Tax Policy Reforms in the OECD 2016

The first edition of the OECD's new annual publication *Tax Policy Reforms in the OECD* which tracks tax policy developments across OECD countries was released in September 2016. This annual report provides an overview of the tax reforms that were implemented, legislated or announced in OECD countries in 2015. The report also identifies common tax policy trends across OECD countries. Monitoring tax policy reforms over time and understanding the context in which they were undertaken is crucial to informing tax policy discussions and to supporting member and non-member countries in the assessment and design of tax reforms.

In a context of low growth, subdued investment, high unemployment and growing inequality, tax policy has an important role to play in supporting inclusive economic growth. Tax policies have direct implications on economic growth as well as on how the benefits of growth are shared across the population. They also play a significant indirect role in supporting inclusive growth through their capacity to finance growth- and equity-friendly public expenditure, such as investments in education and infrastructure.

The analysis presented in the report is primarily based on member countries' responses to the "OECD Tax Policy Reform Questionnaire" which is sent annually to all OECD member countries to collect information on tax reforms and their expected revenue effects.

General trends

The report finds that tax reforms are being driven by a stronger focus on boosting growth. While fiscal consolidation was the key driver of tax reforms in the years following the crisis, in 2015 the main emphasis of tax reforms shifted back to supporting growth. Many reforms focused on reducing taxes on labour and corporate income, with partial revenue increases or shifts towards consumption and environmentally related taxes (see Table 1).

In the aftermath of crisis, the focus on fiscal consolidation had seen continued increases in labour taxes and value-added tax (VAT) rates. In 2015, this trend slowed and in some cases has stopped or even reversed.

The report also shows that Austria, Belgium, Greece, Japan, the Netherlands, Norway and Spain were the countries that implemented, legislated or announced the most comprehensive tax reforms in 2015.

Table 1. Estimated revenue effects of the tax reforms implemented, legislated and announced in 2015

Revenue decrease	Tax	Revenue increase
AUT BEL CZE DEU ESP EST HUN IRL ISL MEX NLD NOR SVK TUR USA	**Personal income taxes**	AUS CHE SWE
BEL CHE EST HUN ITA SVK USA	**SSCs and payroll taxes**	ISR LUX SWE
AUS CAN ESP EST FRA IRL ISR ITA NLD NOR POL SVN TUR USA	**Corporate income taxes**	AUT BEL CHL GBR GRC HUN KOR
CZE HUN ISL ISR SVK TUR	**Value-added tax**	AUS AUT BEL EST LUX GRC NOR NZL POL SVN SWE
ISL	**Non-energy Excise duties**	BEL CZE EST GRC HUN IRL LUX NLD NZL NOR PRT SVK SWE TUR
DNK	**Environmentally related taxes**	BEL EST FRA FIN GBR NLD NZL PRT SWE
GBR IRL ITA NLD NOR	**Property taxes**	AUT FIN ISR

Source: OECD Annual Tax Policy Reform Questionnaire

Major international developments in the area of taxation in 2015 also influenced tax policy reforms in OECD countries. Many of the reported corporate income tax (CIT) and VAT reforms reflected the impact of the adoption of the recommendations agreed upon as part of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project and the endorsement of the OECD International VAT/GST Guidelines.

Tax-by-tax trends

Labour income taxes

In 2015, taxes on labour income stabilised after steadily increasing each year since the crisis. However, many of the reforms legislated or announced in 2015 and coming into effect in 2016 point towards a decline in taxes on labour income. A significant number of these reforms focused on reducing taxes on low-income taxpayers and households with children.

Personal capital income taxes

There were some increases in the taxation of capital income at the shareholder level, with several countries raising tax rates on dividends and other sources of personal capital income. The increase in statutory tax rates on capital income could be a response to a renewed focus on inequality and the differential tax treatment between labour and capital income.

Corporate taxes

The trend of CIT rate reductions, which had slowed down immediately after the crisis, seems to be gaining renewed momentum. Five OECD countries implemented or legislated general CIT rate reductions in 2015 and four have announced CIT rate cuts in the coming years.

Several countries introduced CIT base-broadening measures, in particular, to protect domestic tax bases against tax avoidance by multinational enterprises in line with the recommendations agreed upon as part of the OECD/G20 BEPS project.

VAT/GST

The increase in standard VAT rates, which had been a clear trend since the end of the crisis until the beginning of 2015, did not continue over the course of 2015. In many countries, increases in VAT revenues are expected from reducing the scope of reduced rates and tax compliance improvements. However, a number of countries narrowed VAT bases by expanding the use of reduced rates.

Property taxes

There were only a limited number of reforms in the area of property taxes, suggesting that the potential to raise revenues in an efficient way through property taxes, especially through recurrent taxes on residential property, is not being fully exploited.

Environmentally related taxes

There were some increases in environmentally related taxes but reforms were minor, limited mostly to tinkering with taxes on energy use and cars.

KEY INSIGHTS

- After years of steady increases, labour taxes are now being reduced in a number of countries.
- Several countries raised taxes on personal capital income.
- There is some evidence of corporate tax base broadening, but corporate tax rate reductions are gaining renewed momentum.
- The trend of increasing standard VAT rates appears to have come to an end.
- There were only a limited number of reforms in the area of property taxes.
- There were some increases in environmental taxes but these reforms were relatively minor.

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