Tax Policy Reforms 2017
OECD AND SELECTED PARTNER ECONOMIES

This report is the second edition of Tax Policy Reforms: OECD and Selected Partner Economies, which is an annual publication that provides comparative information on tax reforms across countries and tracks tax policy developments over time.

This year’s report covers the tax reforms that were implemented, legislated or announced in 2016. Two non-OECD countries, Argentina and South Africa, have been included in this year’s edition, in an effort to progressively expand the scope of the publication to key partner economies. Monitoring tax policy reforms and understanding the context in which they were undertaken is crucial to informing tax policy discussions and to supporting governments in the assessment and design of tax reforms.

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Editorial

Growth has been slowly picking up and this is welcome news. But countries are still facing a vicious circle of low productivity growth, sluggish demand, stagnant wages and, in many countries, rising or high levels of inequalities. Over the decade since the financial crisis, the OECD has become increasingly concerned about the persistent inequalities in growth, income, and wealth within and between countries and has encouraged a shift from a narrow focus on economic growth towards a greater emphasis on inclusiveness. Indeed, ensuring that growth is broad-based and does not leave large sections of the population behind is crucial to future economic and social prosperity.

The design of tax systems plays a key role in supporting economic growth and in ensuring that the benefits of growth are shared more widely. Tax policies raise the revenues needed to support the public investments and programmes that will help foster growth and inclusiveness. Progressive taxation is central to income redistribution and can help reduce wealth inequalities. Tax policies also affect taxpayers’ behaviours and incentives to work, consume, save and invest, which in turn have significant effects on both growth and equity. Finally, maintaining the integrity of our tax systems so that citizens are confident that all individuals and businesses are making a contribution and that the tax laws are being applied fairly to all is essential to ensuring continued trust in and support for our institutions.

Against this backdrop, both OECD and its partner economies have continued to place growth and inclusiveness at the heart of their tax reform efforts over the last year. Growth-oriented tax reforms have enhanced the investment climate by reducing taxes on businesses and lowered income tax burdens on individuals. This development is largely positive as corporate and labour income taxes, which have both been identified empirically as the most harmful to growth, are being reduced and, over time, these efforts are being accompanied by a gradual shift towards less economically distortive taxes including VAT, excise duties, property taxes and environmentally related taxes. Reforms aimed at fostering inclusiveness have focused on lowering personal income taxes on low and middle income earners and on families and, in some countries, on shifting the tax burden on capital income from the corporate to the personal level, which is likely to have positive effects on both equity and growth. Tax reforms that contribute to strengthening progressivity and redistribution will play a key role in addressing today’s high levels of income and wealth inequality and in bridging the divide between those who have benefited from growth and those who have not.

Countries have also made significant progress on OECD-led initiatives aimed at ensuring that companies and individuals pay their fair share of taxes. Efforts to protect corporate tax bases against international tax avoidance have continued, in line with the commitments made by countries to implement the minimum standards and recommendations agreed upon as part of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project. Continued progress on the Exchange of Information on Request as well as the introduction of the Automatic Exchange of Information also mark a step change in the area of tax transparency. Finally, major improvements have been achieved regarding the application of VAT in the digital
sector, with an increasing number of countries aligning their tax rules on cross-border supplies of services and intangibles with the *OECD International VAT/GST Guidelines*.

However, some of the recent tax policy trends identified in this report pose important questions that will need to be considered closely. An increase in corporate tax rate competition, after a period of relative stabilisation in the years immediately following the crisis, raises challenging questions for governments seeking to strike the right balance between maintaining a competitive tax system and ensuring they continue to raise the revenues necessary to fund vital public services, social programmes and infrastructure. In the area of environmentally related taxes, the fact that taxes on transport fuels were increased further, while fuels in other sectors that have detrimental environmental and health effects remain taxed at very low rates, also raises concern. With regard to labour taxation, despite cuts in personal income taxes, social security contributions remain high in many countries and this will require further action if the overall tax burden on labour income is to be reduced and incentives to work enhanced.

Ongoing work to monitor and compare tax policy reforms over time and across a wide range of countries, both in OECD members and in key partner economies, is crucial to informing tax policy discussions and supporting governments in the assessment and design of reforms. It will help ensure that future tax policies play their role in supporting growth, fairness and environmental sustainability.

Angel Gurría
OECD Secretary-General
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