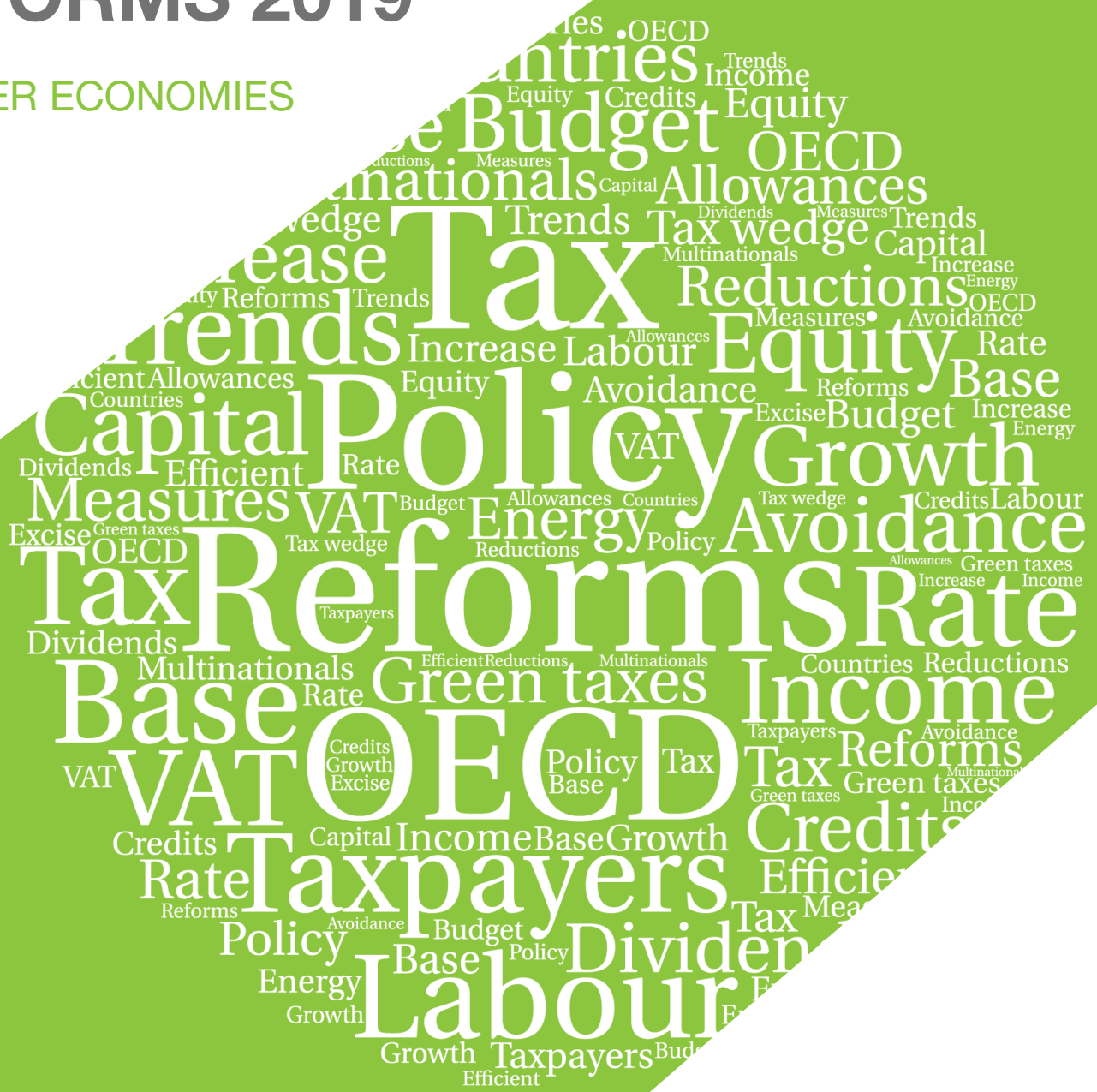
TAX POLICY REFORMS 2019

OECD AND SELECTED PARTNER ECONOMIES



BETTER POLICIES FOR BETTER LIVES

TAX POLICY REFORMS: OECD AND SELECTED PARTNER ECONOMIES

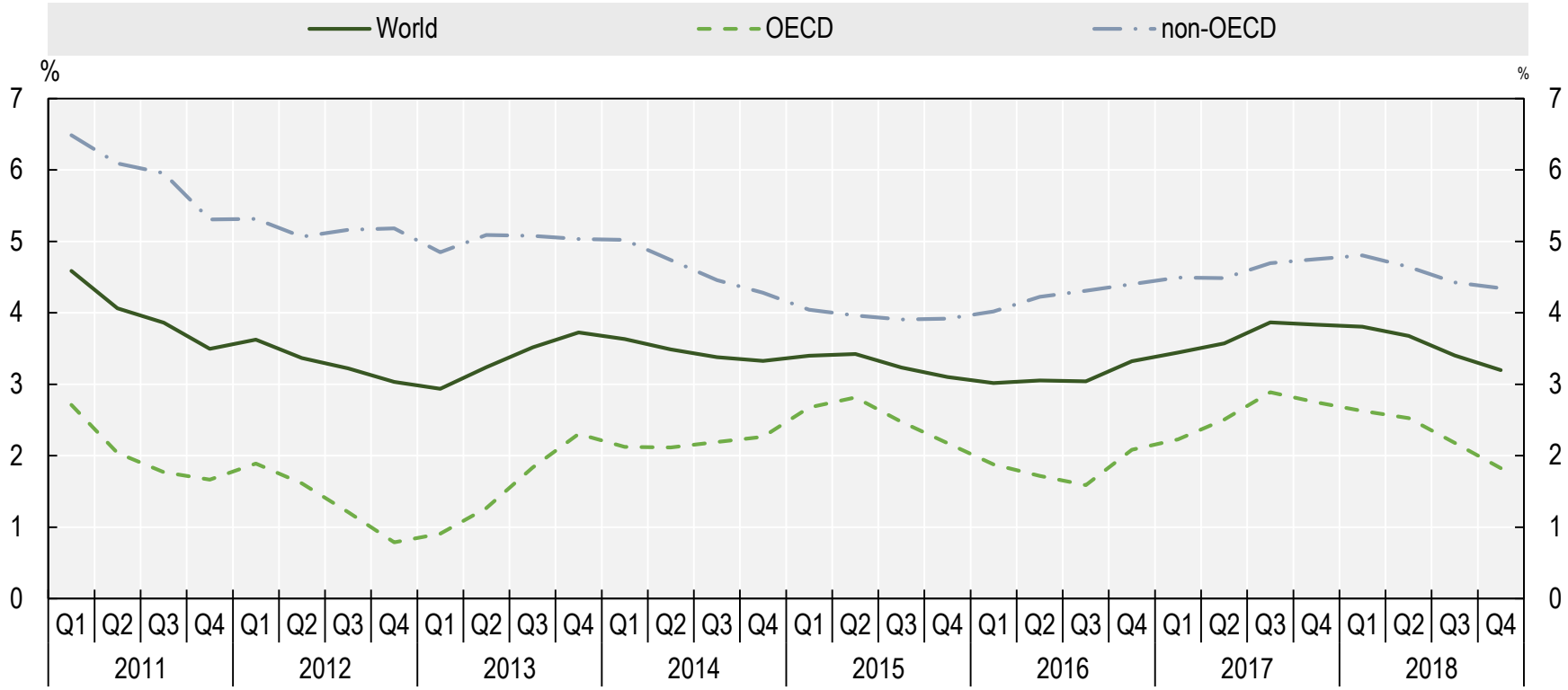
- ✓ 36 OECD countries + Argentina Indonesia and South Africa
- ✓ Identify major tax reforms and tax policy trends across countries

BACKGROUND

GLOBAL ECONOMIC GROWTH SLOWED IN 2018 BUT TRENDS HAVE DIVERGED ACROSS COUNTRIES

Real GDP growth

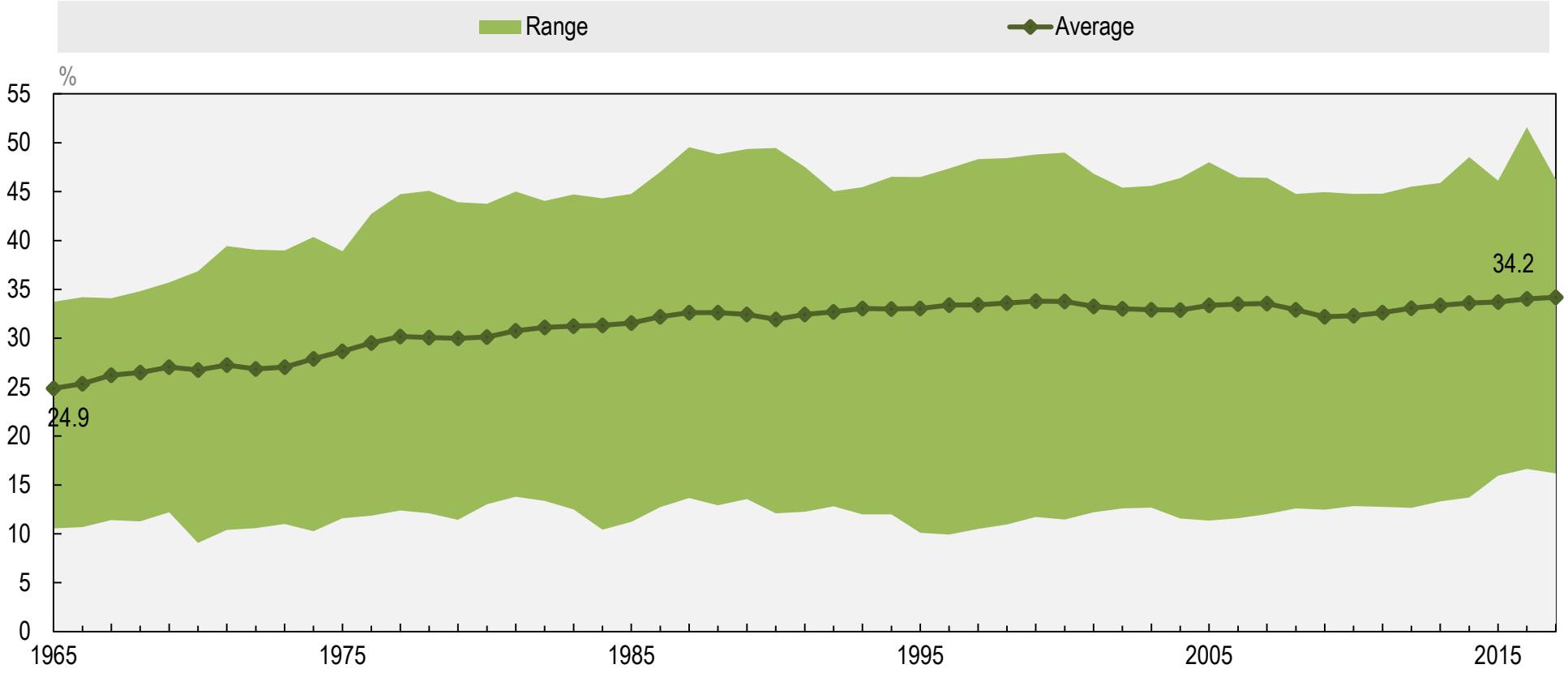
Year-on-year percentage changes



Source: OECD Economic Outlook 103 database

AVERAGE TAX REVENUES HAVE REACHED A NEW RECORD LEVEL

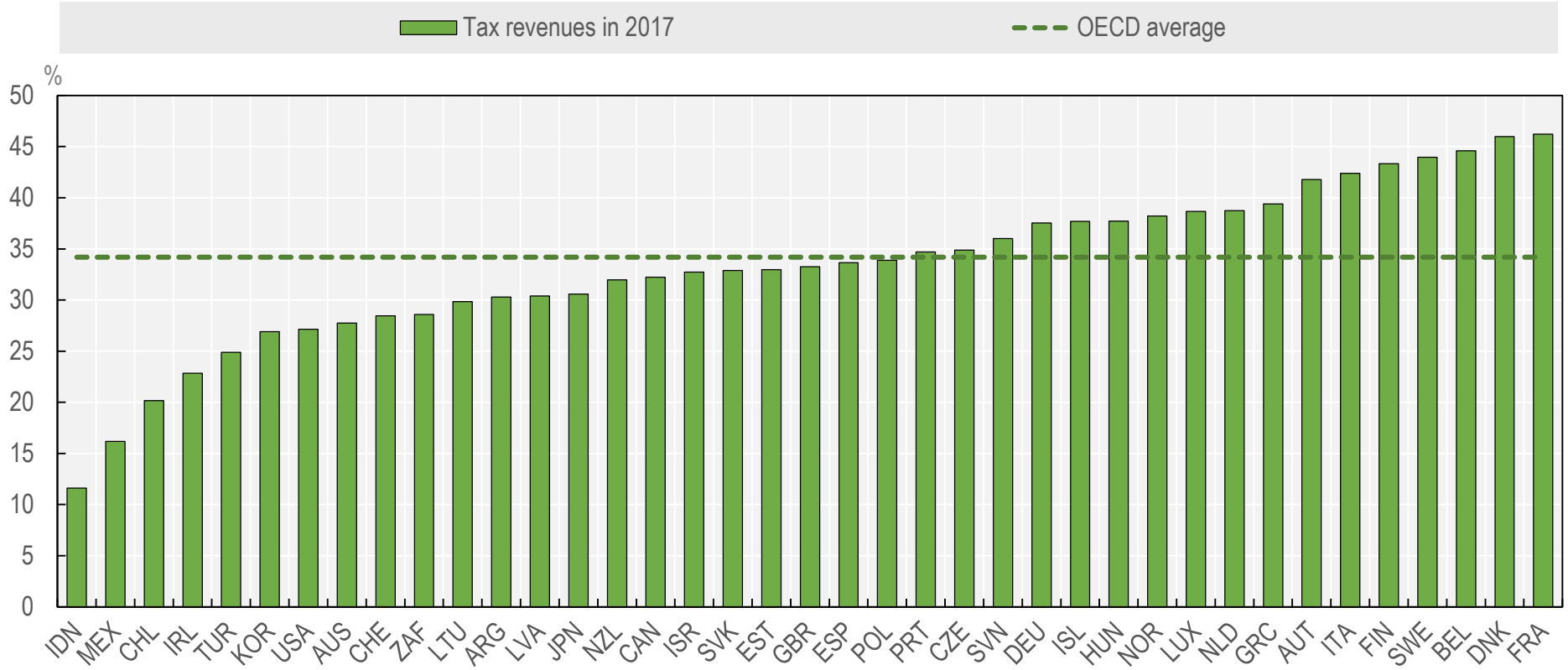
Long-term evolution of the OECD average tax-to-GDP ratio (1965 – 2017)



Source: OECD Global Revenue Statistics Database

BUT THERE ARE STILL WIDE DIFFERENCES IN TAX REVENUE COLLECTION ACROSS COUNTRIES

Tax revenues as a share of GDP by country in 2017



Note: 2016 data used for Australia, Indonesia, Japan and South Africa.
Source: OECD Global Revenue Statistics Database.

KEY FINDINGS

TAX POLICY TRENDS IN 2019

- Continuing but less significant CIT rate cuts
- Significant progress on BEPS measures
- Increased taxes on harmful consumption, especially on tobacco and sugary drinks
- Small PIT cuts, targeting low and middle income earners, workers and the elderly
- Slowing progress on environmental taxes, particularly on energy taxation
- Stabilisation of standard VAT rates
- VAT revenues expected from administrative and anti-fraud measures
- Limited property tax changes

CORPORATE INCOME TAXES

Corporate income tax (CIT) rate cuts have continued in 2019, but these rate reductions have been less significant than the ones introduced in 2018.

The countries that are introducing the most significant CIT rate reductions tend to be those that exhibit higher initial CIT rates, leading to further convergence in CIT rates across countries.

In 2019, combined statutory CIT rates ranged from 9% in Hungary to 32.02% in France.

In 2019, there were only two countries with CIT rates above 30%, against 22 in 2000. Meanwhile, the number of countries with CIT rates below 20% increased from two in 2000 to 11 in 2019.

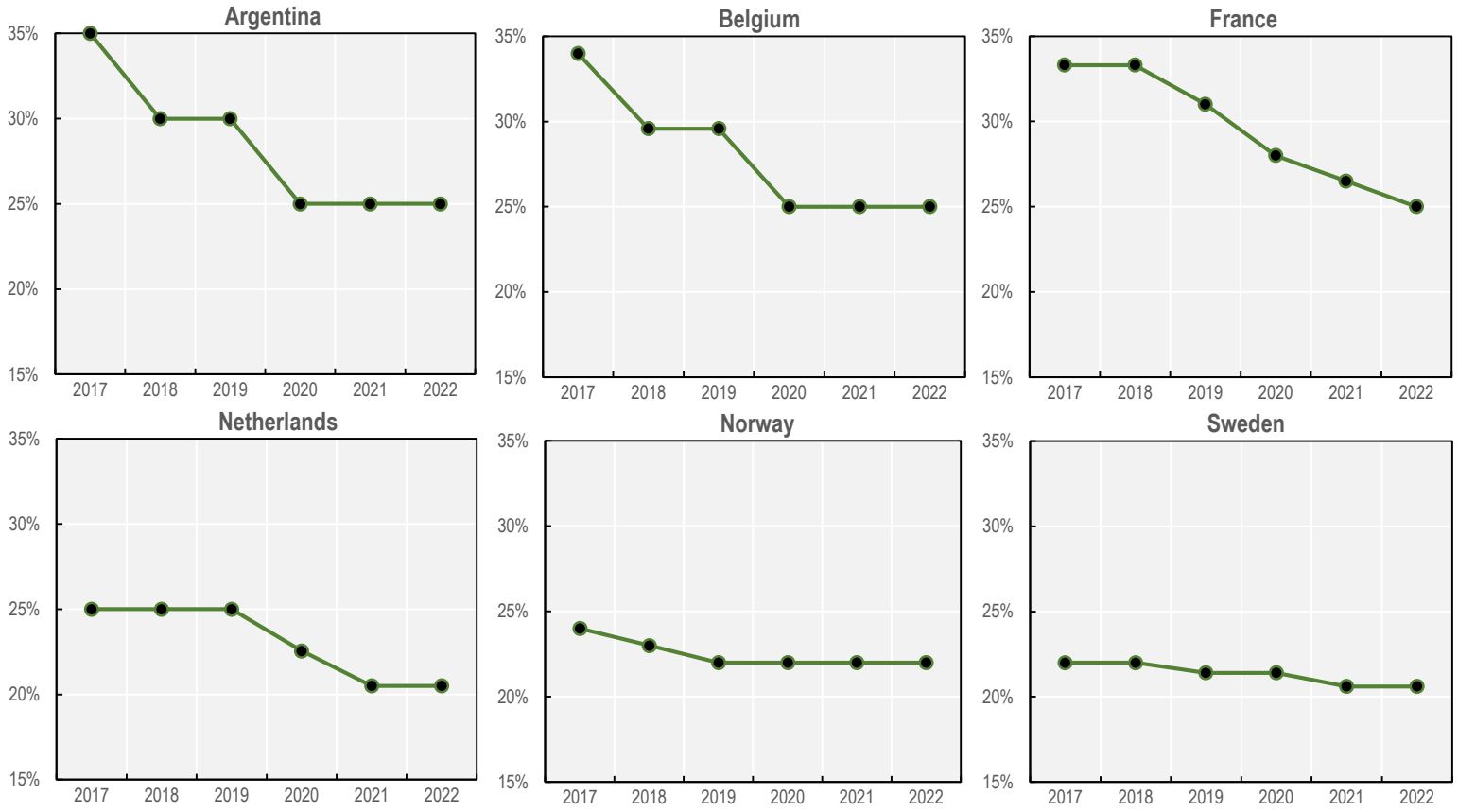
CORPORATE TAX RATE CUTS HAVE CONTINUED IN 2019, BUT HAVE BEEN LESS SIGNIFICANT THAN IN 2018

Evolution of average statutory CIT rates between 2000 and 2019

Source: OECD Tax Database and Annual Tax Policy Reform Questionnaire

COUNTRIES WITH HIGHER CORPORATE TAX RATES HAVE BEEN RESPONSIBLE FOR THE LARGEST RATE REDUCTIONS

Selected central government statutory CIT rate reductions



Source: OECD Annual Tax Policy Reform Questionnaire

CORPORATE TAX BASE CHANGES HAVE BEEN MIXED BUT EFFORTS TO ADDRESS TAX AVOIDANCE HAVE CONTINUED

Mixed corporate tax base changes

- **Base narrowing**, *e.g.* Some increases in capital allowances and R&D tax incentives, introduction of a notional interest deduction in Poland
- **Base broadening**, *e.g.* Restrictions to loss-carryover provisions, elimination of the allowance for corporate equity in Italy

BEPS and anti-avoidance measures

- **BEPS minimum standards** – significant progress highlighted in peer reviews
- Progress on **BEPS non-minimum standards**, in particular thanks to the implementation of the Anti Tax Avoidance Directive (ATAD) by EU countries and the Multilateral Instrument (MLI)

Tax and digitalisation

- Some countries are pursuing unilateral tax measures
- The OECD/G20 Inclusive Framework is working towards achieving a consensus-based multilateral solution

PERSONAL INCOME TAXES AND SOCIAL SECURITY CONTRIBUTIONS

- Some countries have introduced **personal income tax** (PIT) cuts, especially to support low-income earners and the elderly.
- There have been fewer PIT rate cuts than in previous years, and PIT reductions have more often been provided in the form of base narrowing provisions.
- Regarding personal capital income, some countries have modestly increased tax rates, while others have increased tax preferences for pension savings and small savers.
- Limited changes have been made to social security contributions.

PERSONAL INCOME TAX BASE REDUCTIONS HAVE OFTEN BEEN TARGETED AT LOW-INCOME EARNERS AND THE ELDERLY

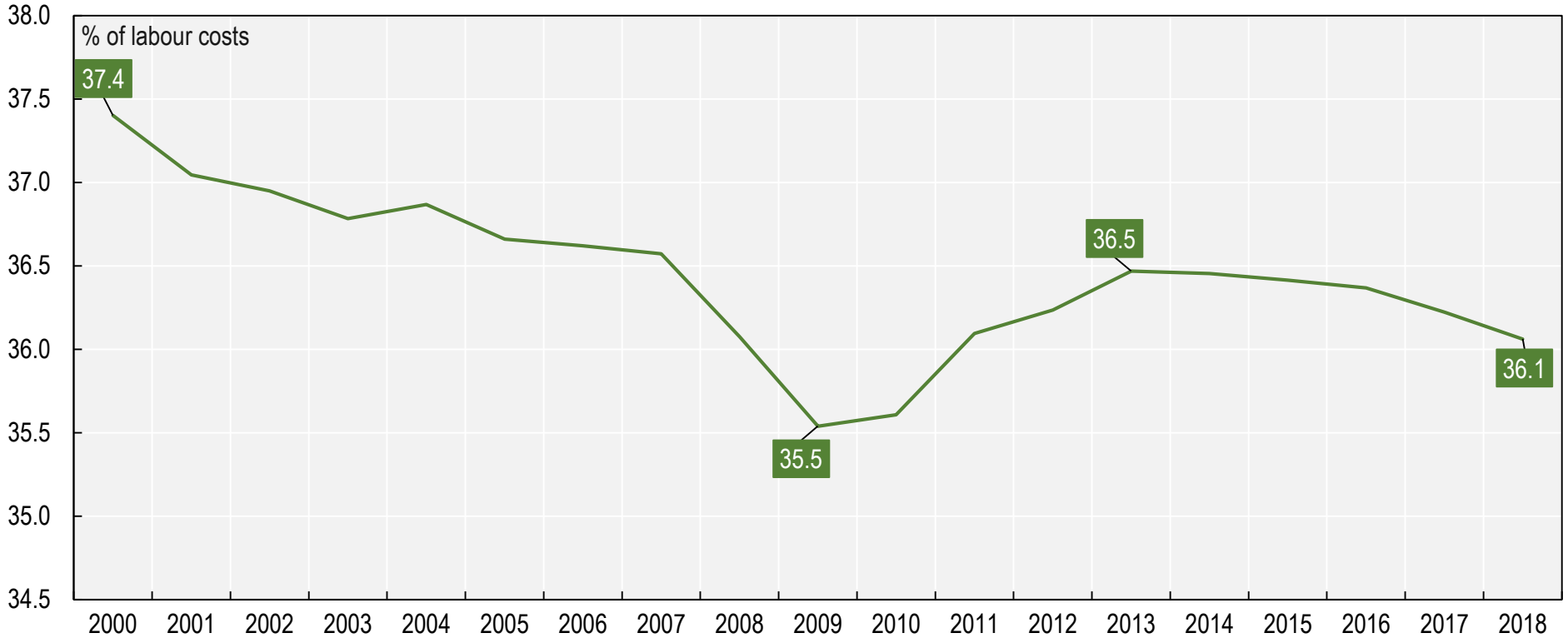
Personal income tax base measures introduced in 2019

	Base ↑	Base ↓
Personal allowances, credits, tax brackets		AUS DEU DNK FIN GBR ISL LTU NLD SWE ZAF
Low-income/EITCs		BEL DKN ESP FIN IRL NLD SWE
Children & other dependents		AUT DEU ESP IRL
Elderly & disabled		AUS FIN FRA HUN LAT NLD SWE
Self-employed & unincorporated business	GBR NLD	GBR DNK IND ITA[1] POL
Miscellaneous expenses, deductions & credits	NOR SWE	POL NOR SWE USA

Source: OECD Annual Tax Policy Reform Questionnaire

THE SLOW DECLINE IN THE AVERAGE TAX BURDEN ON LABOUR INCOME IS LIKELY TO CONTINUE

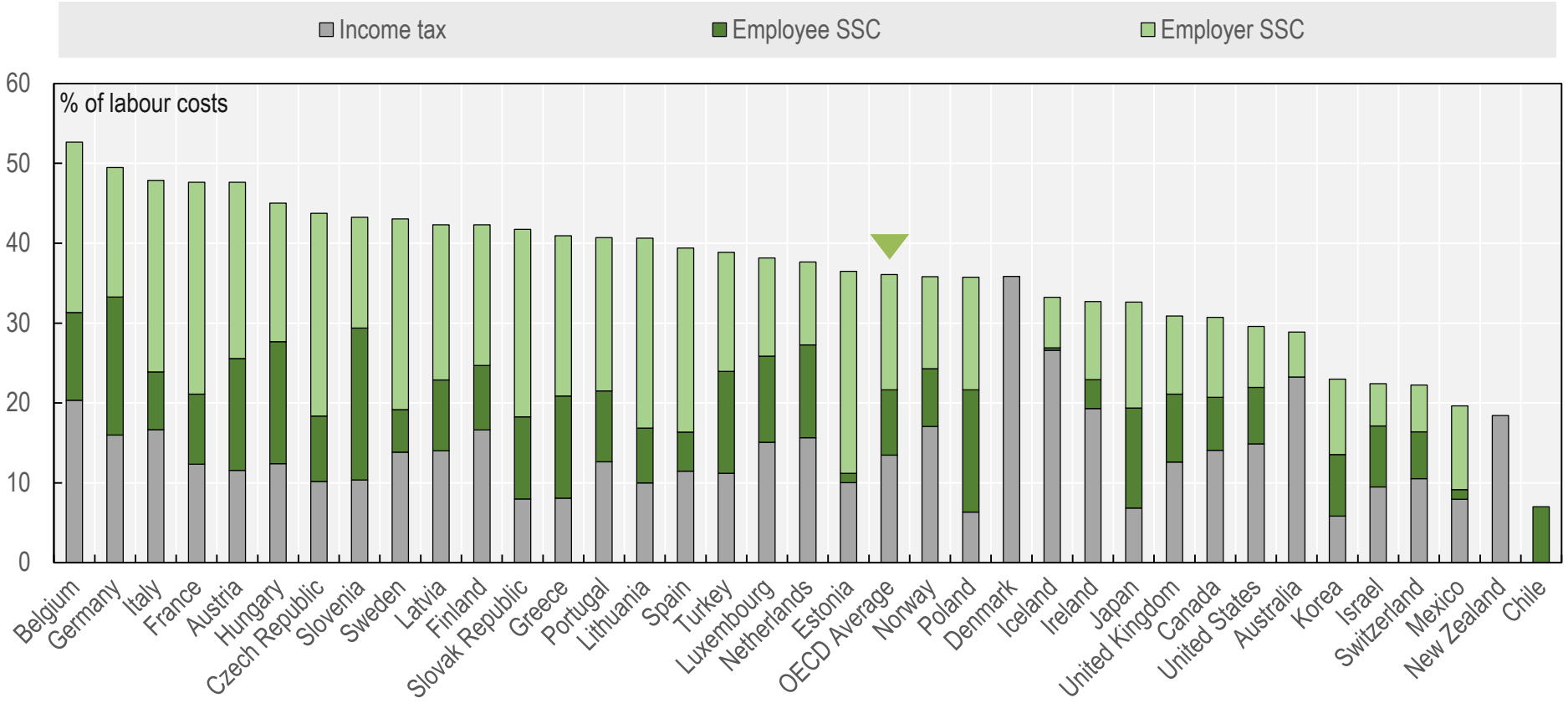
Evolution of the OECD average tax wedge on labour income for the average worker between 2000 and 2018



Source: OECD Taxing Wages Database

BUT TAX BURDENS ON LABOUR INCOME WILL REMAIN HIGH IN MANY COUNTRIES

Average tax wedge as a percentage of labour costs for workers earning the average wage in 2018



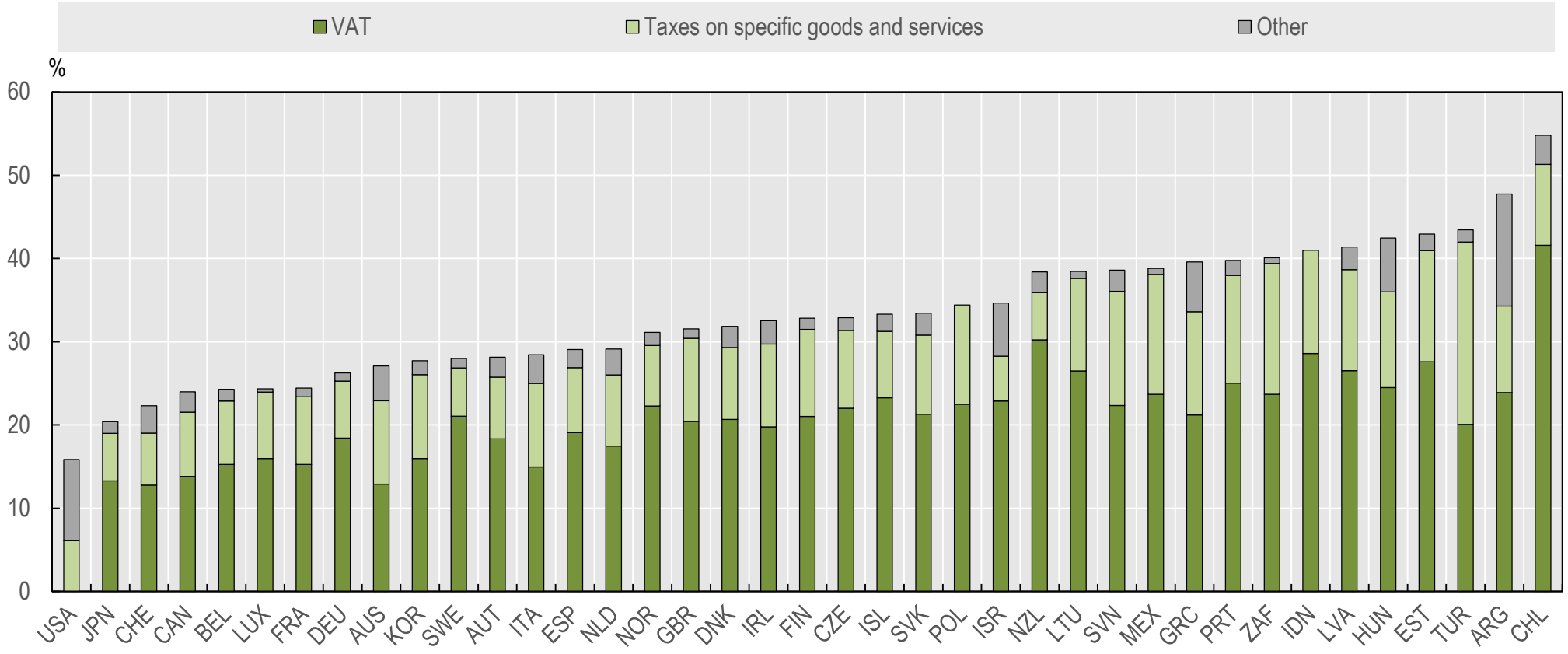
Source: OECD Taxing Wages Database

CONSUMPTION TAXES

- Standard **value-added tax** (VAT) rates have stabilised in recent years, at a historically high level.
- Many countries have concentrated on the fight against fraud to raise additional revenues and strengthen their VAT systems.
- Partly to compensate for high standard VAT rates, a number of countries have expanded the scope of their reduced VAT rates.
- A number of countries have raised their excise duties on tobacco and sugar-sweetened beverages to deter harmful consumption.
- New trade tariffs have been introduced, which could lead to further escalations.

CONSUMPTION TAXES, IN PARTICULAR VAT, ARE A MAJOR SOURCE OF TAX REVENUES IN MOST COUNTRIES

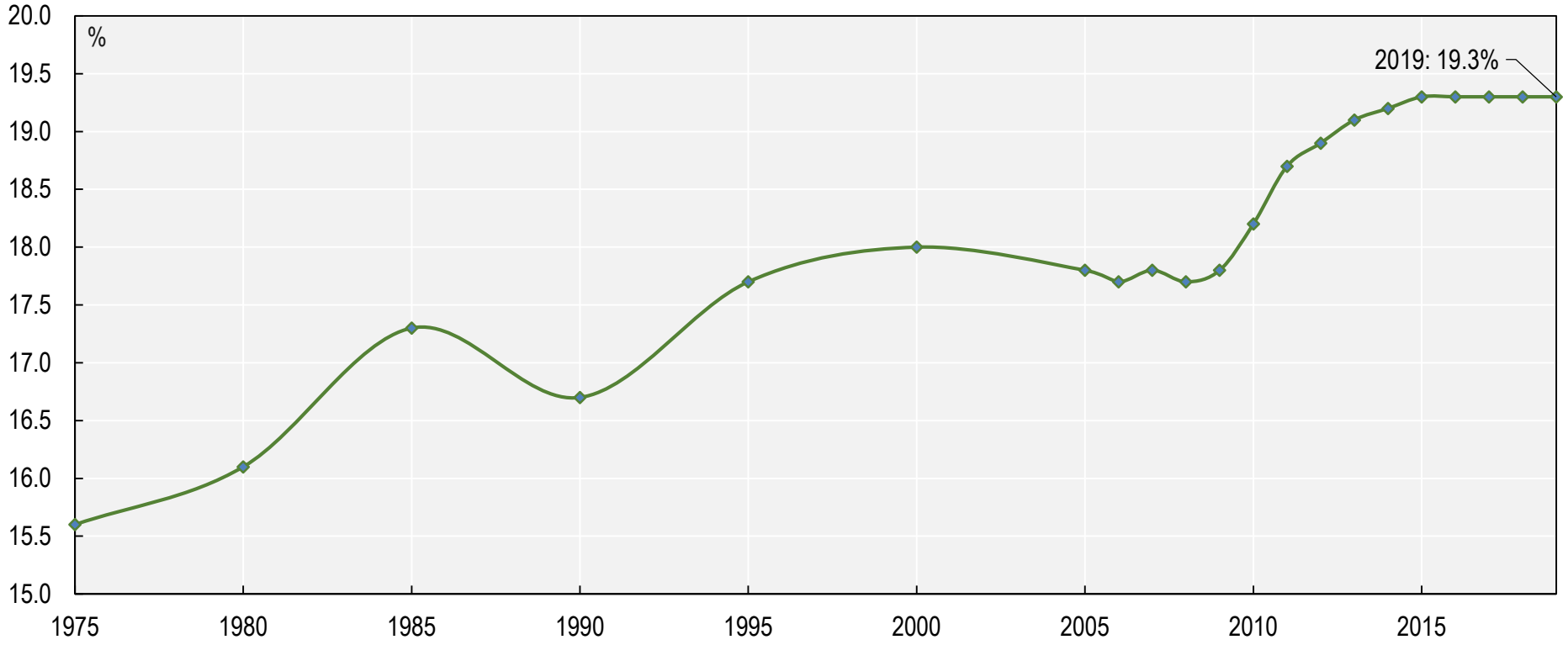
Consumption tax revenues as a share of total taxation in 2017



Source: OECD Global Revenue Statistics Database

STANDARD VAT RATES HAVE STABILISED AT A HISTORICALLY HIGH LEVEL IN RECENT YEARS

Long-term evolution of the OECD average standard VAT rate (1970 – 2019)



Source: OECD Tax Database and Annual Tax Policy Reform Questionnaire

MORE VAT REVENUES ARE EXPECTED FROM ADMINISTRATIVE AND ANTI-FRAUD MEASURES

- **Increasing reporting obligations for taxpayers**
  - Data sharing obligations, including accounting data
  - Transmission of invoicing information (including in real time)
- **Testing alternative VAT collection mechanisms**
  - Domestic reverse-charge regime
  - Split-payment mechanisms
- **Enlisting digital platforms in the collection of VAT on online sales**
  - OECD report on "The role of digital platforms in the collection of VAT/GST on online sales" endorsed by over 100 jurisdictions in March 2019

ENVIRONMENTALLY RELATED TAXES

Energy taxation

- Few countries have continued to raise or extend taxes on energy use
- Some countries have lowered their energy taxes or have weakened their commitment to better aligning energy taxation with climate costs

Vehicle taxation

- Vehicle taxation has seen limited progress
- There have been changes to less conventional tax bases (e.g. road use, air travel)

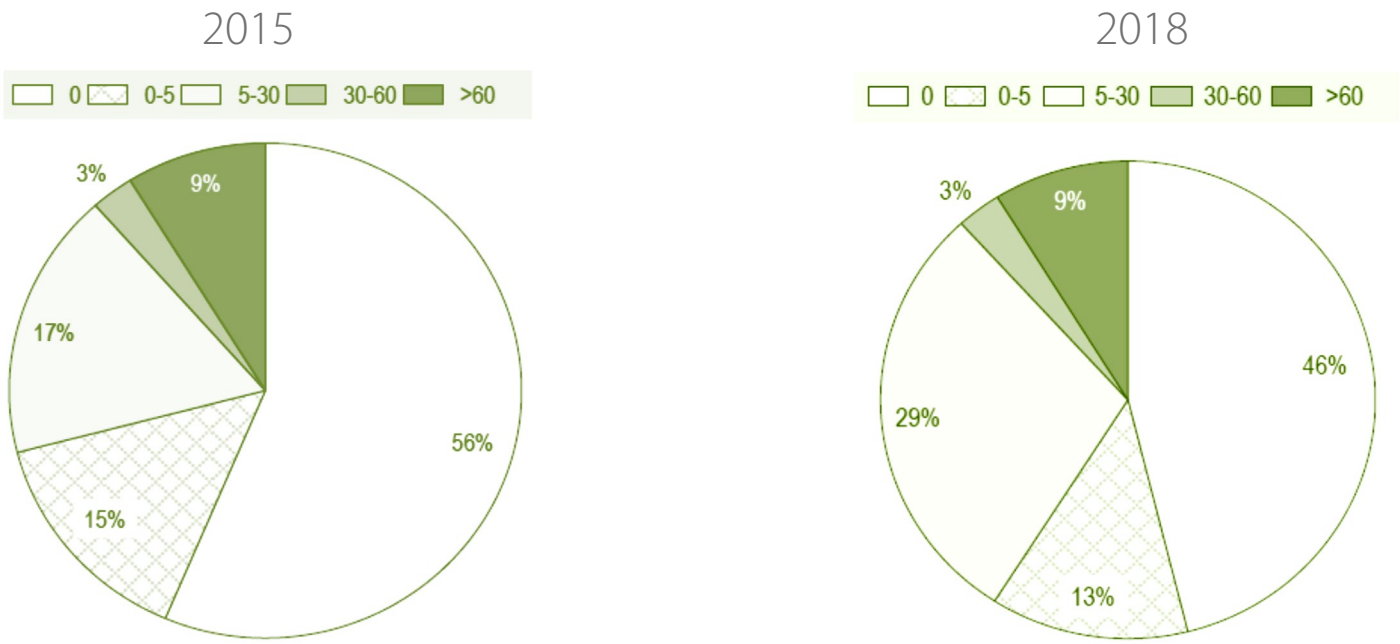
Other environmentally related taxes

- Despite their potential, the scope of other environmentally related taxes (e.g. on plastic, chemicals, waste) remains very limited

RECENT REFORMS SHOW SLOW PROGRESS ON PRICING CARBON EMISSIONS

Estimated proportion of CO_2 emissions from energy use priced at different price levels

(in EUR per tonne of CO_2; 42 OECD and G20 economies; all sectors)



Source: OECD Effective Carbon Rates 2018 – Pricing carbon emissions through taxes and emissions trading

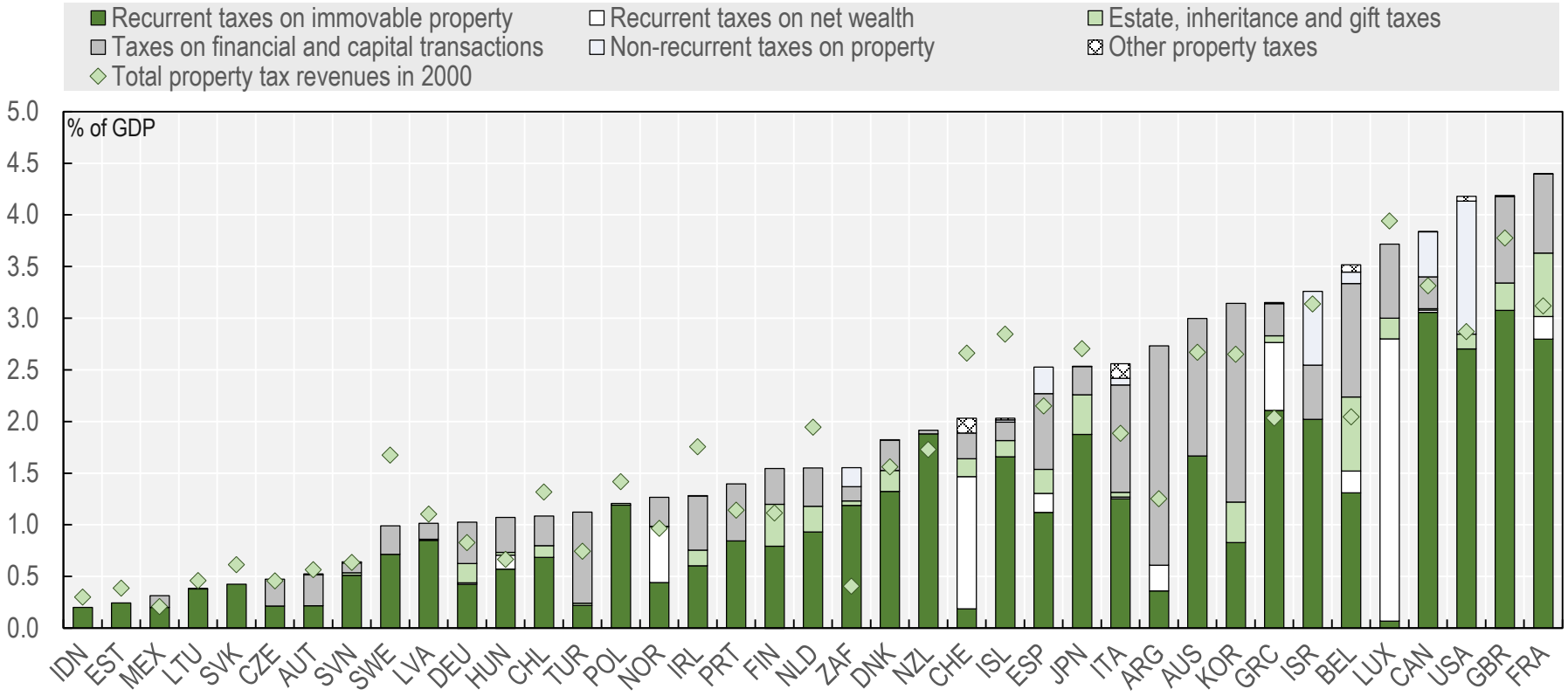
PROPERTY TAXES

- The property tax reforms introduced in 2019 were limited in number and in scope.
- Some of the reforms introduced in 2019 have focused on increasing taxes on high-value immovable property.

Property tax revenues remain low in most countries. In 2017, the amount of revenues collected from property taxes varied across countries, from 0.2% of GDP in Indonesia to 4.4% of GDP in France.

PROPERTY TAX CHANGES HAVE BEEN LIMITED AND TAX REVENUES REMAIN LOW

Property tax revenues as a share of GDP in 2000 and 2017



Source: OECD Global Revenue Statistics Database

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