

Moving Beyond the Crisis: The Tax Dimension

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Tax implications of the crisis

- Shortfalls in tax revenues
- Tax stimulus measures for short term recovery/ long-term growth
- Tax rules for a competitive and sustainable financial sector:
 - Do we understand the impact of financial sector taxation?
 - How to reconcile the need for a competitive environment with sustainable revenues?
 - How to align the taxation levers with regulatory and corporate governance reforms?

Tax policy goals, opportunities and challenges

- Fiscal policies (tax, public expenditure) which:
 - Stimulate current consumption and investment demand.
 - Enable transition to sustainable pro-growth taxes (tax mix, and tax levels).
 - Protect most vulnerable individuals in society.
- Opportunity to reduce tax distortions.
- Inter-actions across levels of government.
- Multi-year fiscal plan.

Post-crisis target - sustainable pro-growth tax levels and mix

- Pro-growth taxes and optimal post-crisis tax mix and levels.
- Recent OECD analysis suggests the following ranking of taxes from most to least conducive to long-run economic growth:
 - Recurrent taxes on immobile property.
 - Consumption taxes.
 - Personal income taxes, social security contributions.
 - Corporate taxes.

Short-run policies to stimulate current demand

- Target income tax and social security tax reliefs to low-income individuals (credit-constrained).
- Target corporate tax relief to investment (e.g. investment tax credits, accelerated depreciation).
- Avoid over-aggressive tax collection, and review the timing of tax payment schedules.
- Avoid narrowing the VAT base or permanent cuts in VAT rates.

The financial crisis: causal/ facilitating factors

- The boom in credit
- High appetite for yield and for high-risk assets
- Lack of transparency
- Inadequate regulation
- Inadequate governance

Tax was not a primary driver of the business model which led to the crisis

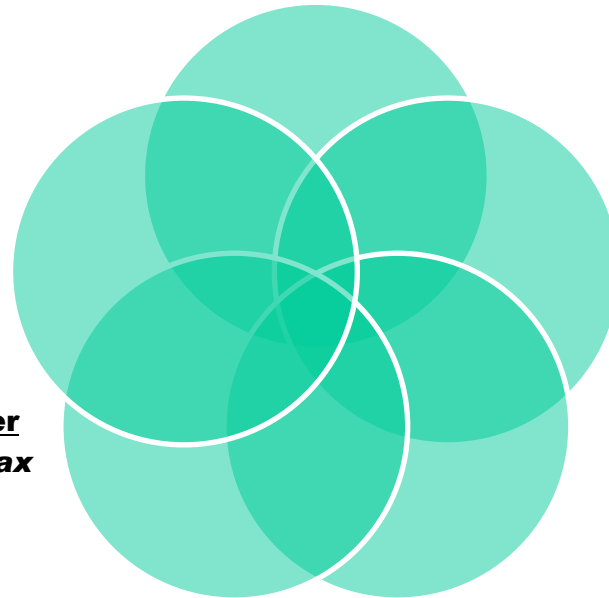
.... but may have reinforced it in a number of areas

What are the tax incentives? – examples from sub-prime

Investors
Zero withholding
No information reporting

Hedge funds
Haven-based
***Certainty for fund
manager taxation***
***Tax subsidy to
speculation?***

Structured financier
Tax haven or zero tax
SPV
***Interest fully
deductible***
Carried interest
Stock options



Home owner
Interest deduction
***Capital gains tax
reliefs***

Lender
***Tax deductible
leverage***
***Includes innovative
Tier 1 capital***

Revisiting the alignment of tax and regulatory incentives in future

- Tax havens - transparency, exchange of information , protecting revenues
- Tax bias for corporate debt
- Tax treatment of structured finance
- Leveraged remuneration packages
- Financial sector tax compliance issues
- Tax incentives for household debt

The background of the slide is a faded, grayscale photograph of a large, classical-style building with a portico and columns. The image is partially obscured by a large, light gray graphic element on the left side, which consists of several overlapping, chevron-like shapes pointing towards the center.

Questions and comments welcome