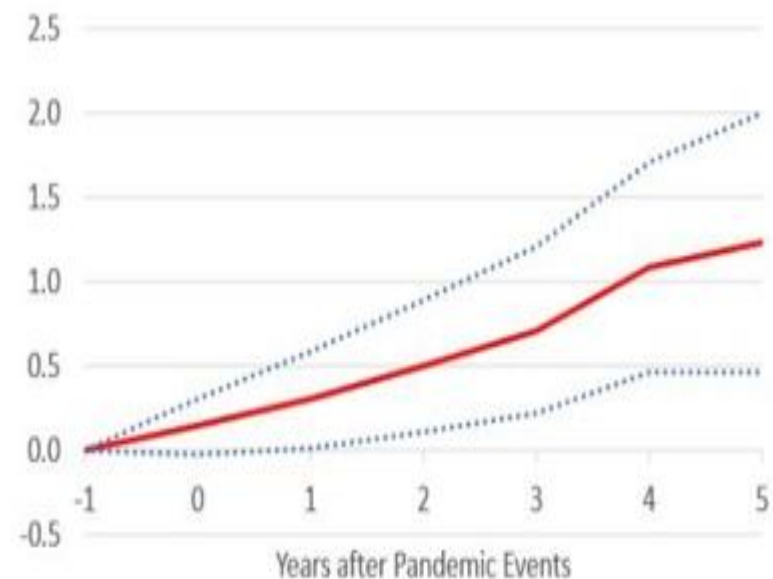
Two lasting legacies of the pandemic

Heightened inequities

- Increased income inequality
- Particular burden on women, the young, those in non-teleworkable jobs
- Increase in extreme poverty

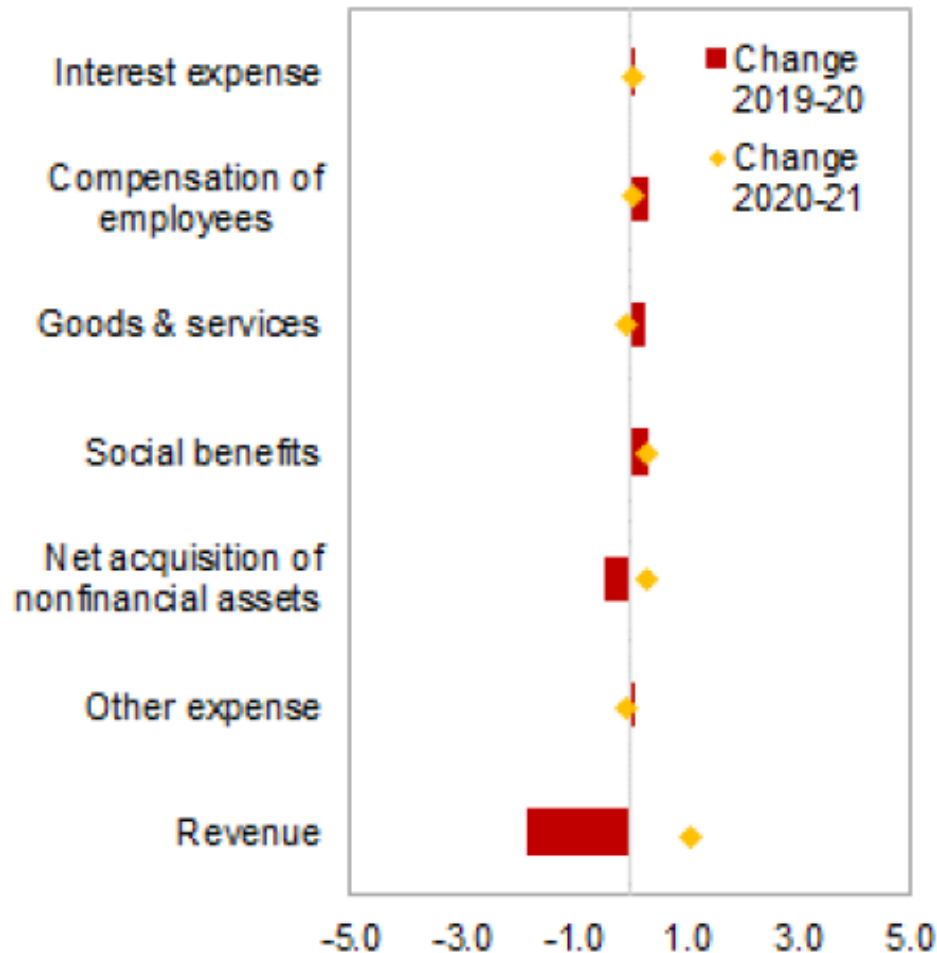
Average response (with associated confidence bands) of the net Gini to a pandemic for 175 countries, 1961–2017.

(change in Gini net, percent)



Source: Furceri, Loungani, Ostry, and Pizzuto (2020).

Revenue pressures



- For many countries, rapid growth/spending reductions unlikely to be enough to address increased vulnerabilities
- And LICs already faced daunting prospect of finding an additional 15% of GDP to meet (a subset of) SDGs

Inclusive growth: Not so easy

Inclusive

- Progressive taxes – a rising average tax with income or wealth
- Other dimensions – gender, generations, opportunity
- Note that “tax incidence” not always straightforward



FISCAL AFFAIRS

Special Series on COVID-19

The Special Series notes are produced by IMF experts to help members address the economic effects of COVID-19. The views expressed in these notes are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

December 16, 2020

Tax Policy for Inclusive Growth after the Pandemic

Raouf de Mooij, Ricardo Fenochietto, Shafik Hebous, Sébastien Leduc, and Carolina Osorio-Buitron¹

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.

I. 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.²

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

¹ Please direct any questions and comments on this note to csupport@imf.org.

² IMF policy leader [here](#).

Growth/efficiency

- Minimize tax distortions in (Employment, Investment/saving, Innovation)
- Look first to:
 - Corrective taxes
 - Rent taxes

Trade offs ultimately inevitable

Making it happen

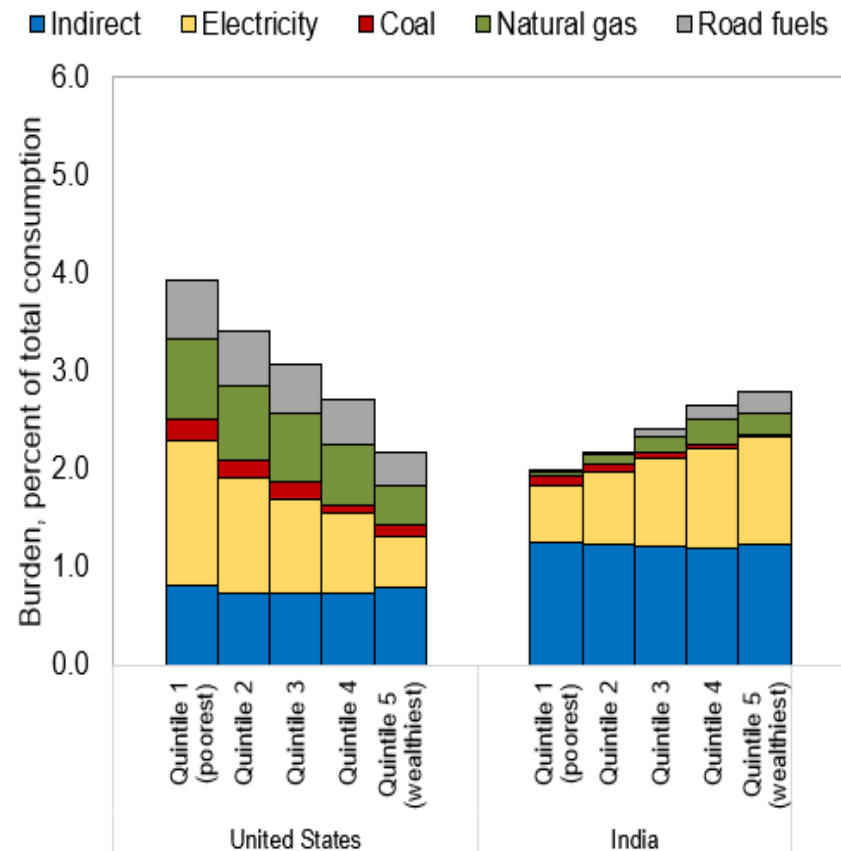
'Corrective' taxes

Carbon pricing

- Also, for local pollution
- Revenue partly used to compensation

Excises for externalities and self-control ('internalities')

- Old favorites
- And new issues: health-related taxes, e-cigarettes

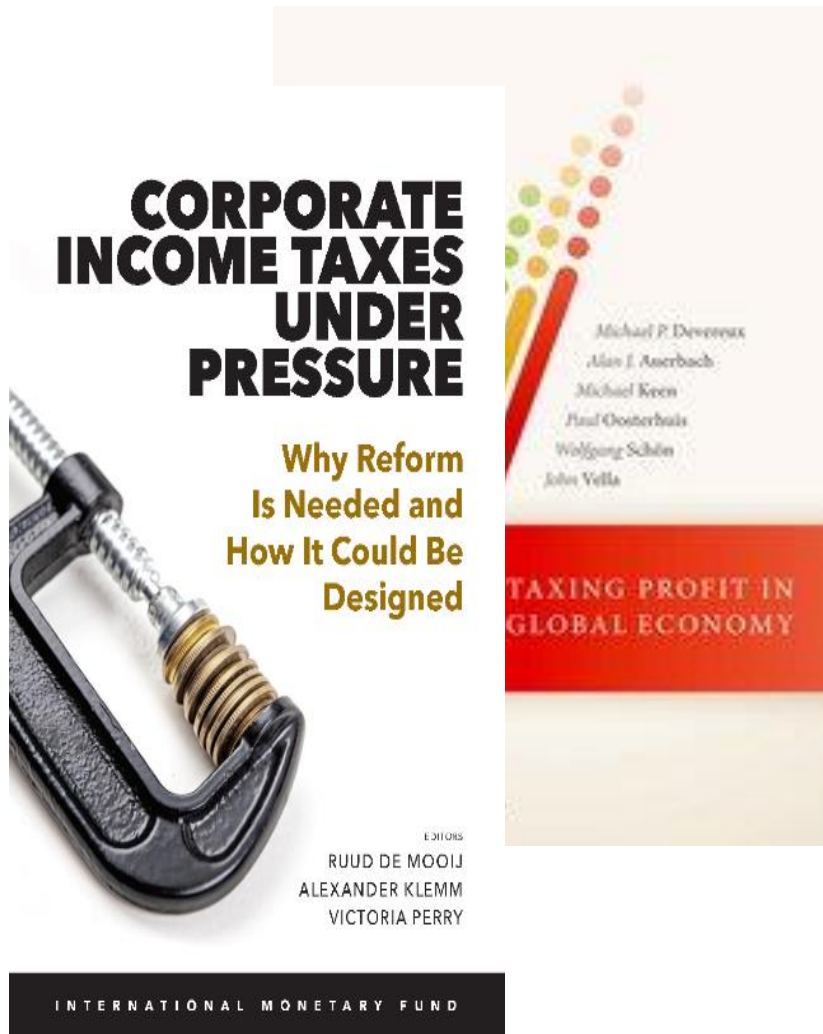


Source: IMF staff calculations.

Taxing capital income and/or wealth

- Personal taxes on capital income have been in decline, and recurrent wealth taxes have been receding—but interest in latter revived
 - Notably Senator Warren’s 2% on wealth over \$50 million
- They are similar instruments...
 - At 10% interest, a 20% income tax is a 4% wealth tax
- ...though important differences
- Should we fix capital income taxes before introducing new charges on wealth?

Corporate taxation

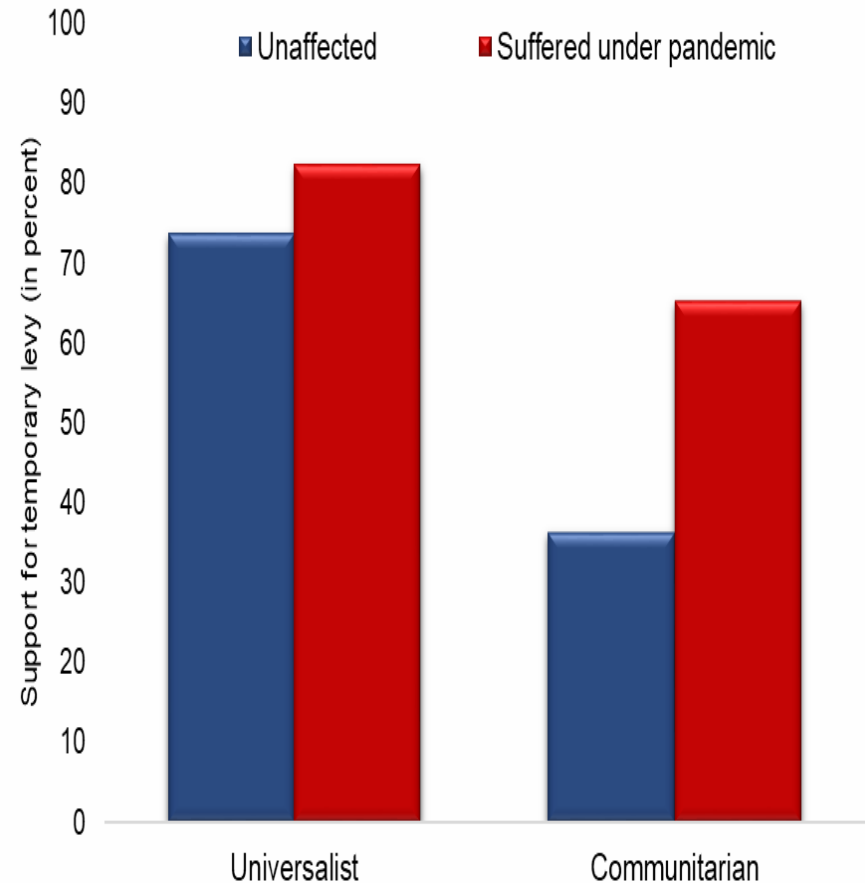


- A historic moment in international tax, with openness to ‘destination’ taxation and ‘unitary’ methods
- Signs of tax competition easing
- Refocus now on core CIT design—including taxing ‘rents’?

A COVID recovery contribution?

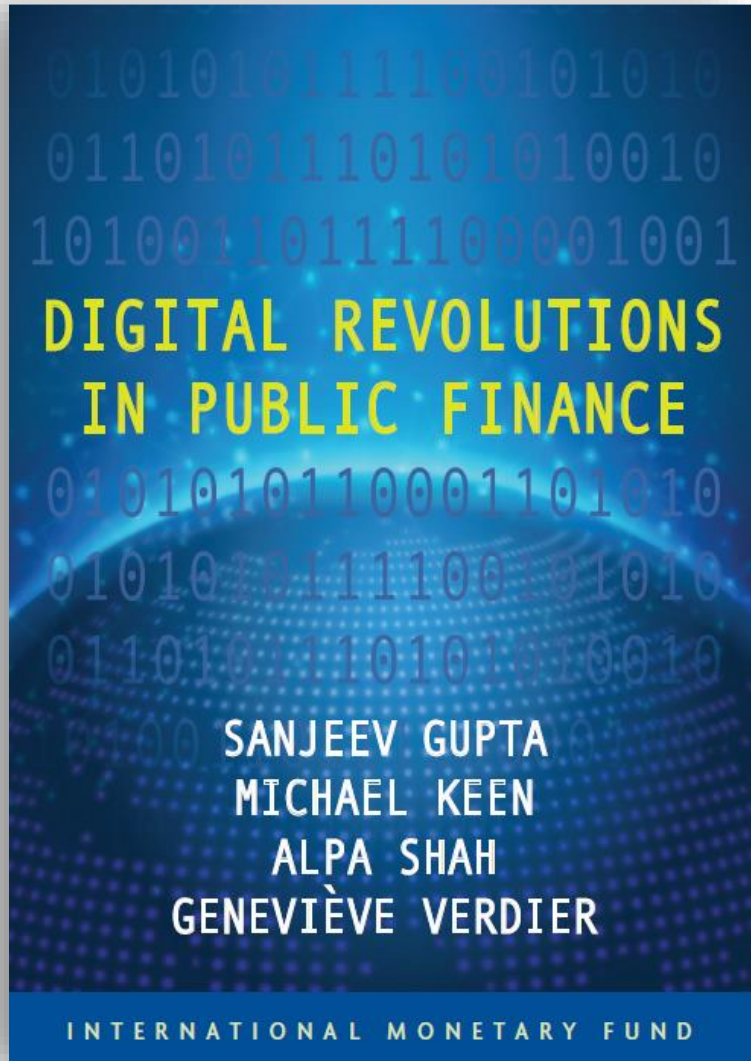
Shared national traumas have led to:

- Temporary charges on those least affected/benefiting:
 - Excess profit taxes
 - Solidarity charge in Germany...
- Perhaps, to changing views on progressivity



Source: Klemm and Mauro (2021)

Digitalization

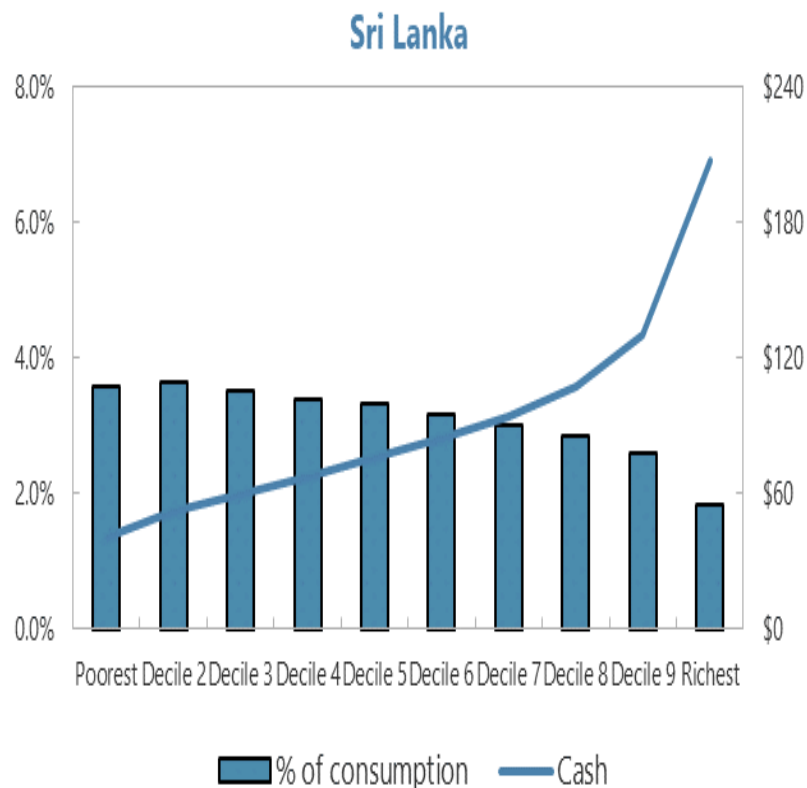


- Pandemic a spur to wider use digital methods in revenue administration
- With evidence that those using them more have fared better
- And significant achievements in using technology to target support payments more effectively
- But challenges too
 - Rise of platforms, MNEs with no physical presence

And the basics will remain key

- Reshaping the personal income tax
- Dealing with high income taxpayers
- Strengthening (and explaining) the VAT
 - Scaling back exemptions
 - Restoring and improving compliance

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



References

Furceri, Davide, Prakash Loungani and Jonathan Ostry, 2020 “How Pandemics Leave the Poor Even Farther Behind,” IMF blog May 11

Klemm, Alexander and Paolo Mauro, 2021, “Pandemic and progressivity,” IMF Working Paper 21/24

Devereux, Michael, Alan J. Auerbach, Michael Keen, Paul Oosterhuis, Wolfgang Schön, and John Vella, 2021, *Taxing Profit in a Global Economy* (Oxford University Press)

De Mooij, Ruud, Alexander Klemm and Victoria Perry, 2021, *Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed* (IMF)