TAX AND INCLUSIVE GROWTH

OECD Global Parliamentary Network

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OECD Conference Centre, Paris
15 February 2018
OECD work on Tax & Inclusive Growth

- **Tax Design for Inclusive Economic Growth**
- Recent policy papers for G20, G7 on Tax and Inclusive Growth
- Recent Tax Policy Studies:
  - Taxation of Household Savings
  - Role Design of Net Wealth Taxes
- Forthcoming work:
  - Taxation of Non-standard work
  - Inheritance Taxation
  - Taxation and Housing

All papers at [www.oecd.org/tax](http://www.oecd.org/tax)
Low productivity growth

Increased inequality

Globalisation, digitalisation and automation

Changing world of work
### Key Trends

<table>
<thead>
<tr>
<th>Challenges for Inclusive Growth</th>
<th>Challenges for Tax Policy</th>
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<tbody>
<tr>
<td><strong>Low productivity growth</strong></td>
<td>Stagnant productivity makes <strong>pro-growth tax policy</strong> more important, which can create equity trade-offs</td>
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- Holds back increases in **wages growth**, exacerbates differences between firms

**Increased inequality**

- More workers left behind, with negative impact on skills, health, and well-being. Top incomes take an increasing share

- Increased calls to **use the tax system to reduce income and wealth inequality** can lead to efficiency trade-offs
## Tax challenges for inclusive growth (3)

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<tr>
<td>Globalisation, digitalisation</td>
<td><strong>Job losses</strong> often concentrated in certain locations and rapid reallocation of jobs from sector to sector; skills challenges and need for life-long learning</td>
<td><strong>Increasing mobility</strong> of companies, capital and individuals leads to increased tax competition, avoidance, and evasion; strengthen the role of the tax system to incentive skill development and activation</td>
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<td>and automation</td>
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<td>Changing world of work</td>
<td><strong>Some existing jobs will disappear</strong>, leading to income gaps by skill level</td>
<td>Expansion in <strong>non-standard work</strong> may lead to less revenue through SSCs; reduced benefit entitlements; but also job flexibility</td>
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Designing tax policies for more inclusive growth

- Broaden tax bases and shift the tax mix to foster inclusive growth
- Use the tax system to raise employment, skills, wages, life-long learning, and formality
- Foster business dynamism through the tax system
- Strengthen tax administration and international tax cooperation
- Support the efficiency and equity of personal taxes on labour and capital income
## Mobility, tax competition and inclusive growth

### TAX BY TAX ASSESSMENT

<table>
<thead>
<tr>
<th>MOST MOBILE</th>
<th>LEAST MOBILE</th>
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<tbody>
<tr>
<td><strong>CAPITAL INCOME TAXES</strong></td>
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<td>Corporate income tax (CIT)</td>
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<td>Personal capital income taxes</td>
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<td><strong>LABOUR TAXES</strong></td>
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<tr>
<td>Personal income tax (PIT)</td>
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<td>Social security contributions (SSCs)</td>
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<tr>
<td><strong>CONSUMPTION TAXES</strong></td>
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<td>Alcohol, tobacco and other excise taxes</td>
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<td>Value Added Tax (VAT)</td>
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<td><strong>ENVIRONMENTALLY-RELATED TAXES</strong></td>
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<td><strong>PROPERTY TAXES</strong></td>
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<td>Net wealth taxes</td>
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<td>Inheritance taxes</td>
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<td>Property transaction taxes</td>
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<td>Recurrent taxes on immovable property</td>
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A political tension

Economic theory: Mobility of tax base

Political Practice: Immobility of the voter base
Pro-growth shifts in the tax mix do not need to be regressive with good design

The tax mix in selected G20 countries

- Rebalance tax mix towards those taxes that are pro-growth and less mobile
- Eliminate regressive tax expenditures and strengthen progressivity (if possible)
- Expand those taxes that address externalities (carbon and other environmental taxes)
- Taxes raise revenue to finance transfers
- Take into account “whole of system impacts”

Note: Countries are grouped according to the largest tax type of Personal Income Taxes, Social Security Contributions, or Value Added Taxes. Source: OECD Revenue Statistics
Transfers play an important role in reducing inequality

Data are for working-age population, 2014 or latest available year
Source: Causa and Hermansen (2017) based on OECD Income Distribution Database

Transfers received and personal income taxes paid across deciles

Transfers are an important source of income support among low-income households, but beware the “leaky bucket” (OKUN, Arthur)
Reform the design of consumption taxes to eliminate regressive tax expenditures

The value of VAT tax expenditures across the income distribution

Average tax expenditure per household from all reduced rates (all-country average)

Average tax expenditure per household from reduced rates on restaurant food (all-country average)

Source: The Distributional Effects of Consumption Taxes in OECD Countries, OECD (2014)

Broadening the tax base should focus on the removal of tax deductions that benefit higher income earners
Rising capital share of income highlights need to ensure efficiency of capital taxes

Marginal effective tax rates across asset types, average across 40 countries (OECD & G20)

- Rented residential property
- Shares: Taxed as Dividends
- Corporate Bonds
- Bank Deposits
- Shares: Taxed as Cap. Gains
- Tax-favoured savings accounts
- Owner-occupied residential property
- Private Pensions with deductible contributions

- Most countries tax different forms of savings in different ways
  - Pension funds tend to be the most tax-favoured
  - Owner-occupied residential property also often tax-favoured
  - Dividends are taxed higher than capital gains
  - Bank accounts are relatively heavily taxed

- Different taxes for different assets incentivizes tax planning and is often regressive

Need to continue progress in international cooperation on tax

Bilateral Relationships and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC)

- Increased international cooperation
  - 128 members of the Inclusive Framework
  - 154 countries have joined the Global Forum on EOI
  - 126 countries have joined the MAC
  - 87 countries have signed the BEPS Multilateral Instrument
  - Over 100 countries attend VAT Global Forum
- Offers scope for better taxation of corporate and capital income and VAT

Step by step progress to make public revenues more sustainable, and to reduce international tax avoidance and evasion
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