



# TAX AND INCLUSIVE GROWTH

## OECD Global Parliamentary Network

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# 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)



# Tax challenges for inclusive growth (1)

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**Low  
productivity  
growth**

**Increased  
inequality**

**Globalisation,  
digitalisation  
and  
automation**

**Changing  
world of work**



## Tax challenges for inclusive growth (2)

Key Trends	Challenges for Inclusive Growth	Challenges for Tax Policy
<b>Low productivity growth</b>	Holds back increases in <b>wages growth</b> , exacerbates differences between firms	Stagnant productivity makes <b>pro-growth tax policy</b> more important, which can create equity trade-offs
<b>Increased inequality</b>	<b>More workers left behind</b> , with negative impact on skills, health, and well-being. Top incomes take an increasing share	Increased calls to <b>use the tax system to reduce income and wealth inequality</b> can lead to efficiency trade-offs



## Tax challenges for inclusive growth (3)

Key Trends	Challenges for Inclusive Growth	Challenges for Tax Policy
<b>Globalisation, digitalisation and automation</b>	<b>Job losses</b> often concentrated in certain locations and rapid reallocation of jobs from sector to sector; skills challenges and need for life-long learning	<b>Increasing mobility</b> 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
<b>Changing world of work</b>	<b>Some existing jobs will disappear</b> , leading to income gaps by skill level	Expansion in <b>non-standard work</b> may lead to less revenue through SSCs; reduced benefit entitlements; but also job flexibility



# 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

**MOST MOBILE**



**LEAST MOBILE**

## **TAX BY TAX ASSESSMENT**

### **CAPITAL INCOME TAXES**

Corporate income tax (CIT)  
Personal capital income taxes

### **LABOUR TAXES**

Personal income tax (PIT)  
Social security contributions (SSCs)

### **CONSUMPTION TAXES**

Alcohol, tobacco and other excise taxes  
Value Added Tax (VAT)

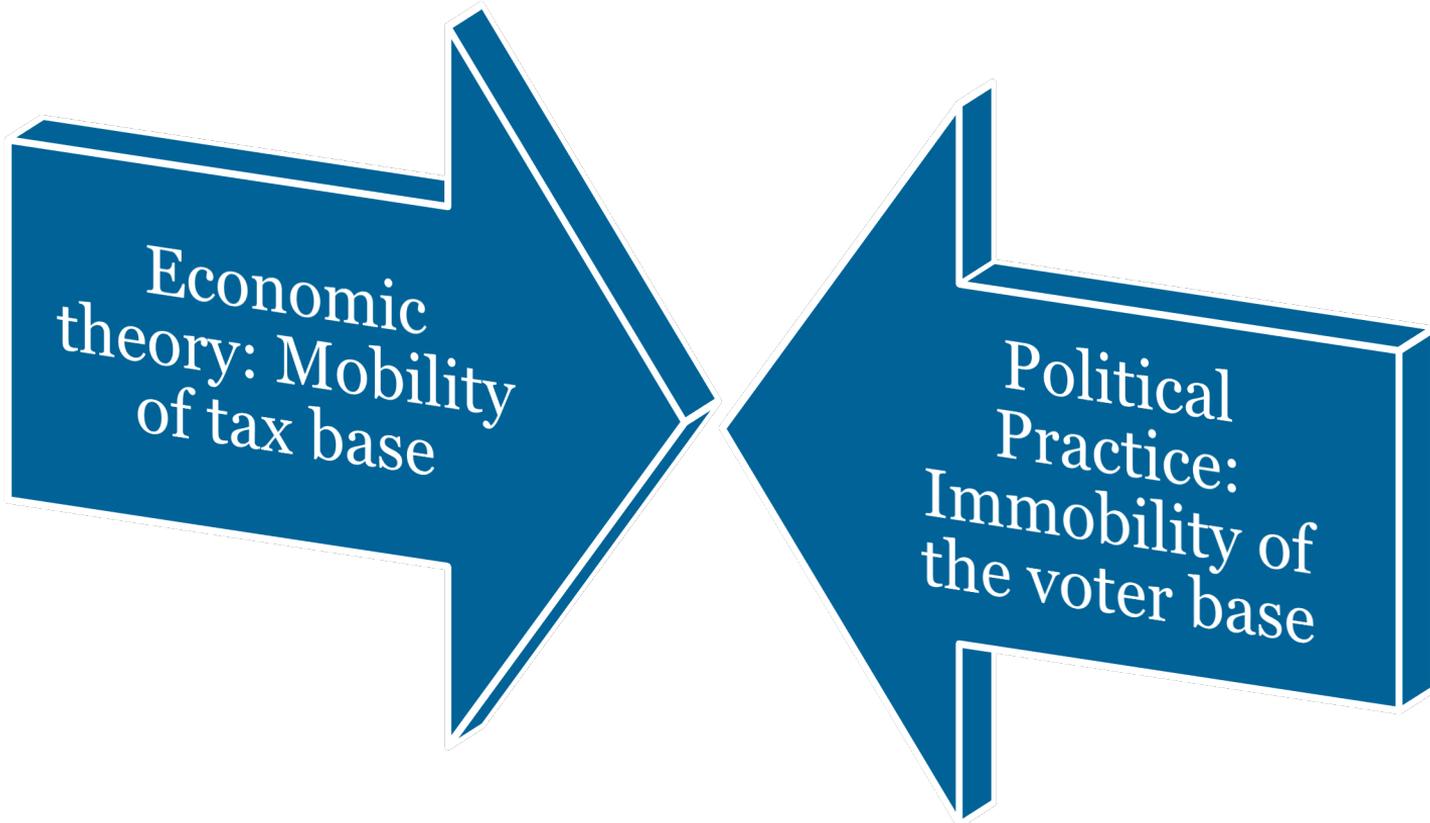
### **ENVIRONMENTALLY-RELATED TAXES**

#### **PROPERTY TAXES**

Net wealth taxes  
Inheritance taxes  
Property transaction taxes  
Recurrent taxes on immovable property



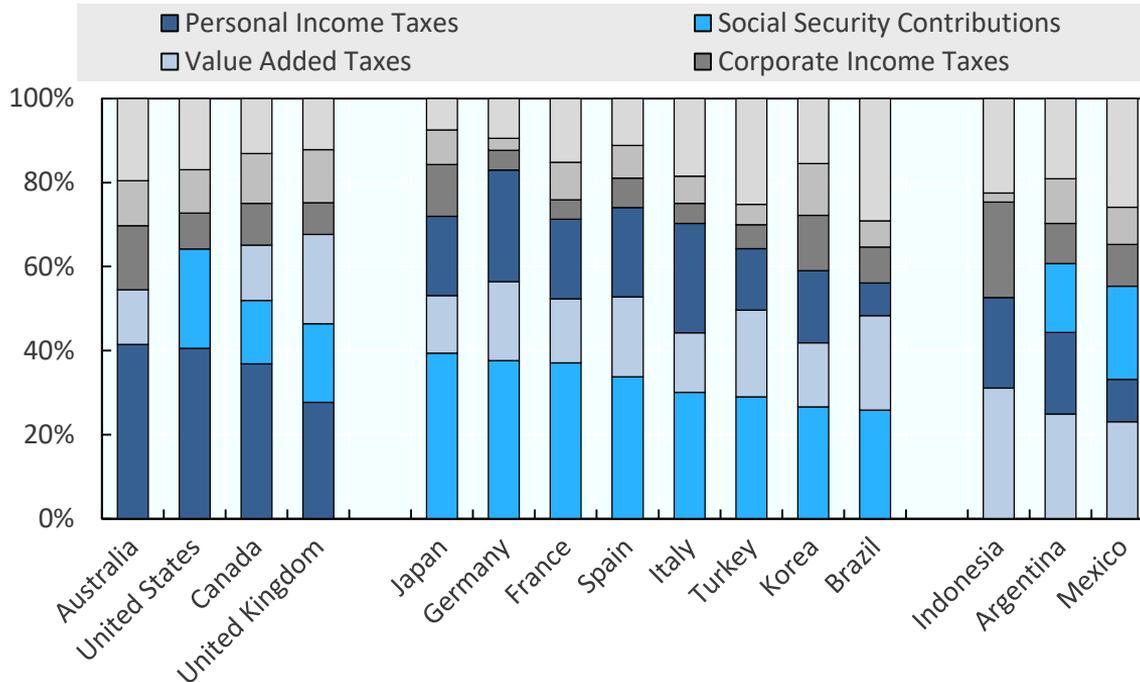
## A political tension





# Pro-growth shifts in the tax mix do not need to be regressive with good design

## The tax mix in selected G20 countries



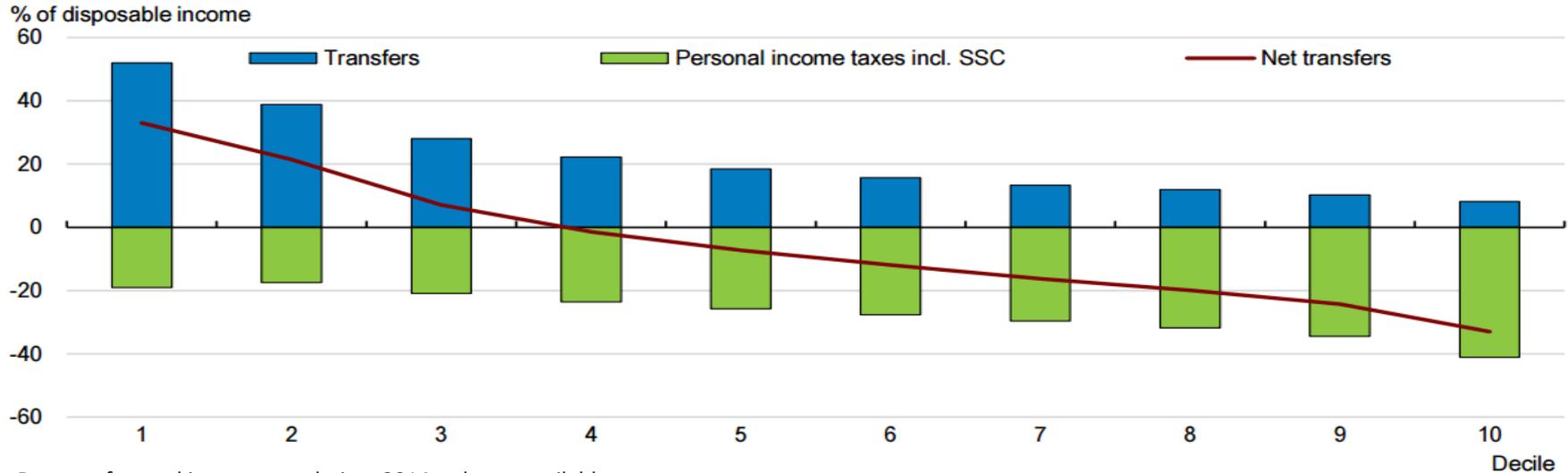
- Rebalance tax mix towards those taxes that are pro-growth and less mobile
- Eliminate regressive tax expenditures and strengthen progressivity (if possible)
- Expand those taxes that address externalities (carbon and other environmental taxes)
- Taxes raise revenue to finance transfers
- Take into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

## Transfers received and personal income taxes paid across deciles



Data are for working-age population, 2014 or latest available year

Source: Causa and Hermansen (2017) based on OECD Income Distribution Database

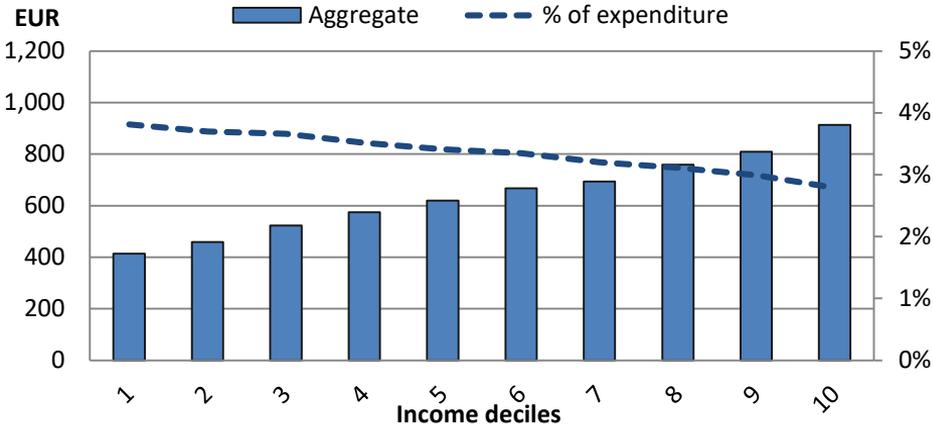
**Transfers are an important source of income support among low-income households, but beware the “leaky bucket” (OKUN, Arthur)**



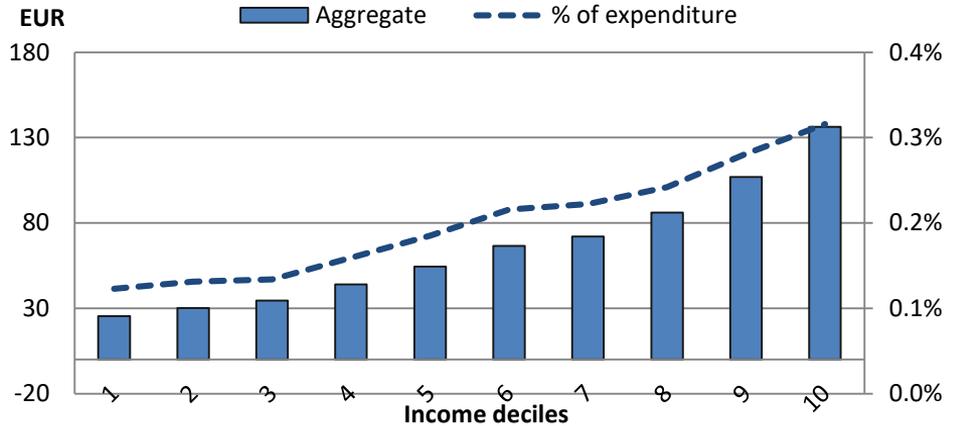
# Reform the design of consumption taxes to eliminate regressive tax expenditures

## 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)



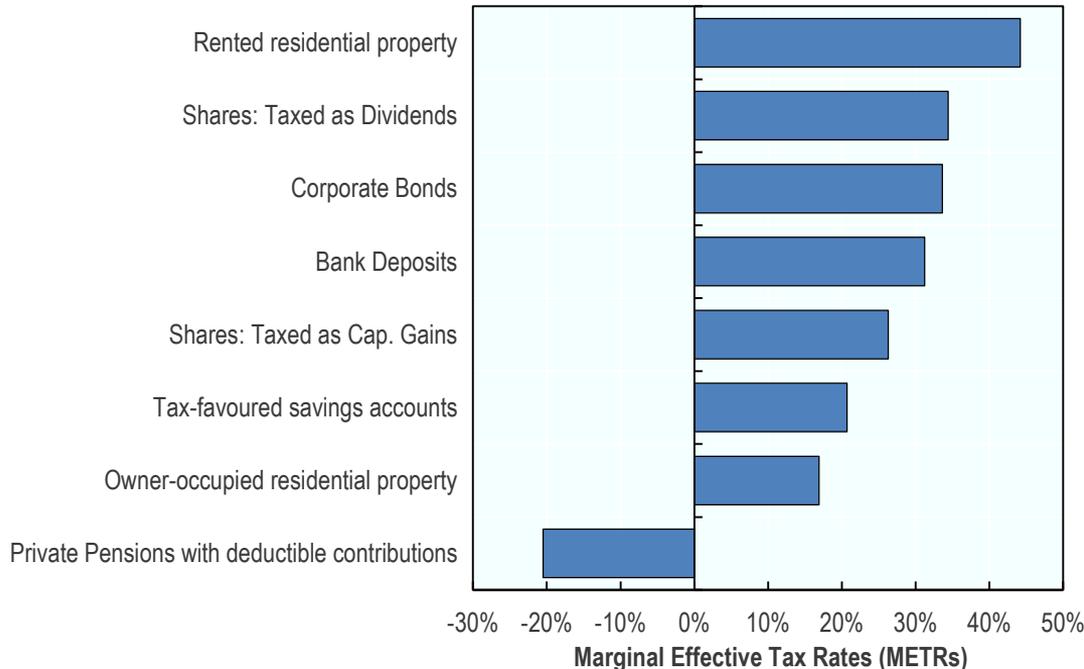
Source: The Distributional Effects of Consumption Taxes in OECD Countries, OECD (2014)

**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)



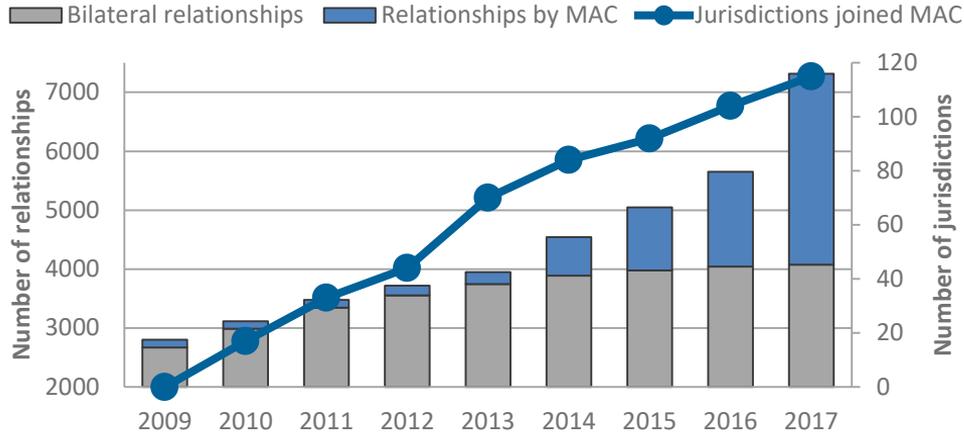
Source: The Taxation of Household Savings, OECD (2018)

- 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)



Source: The Global Forum on Transparency and Exchange of Information

- 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**



# Contact details

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