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Tax Reform Trends in OECD Countries

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FOREWORD

This paper was prepared for the High Level Conference on "Challenges in Designing Competitive Tax Systems", which took place at the OECD on 30 June 2011. This conference was held within the framework of the OECD 50th Anniversary. At this conference, ministers and senior tax policy officials reviewed trends in tax reform over 50 years, discussed emerging pressures on competitiveness of tax systems and how to achieve successful reforms in the 21st century.

The paper reviews trends in tax rates and revenues over the past 20-30 years and discusses the main drivers of these trends.

TAX REFORM TRENDS IN OECD COUNTRIES

Bert Brys, Stephen Matthews and Jeffrey Owens[1]

1. Introduction

1. Over the last two decades almost all OECD countries have made major structural changes to their tax systems. In the case of the personal and corporate income tax regimes reforms have generally been rate reducing and base broadening, following the lead given by the United Kingdom in 1984 and the United States in 1986.

- In the mid-1980s, many OECD countries had top marginal personal income tax (PIT) rates in excess of 65%. Today most top rates are below, and in some cases substantially below, 50% (average top PIT rate in 2011 was 41.5% - see Table 2).
- Similarly, top statutory corporate income tax rates in the 1980s were rarely less than 45%. In 2011, the OECD average rate was below 26%.

2. In some countries (for example, many of the Eastern European economies in transition, along with Australia and New Zealand) reforms have been profound and sometimes implemented over a very short period of time. In others, including most of Europe, Japan and many other Asian countries, reform has been a gradual process of adaptation. Nevertheless, over time, many countries have substantially redesigned their tax systems.

3. Section 2 of this note presents data that illustrate how, despite there being 34 countries in the OECD, trends in tax rates and burdens show more common themes than differences. It presents charts covering

a) Top rates of personal income tax, 1981, 1994, 2010;

b) Statutory corporation tax rates, 2000 and 2011;

c) Combined top corporate and personal tax rates on dividends in 2000 and 2011;

d) The combined burden of tax and social security contributions on an average family in 2000 and 2010;

e) Standard VAT rates, 1990. 2000 and 2010;

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f) Aggregate tax burden in relation to GDP;

g) VAT revenues as a share of GDP;

h) Revenues from environmental taxes as a share of GDP; and

i) Summary of latest international comparisons of tax receipts and rates.

4. Section 3 then discusses some of the drivers of these trends. Finally, section 4 offers some concluding remarks on tax policy in the current economic climate.

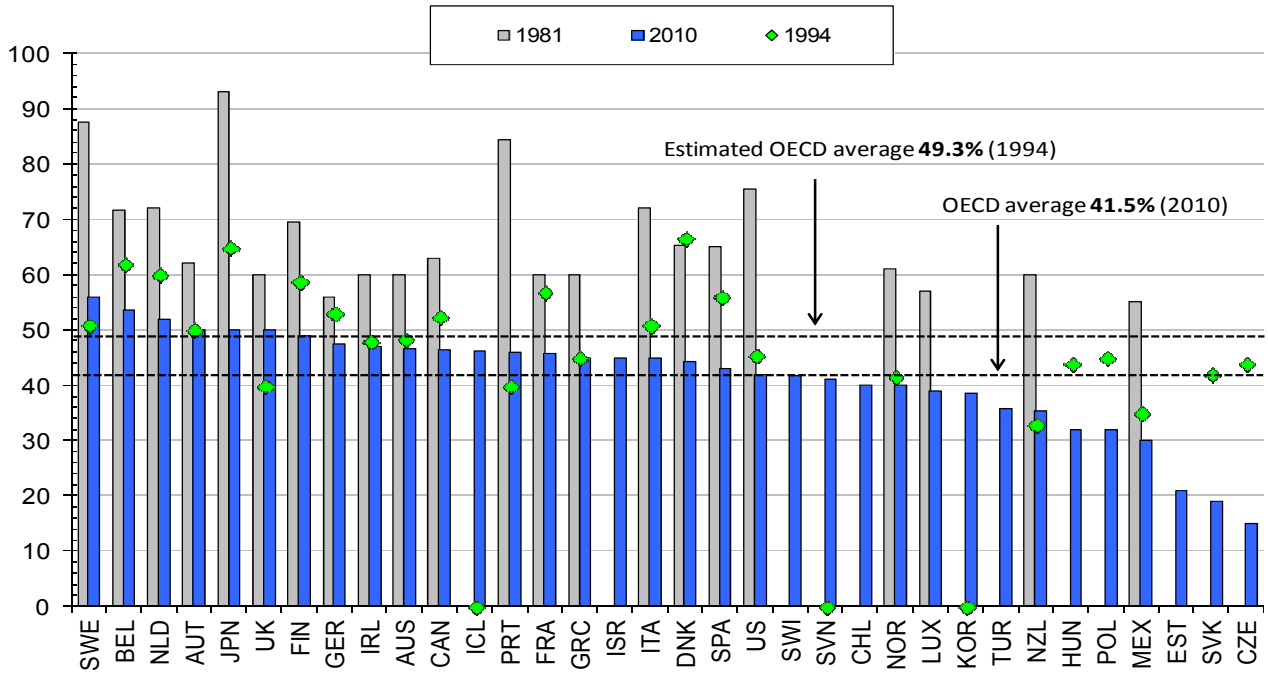
2. Trends in Tax Rates and Revenues

a. Personal Income Tax Rates

5. The trend towards reduced marginal tax rates started in the mid-1980s in most countries, with the US reforms of 1986 being particularly influential. In the late 1970s it was not uncommon to find top marginal personal income tax rates above 70%, while these rates are now well below 50% in a majority of OECD countries. By the mid 1990s the most significant cuts in top rates had already been made. See Figure 1.

6. Further reforms in the past decade have reduced the unweighted OECD-average top statutory personal income tax rate by about 5 percentage points. Since 2000 top rates have been reduced by 7 percentage points or more in 12 countries – Belgium, the Czech Republic, Denmark, France, Hungary, Luxembourg, Mexico, the Netherlands, Norway, Poland, the Slovak Republic and Slovenia. Most recently, a few countries have raised their top PIT rate (e.g. Portugal and the United Kingdom) as part of recent fiscal consolidation tax measures.

Figure 1. Top statutory personal income tax rates on wage income 1981, 1994 and 2010[1]



1. The statutory personal income tax rate on wage income applicable at the highest income threshold for single individuals. Sub-central government taxes are also included.

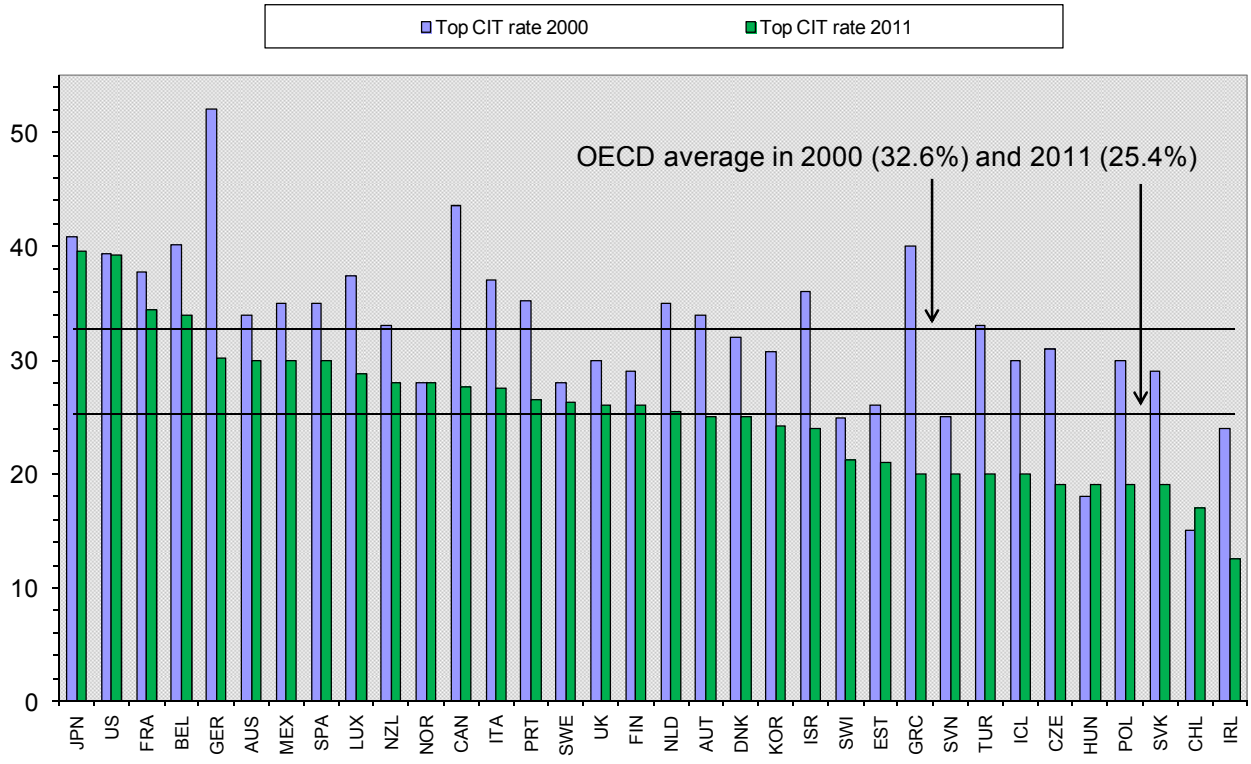
Source: OECD Tax Database (www.oecd.org/ctp/taxdatabase).

b. Corporate Income Tax Rates

7. The trend towards a reduction of corporate income tax rates started with the tax reforms in the United Kingdom and the United States in the mid-1980s which broadened the tax base (*e.g.* by making depreciation allowances for tax purposes less generous) and cut statutory rates. Corporation tax rates have continued to be cut in recent years.

8. Figure 2 shows that the statutory corporate income tax rates in OECD member countries dropped on average 7.2 percentage points between 2000 and 2011, from 32.6% to 25.4%. This trend seems to be widespread, as rates have been reduced in 31 countries and increased only in Chile (from 15 to 17%) and Hungary (from 18 to 19%). The rate has stayed constant at 28% in Norway. Japan, despite cutting its corporate income tax rate in 2004, continues having the highest rate, although proposals are being discussed to reduce the rate to below 30%. It appears that large economies like Japan and the United States have greater effective sovereignty over their corporate tax policies than smaller economies.

Figure 2. Statutory corporate income tax rates, 2000 and 2011



1. Data ranked by 2011. Sub-central government taxes are also included; for the United States, it is based on a weighted average of state marginal corporate income tax rates.

Source: OECD Tax Database (www.oecd.org/ctp/taxdatabase).

c. Taxation of Dividends

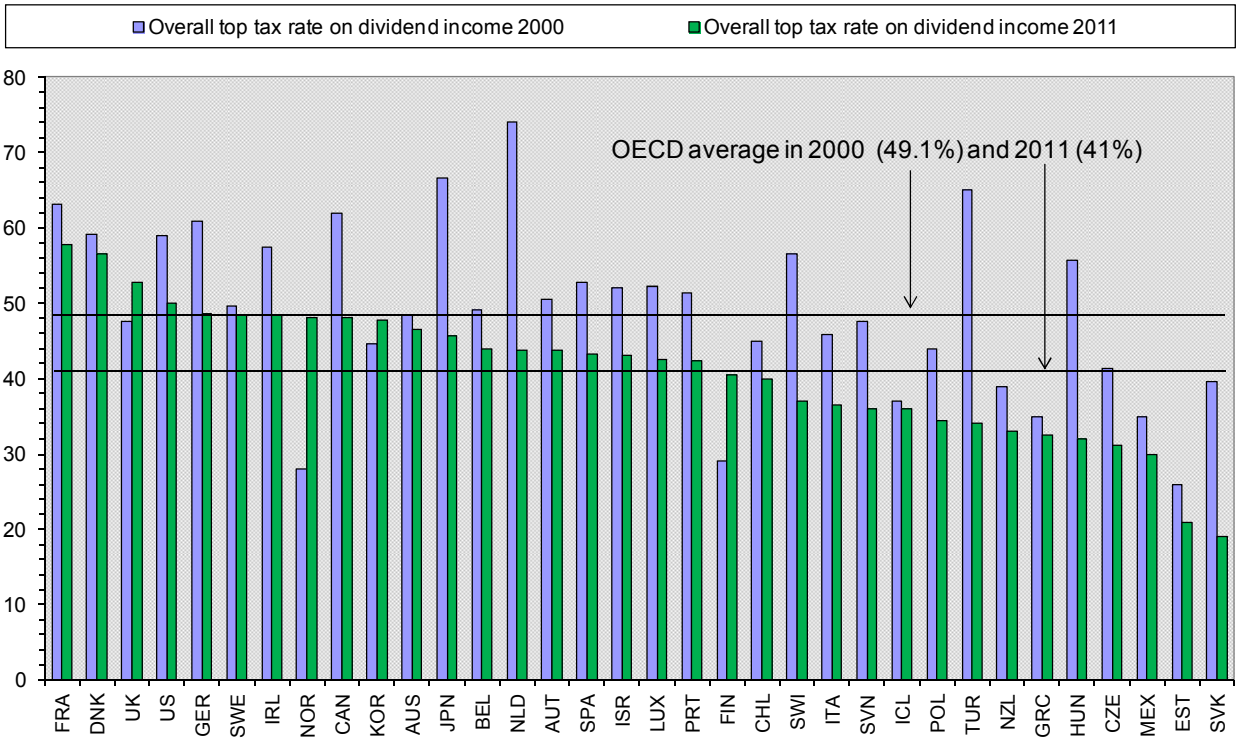
9. The rate of personal taxation on dividends has fallen in recent years, largely as a result of falls in corporate income tax rates, though there have also been cuts in the rates of personal income tax applied to dividends. Figure 3 shows the top marginal tax rates on distributions of domestic source profits to a resident individual shareholder. It takes account of the fact that profits are usually taxed both at the corporate level (where the assumption is that they bear the statutory corporation tax rate) and again when

they are distributed as dividends. The figures show that on average, the top marginal tax rate on dividends in OECD-countries was reduced by 8.1 percentage points between 2000 and 2011, from 49.1% to 41.0%.

10. A recent trend is the move away from imputation systems in many European countries to modified classical or shareholder relief systems under which dividends are taxed at a lower rate at the personal level. In many countries dividends are taxed at the personal shareholder level at lower rates than the personal income tax rates that are levied on wage income.

11. One reason for reducing the effective tax rate on dividends has been that it is potentially the rate faced by equity investors in a new business (since such a business does not have retained profits from existing business activities available to reinvest).

Figure 3. Overall statutory rates on dividend income[1], 2000 and 2011



1. This tax rate is the overall top marginal tax rate (corporate and personal combined) on distributions of domestic source profits to a resident individual shareholder, taking account of imputation systems, dividend tax credits, etc. Sub-central government taxes are also included; for the United States, it is based on a weighted average of state marginal corporate income tax rates and state marginal income tax rates on dividend income.

Source: OECD Tax Database (www.oecd.org/ctp/taxdatabase).

d. Tax burdens on individuals

12. Average effective tax rates on most individuals have fallen much less than top statutory tax rates. Figure 4 compares the total tax wedge (income tax, employee and employer social security contributions combined) for a married couple with two children with just one earner on average earnings. The wedge between pre-tax earnings and take-home pay fell on average by 2.7 percentage points between 2000 and 2010, though there were much more marked falls in some countries.

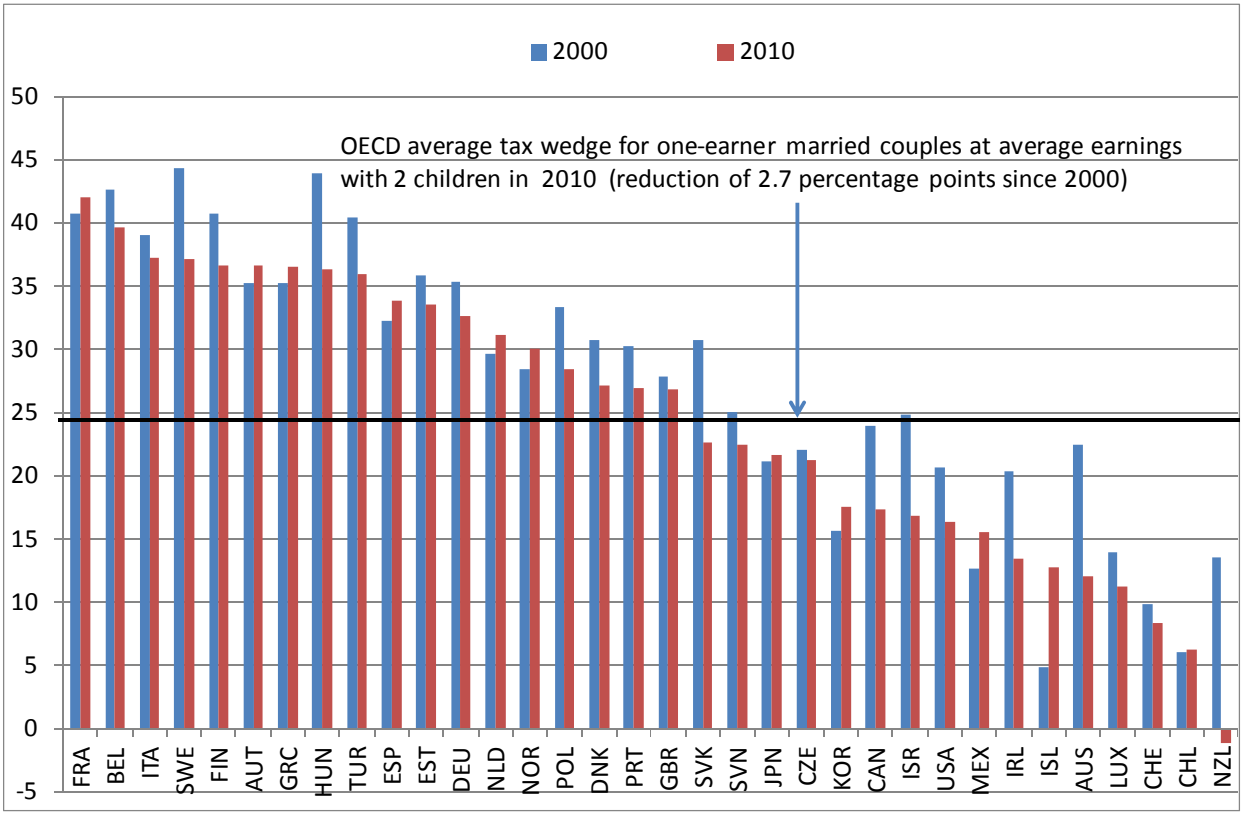
13. In recent years there has tended to be more emphasis on 'making work pay' for low-income earners. Thus one driver of tax reform has been a desire to reduce disincentives for households to enter the labour market and once in the labour market to increase their work efforts. Following the example of the

United States with its Earned Income Tax Credit (EITC), a number of OECD countries have introduced in-work tax credits to help 'make work pay' for the low-skilled. The main objectives of such making work pay (MWP) policies are:

- To increase employment. This is done by reducing the costs of hiring low-productivity workers, or by increasing the incomes of those who accept low-paid work to make them more willing to take a job.
- To increase incomes of low income working families. Linking an increase in transfers to those with low incomes to their employment status appears sometimes to be politically more acceptable than untargeted transfers.

14. The appeal of MWP policies spans political divides, and governments of both the right and left have introduced or extended such policies in recent years. The political attraction is that such policies appear to achieve both employment and distributional objectives at the same time, unlike some other alternative policies. That said, many OECD countries have not introduced such policies, or have followed alternative approaches, such as cuts in employers' social security contributions.

Figure 4. Average tax wedge for one-earner families with two children at average earnings[1], 2000 and 2010



1. The tax wedge is the sum of income tax plus employee and employer social security contributions paid less cash benefits received as a percentage of total labor costs (gross wage plus employer social security contributions).

Source: OECD Taxing Wages (www.oecd.org/ctp/taxingwages).

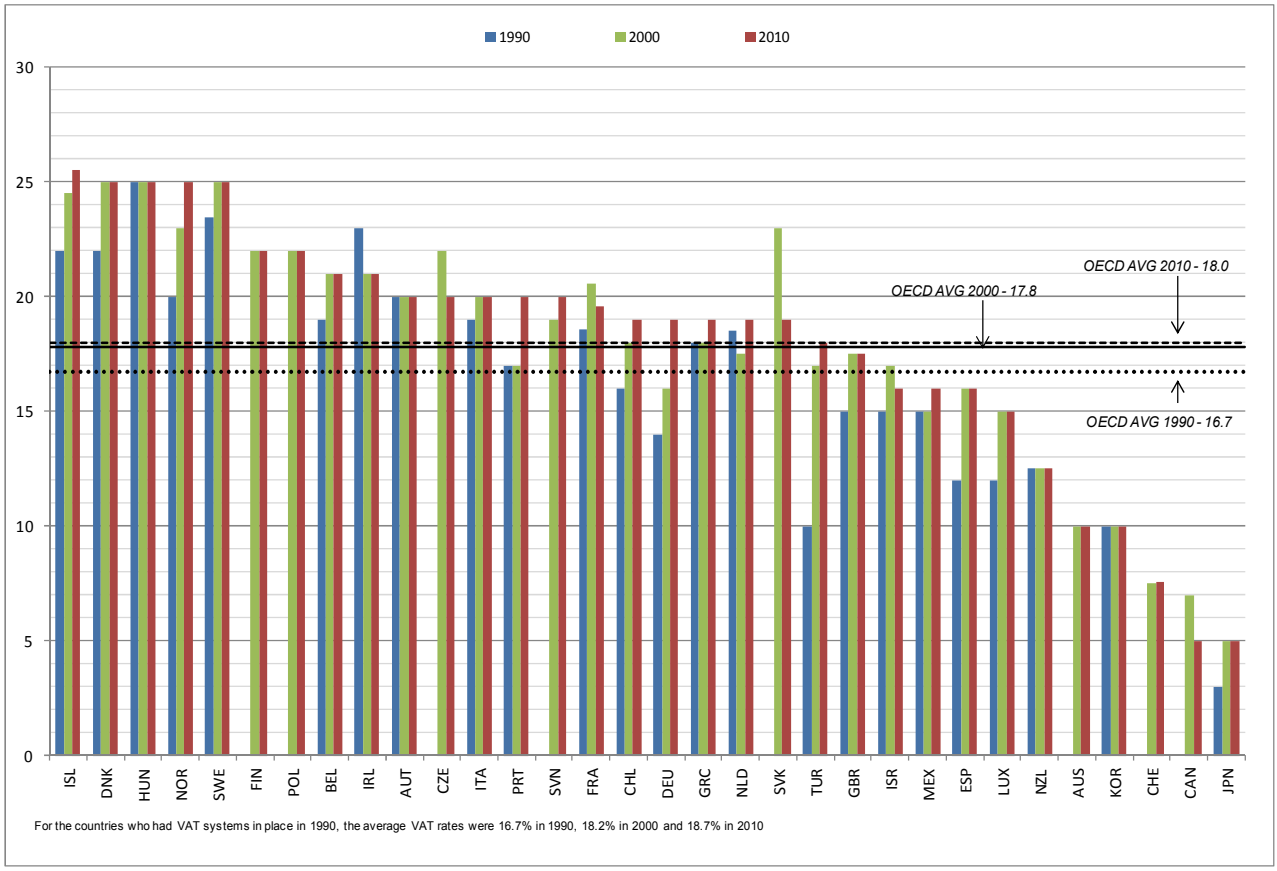
e. VAT/ GST Rates

15. The average standard rate of VAT increased from 16.7% in 1990 to 17.8% in 2000. This average remained broadly stable between 2000 and 2009, rising again from 17.6% to 18.0% in 2010, as a number of countries chose to increase their VAT rates as part of their fiscal consolidation measures. Between 1 January 2010 and the beginning of 2011, nine OECD governments have increased or announced plans to

increase their standard rate (Finland from 22% to 23%; Greece from 19% to 21%; New Zealand from 12.5% to 15%; Poland from 22% to 23%; Portugal from 21% to 23%; Slovakia from 19% to 20%; Spain from 16% to 18%; Switzerland from 7.6% to 8% and the United Kingdom from 17.5% to 20%).

16. This average covers major differences between OECD member countries, with rates ranging from 5% (Japan and Canada, although most Canadian Provinces levy consumption taxes alongside the federal 5%) to 25% (Denmark, Hungary, Norway and Sweden) and 25.5% in Iceland. Almost two-thirds of countries (20 out of 32) have standard rates between 15% and 22%. Rates tend to be much higher in European countries than in non-European countries.

Figure 5. Standard VAT rates, 1990, 2000 and 2010



Notes: There are no data for the United States since this country does not have a VAT.

Source: OECD Consumption Tax Trends 2010.

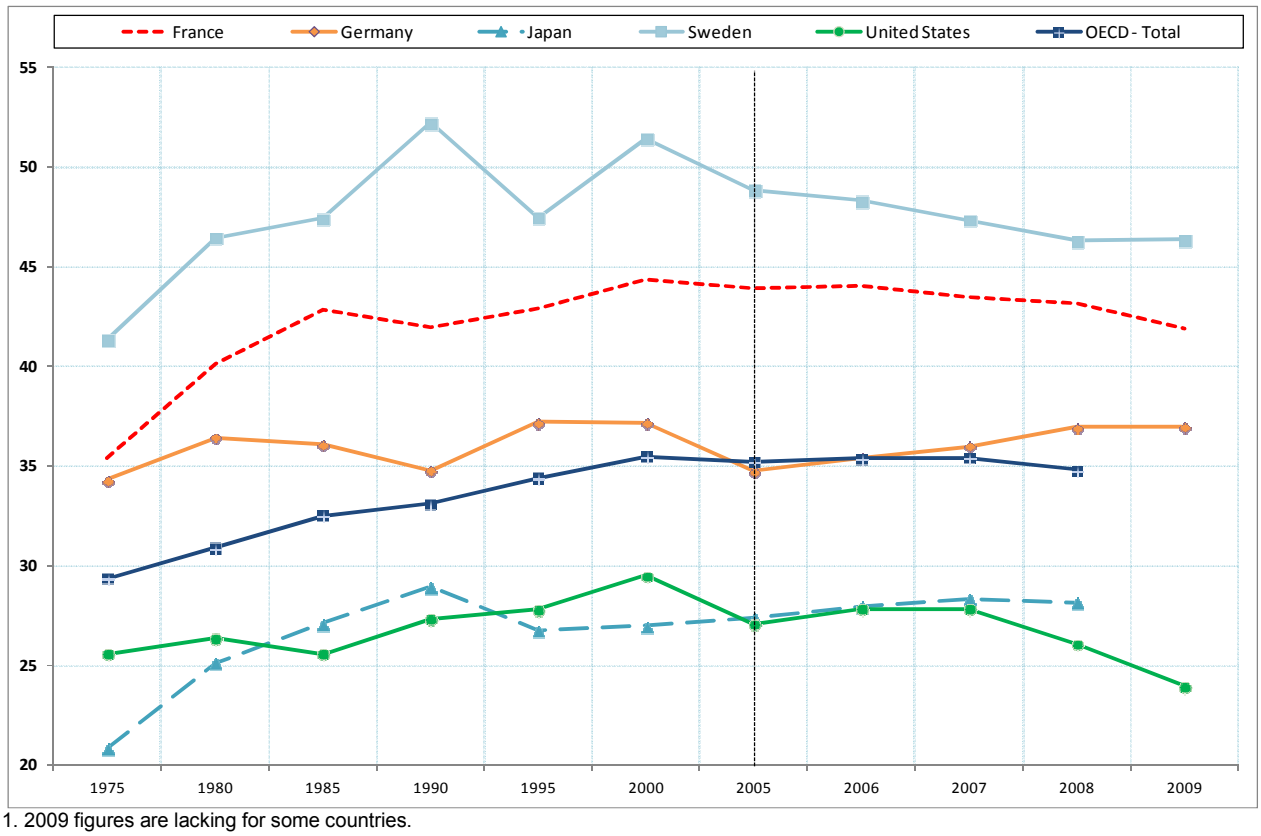
f. Tax Revenues

17. The cuts in tax rates introduced by these reforms have not led to a fall in the overall tax burden (measured by the tax-to-GDP ratio) – see Figure 6 and Table 1. Indeed, the overall trend in tax burdens was upward until 2000. The unweighted OECD average peaked at 35.5% in 2000 and it almost reached this level again in 2006 and 2007, in part reflecting the automatic effects on tax receipts of stronger economic growth. However, it has declined since then to below 34% as tax revenues fell in cash terms in most OECD countries during 2009, driven downward by declining economic activity and tax cuts aimed at cushioning the effects of the recession that followed the financial crisis.

18. Overall tax burdens vary across the OECD from around 18% in Mexico and Chile to 48% in Denmark. Differences reflect a range of factors such as the way that a society decides to provide pensions, education and health care, with some countries financing those through government budgets and others relying more on the private sector. There are also differences in the use of non-tax compulsory payments.

19. One reason why revenues have been maintained, before the impact of the financial crisis, despite cuts in income tax rates has been base-broadening measures such as aligning depreciation for tax purposes more closely with actual depreciation, reductions in 'tax expenditures' (*i.e.* tax reliefs for particular activities or groups of taxpayers that are in effect equivalent to public expenditure and thus have to be financed through higher taxes elsewhere), or closing 'loopholes' exploited for tax planning.

Figure 6. Tax-to-GDP Ratios in the OECD-area,[1] 1975-2009



1. 2009 figures are lacking for some countries.
2. 1975-2005 figures – 5 year intervals
3. 2005-2009 figures – 1 year intervals

Source: OECD (2009) Revenue Statistics 1965-2008 (www.oecd.org/ctp/revenuestats).

20. A number of countries experienced large reductions in tax-to-GDP ratios between 2000 and 2009, as illustrated in Table 1. Substantial reductions of more than 3 percentage points were experienced in 11 OECD countries: Canada (4.5 percentage points), Finland (4.1 percentage points), Greece (4.6 percentage points), Iceland (3.1 percentage points), Ireland (3.5 percentage points), Israel (5.4 percentage points), the Slovak Republic (4.8 percentage points), Spain (3.5 percentage points), Sweden (5.0 percentage points), the United Kingdom (3.3 percentage points) and the United States (5.5 percentage points).

21. Only five countries experienced an increase in the tax-to-GDP ratio between 2000 and 2009. In two countries the increase was greater than one percentage point: Italy (+1.3 percentage points) and Korea (+3.0 percentage points).

Table 1. Total tax revenue as a percentage of GDP

	1965	1975	1985	1995	2000	2007	2008	2009 provisional
Australia	20.5	25.2	27.6	28.0	30.3	29.5	27.1	n.a.
Austria [1]	33.9	36.6	40.8	41.4	43.2	42.1	42.7	42.8
Belgium	31.1	39.5	44.3	43.5	44.7	43.8	44.2	43.2
Canada	25.7	32.0	32.5	35.6	35.6	33.0	32.3	31.1
Chile				19.0	19.4	24.0	22.5	18.2
Czech Republic				37.6	35.3	37.3	36.0	34.8
Denmark [1]	30.0	38.4	46.1	48.8	49.4	49.0	48.2	48.2
Estonia				36.3	31.0	31.9	32.1	35.8
Finland	30.4	36.6	39.8	45.7	47.2	43.0	43.1	43.1
France [1]	34.1	35.4	42.8	42.9	44.4	43.5	43.2	41.9
Germany [2]	31.6	34.3	36.1	37.2	37.2	36.0	37.0	37.0
Greece	17.8	19.4	25.5	28.9	34.0	32.3	32.6	29.4
Hungary				41.3	38.5	39.7	40.2	39.1
Iceland	26.2	30.0	28.2	31.2	37.2	40.6	36.8	34.1
Ireland	24.9	28.8	34.7	32.5	31.3	30.9	28.8	27.8
Israel [3]				37.0	36.8	36.3	33.8	31.4
Italy	25.5	25.4	33.6	40.1	42.2	43.4	43.3	43.5
Japan	18.2	20.8	27.1	26.8	27.0	28.3	28.1	n.a.
Korea		14.9	16.1	20.0	22.6	26.5	26.5	25.6
Luxembourg	27.7	32.8	39.4	37.1	39.1	35.7	35.5	37.5
Mexico			15.5	15.2	16.9	17.9	21.0	17.5 [5]
Netherlands	32.8	40.7	42.4	41.5	39.6	38.7	39.1	n.a.
New Zealand	24.1	28.7	31.3	36.2	33.2	35.1	33.7	31.0
Norway	29.6	39.2	42.6	40.9	42.6	43.8	42.6	41.0
Poland				36.2	32.8	34.8	34.3	n.a.
Portugal	15.9	19.1	24.5	30.9	32.8	35.2	35.2	n.a.
Slovak Republic					34.1	29.4	29.3	29.3
Slovenia				39.2	37.5	37.8	37.2	37.9
Spain [1]	14.7	18.4	27.6	32.1	34.2	37.3	33.3	30.7
Sweden	33.4	41.3	47.4	47.5	51.4	47.4	46.3	46.4
Switzerland	17.5	23.9	25.5	27.7	30.0	28.9	29.1	30.3
Turkey	10.6	11.9	11.5	16.8	24.2	24.1	24.2	24.6
United Kingdom	30.4	34.9	37.0	34.0	36.4	36.2	35.7	34.3
United States	24.7	25.6	25.6	27.8	29.5	27.9	26.1	24.0
Unweighted average:								
OECD Total [6]	25.5	29.4	32.5	34.4	35.5	35.4	34.8	n.a.

n.a indicates not available.

1. The total tax revenues have been reduced by the amount of any capital transfer that represents uncollected taxes.

2. Unified Germany beginning in 1991.

3. The data for Israel are supplied by and under the responsability of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

4. Secretariat estimate, including expected revenues in the 4100, 4300, 5120 and 5200 categories.

5. Secretariat estimate, including expected revenues collected by state and local governments.

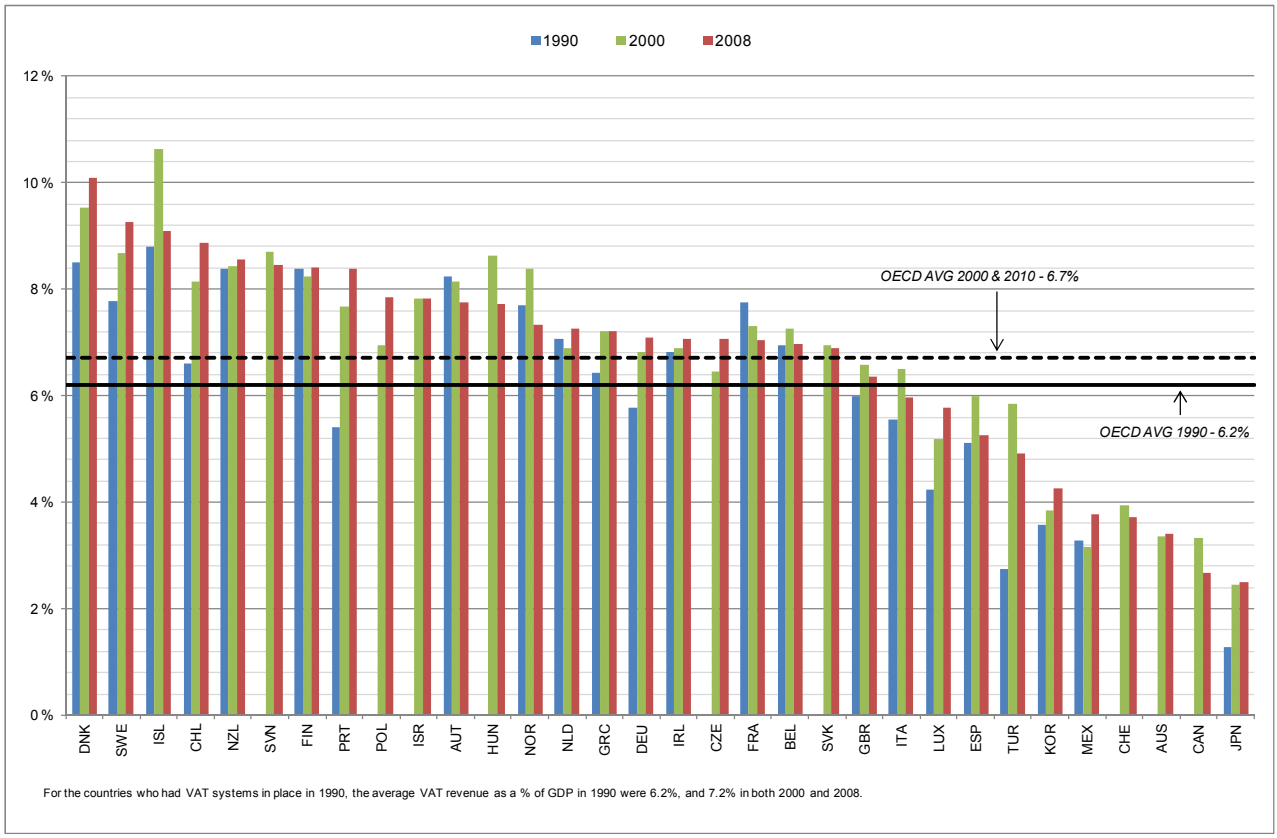
6. Excludes Estonia because the country was not an OECD member when this annual dataset was compiled.

g. Revenues from VAT/ GST

22. In many countries there has been a switch to raising more receipts from broad-based consumption taxes - all OECD countries apart from the United States now have a Value Added Tax or General Sales Tax. Since 1990, the share of VAT as a percentage of GDP has risen from 5.3% to 6.5%.

23. In 1977, fourteen of the current OECD member countries had a VAT. Greece, Iceland, Spain, Portugal, Turkey, Mexico, Japan and New Zealand introduced VAT in the 1980s while Switzerland followed shortly afterwards. The Eastern European economies introduced VAT in the late 1980s and early 1990s, some of them adopting the EU model with their future membership of the Union in mind. The relative importance of VAT as a revenue raiser, however, continues to differ widely VAT revenue as percentage of GDP is less than 3% in Canada and Japan to more than 10% in Denmark. Today the US is the only OECD country without a VAT.

Figure 7. VAT Revenues as a Percentage of GDP

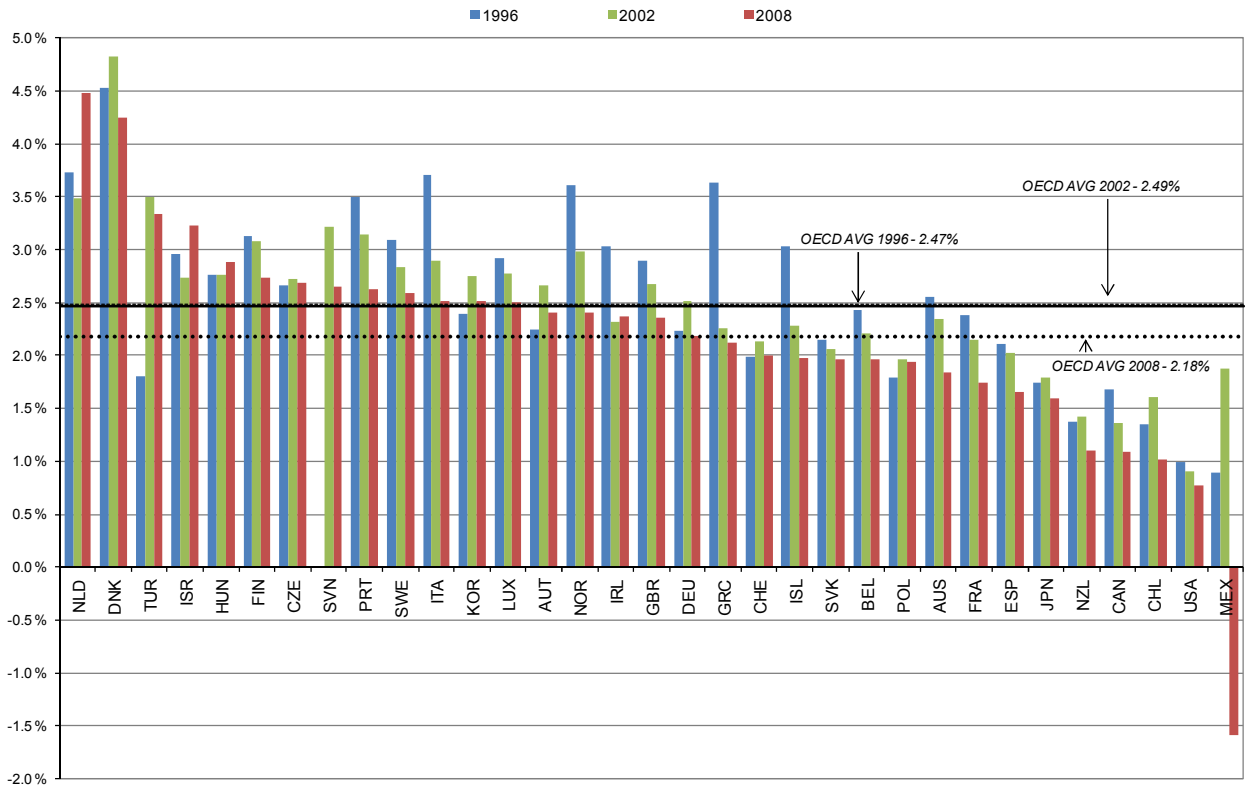


Notes: There are no data for the United States since this country does not have a VAT
Source: OECD Consumption Tax Trends 2010

h. Environmental Taxation

24. Between 1996 and 2008, the revenues raised from environmentally related taxes in OECD economies were between 2 and 3 per cent of GDP on average. This compares with total tax revenues that averaged between 34 and 36 per cent over the same period. In practice most of these revenues are raised from road fuels. Revenues fell slightly in relation to GDP over the past decade reflecting the impact of higher (pre-tax) oil prices on demand, as well as under-indexation of tax rates in many countries.

Figure 8. Environmental Taxes as a Percentage of GDP



h. Summary tables

25. Table 2 provides further detail on the breakdown of tax receipts between types of tax and between tax rates in OECD countries, bringing together the latest cross-section data in one place. Table 3 provides some preliminary information for major non-OECD economies on the same basis used in tables 1 and 2 for OECD countries. Table 3a sets out trends in the ratio of tax receipts to GDP (as in table 1) and table 3b provides further information on the composition of the tax revenues and statutory tax rates in these major non-OECD economies (as in table 2).

Table 2. Tax Systems: A Comparative Overview

	TAX / GDP RATIO [1a]		% OF TOTAL TAX REVENUES [1a][1b]				Top Statutory Personal Income Tax Rate [2]	Top Corporate Income Tax Rate [3] on 1 January	Tax Wedge [4]	Top rate on dividends [5] on 1 January	Standard VAT Rate
			Personal Income Tax	Corporate Tax	Social Security Contrib.	Consumption Taxes					
	2009 (Provisional)	2008	2008	2008	2008	2008	2010	2011	2010	2011	2010
Australia	n.a.	27.1	38	22	0	27	46.5	30.0	26.2	46.5	10.0
Austria	42.8	42.7	23	6	33	27	50.0	25.0	47.9	43.8	20.0
Belgium	43.2	44.2	31	8	32	25	53.7	34.0	55.4	43.9	21.0
Canada	31.1	32.3	37	10	15	24	46.4	27.6	30.3	48.0	5.0
Chile	18.2 [8]	22.5	n.a.	n.a.	6	51	40.0	17.0	7.0	40.0	19.0
Czech Republic	34.8	36.0	10	12	45	32	15.0	19.0	42.2	31.2	20.0
Denmark	48.2	48.2	52	7	2	32	44.3	25.0	38.3	56.5	25.0
Estonia	35.8	32.1	20	5	37	37	21.0	21.0	40.0	21.0	20.0
Finland	43.1	43.1	31	8	28	30	48.9	26.0	42.0	40.5	22.0
France	41.9	43.2	17	7	37	24	45.8	34.4	49.3	57.8	19.6
Germany	37.0	37.0	26	5	38	29	47.5	30.2	49.1	48.6	19.0
Greece	29.4	32.6	15	8	38	35	45.0	20.0	36.6	32.5	19.0
Hungary	39.1	40.2	19	7	32	37	32.0	19.0	46.4	32.0	25.0
Iceland	34.1	36.8	36	5	8	37	46.1	20.0	31.3	36.0	25.5
Ireland	27.8	28.8	28	10	18	37	47.0	12.5	29.3	48.4	21.0
Israel [6]	31.4	33.8	22	10	17	37	45.0	24.0	20.2	43.0	16.0
Italy	43.5	43.3	27	9	31	25	44.9	27.5	46.9	36.6	20.0
Japan	n.a.	28.1	20	14	39	18	50.0	39.5	30.5	45.6	5.0
Korea	25.6	26.5	15	16	22	32	38.5	24.2	19.8	47.8	10.0
Luxembourg	37.5	35.5	22	14	28	28	38.9	28.8	34.0	42.5	15.0
Mexico	17.5 [9]	21.0	n.a.	n.a.	13	59	30.0	30.0	15.5	30.0	16.0
Netherlands	n.a.	39.1	19	8	37	30	52.0	25.5	38.4	43.8	19.0
New Zealand	31.0	33.7	41	13	0	34	35.5	28.0	16.9	33.0	12.5
Norway	41.0	42.6	21	29	21	26	40.0	28.0	36.8	48.2	25.0
Poland	n.a.	34.3	16	8	33	38	32.0	19.0	34.3	34.4	22.0
Portugal	n.a.	35.2	16	10	33	37	45.9	26.5	37.7	42.3	20.0
Slovak Republic	29.3	29.3	10	11	41	36	19.0	19.0	37.8	19.0	19.0
Slovenia	37.9	37.2	16	7	38	36	41.0	20.0	42.4	36.0	20.0
Spain	30.7	33.3	22	8	36	25	43.0	30.0	39.6	43.3	16.0
Sweden	46.4	46.3	30	6	25	28	56.0	26.3	42.7	48.4	25.0
Switzerland	30.3	29.1	31	11	23	22	41.7	21.2	20.8	36.9	7.6
Turkey	24.6	24.2	17	7	25	45	35.7	20.0	37.4	34.0	18.0
United Kingdom	34.3	35.7	30	10	19	29	50.0	26.0 [10]	32.7	52.7	17.5 [11]
United States	24.0	26.1	38	7	25	18	41.9	39.2	29.7	50.0	-
OECD average [7]	*n.a.*	*34.8*	*25*	*10*	*25*	*32*	*41.5*	*25.4*	*34.9*	*41.0*	*18.0* [12]
G7 average [7]	*n.a.*	*35.1*	*28*	*9*	*29*	*24*	*46.6*	*32.1*	*38.3*	*48.5*	*14.4*

NOTES

n.a.	Not available
(1a)	In the following countries: *Austria, Denmark, France, Greece* and *Spain* the total tax revenues have been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue
Tax as % of total tax revenues [1b]	Tax categories defined in OECD Revenue Statistics Interpretative Guide: Personal income taxes = 1100, corporate taxes = 1200, Social security contributions = 2000, consumption taxes = 5000
Top statutory personal income tax rate [2]	These are the top statutory personal income tax rates (combined central and sub-central (measured on either an average or representative basis depending on the country)) (Source = OECD Tax Database). Where changes in tax rates have occured during the tax year, the figure represents an annual average.
Top corporate tax rate [3]	This column shows the basic combined central and sub-central (statutory) corporate income tax rate given by the adjusted central government rate plus the sub-central rate (Source = OECD Tax Database).
Tax wedge [4]	Measure of the difference between labour costs to the employer and the corresponding net take-home pay of the employee, which is calculated by expressing the sum of personal income tax, employee plus employer social security contributions together with any payroll tax, minus family benefits (child benefits) as a percentage of labour costs. Total labour costs are determined as gross wage earnings of employees plus employer social security contributions and payroll taxes (if any). The tax wedge is shown for single individuals at 100% of average earnings, with no children (Source: Taxing Wages (OECD), 2009)
Top tax rate on dividends [5]	Reports effective statutory tax rates on distributions of domestic source income to a resident individual shareholder, taking account of corporate income tax, personal income tax and any type of integration or relief to reduce the effects of double taxation of dividend income (Source: OECD Tax Database).
(6)	The data for Israel are supplied by and under the responsability of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
(7)	Unweighted averages. Excludes Estonia because the country was not an OECD member when this annual dataset was compiled.
(8)	Secretariat estimate, including expected revenues in the 4100, 4300, 5120 and 5200 categories.
(9)	Secretariat estimate, including expected revenues collected by state and local governments.
(10)	26% over years 2011-12, steadily reducing to 23% by 2014-15.
(11)	20% as of 2011
(12)	Excludes the United States from the calculation

Table 3a. Total tax revenue as a percentage of GDP for major Non-OECD economies

	1995	2000	2007	2008	2009 provisional
Argentina	20	21.5	29.1	30.7	31.4
Brazil	26.8	30.0	33.4	33.6	32.6
China[1]	9.8	14.5	20.7	22.0	n.a.
India	14.6	14.5	18.9	17.3	15.7
Indonesia[2]	17.0	11.9(5)	12.8(6)	n.a	n.a.
Russia[3]	n.a	n.a.	36.5	37.0	n.a.
South Africa	25.0	26.5	30.8	29.8	27.6
Unweighted average:					
OECD Total[4]	34.4	35.5	35.4	34.8	n.a.

n.a indicates not available.
(1). Figures for mainland China only excluding Hong Kong and Macao
(2). Figures for Central Government only.
(3). Revenue and GDP figures obtained from Russian National Accounts
(4). Excludes Estonia because the country w as not an OECD member w hen this annual dataset w as compiled.
(5). 2001
(6). 2004

Table 3b. Tax systems of major Non-OECD economies: A comparative overview.

	TAX / GDP RATIO		% OF TOTAL TAX REVENUES(1)				Top Statutory Personal Income Tax Rate(2)	Top Corporate Income Tax Rate(3) on 1 January	Standard VAT Rate
			Personal Income Tax	Corporate Tax	Social Security Contrib.	Consumption Taxes			
	2009 (Provisional)	2008	2008	2008	2008	2008	2010	2011	2010
Argentina	31.4	30.7	6	11	15	54	35.0		21.0
Brazil	32.6	33.6	n.a.	n.a.	24	46	27.5	34.0	20(7)
China (4)	n.a.	22.0	5	16	15	51	45.0	25.0	17(8)
India	15.7	17.3	12	21	0	58	30.0	30.0	10(9)
Russia (5)	n.a.	37.0	10	18	15	51	13.0	20(10)	18.0
S.Africa	27.6	29.8	29	28	2	34	40(11)	28(11)	14.0
OECD average (6)	*n.a.*	*34.8*	*25*	*10*	*25*	*32*	*41.7*	*25.4*	*18.0*

NOTES

n.a.	Not available
% of total tax revenues (1)	Tax categories defined in OECD Revenue Statistics Interpretative Guide: Personal income taxes = 1100, corporate taxes = 1200, Social security contributions = 2000, consumption taxes = 5000
Top statutory personal income tax rate (2)	These are the top statutory personal income tax rates (combined central and sub-central (measured on either an average or representative basis depending on the country)) (Source = OECD Tax Database). Where changes in tax rates have occured during the tax year, the figure represents an annual average.
Top corporate tax rate(3)	This column shows the basic combined central and sub-central (statutory) corporate income tax rate given by the adjusted central government rate plus the sub-central rate (Source = OECD Tax Database).
(4)	Figures for mainland China only, excluding Hong Kong and Macao.
(5)	Revenue and GDP figures obtained from Russian National Accounts.
(6)	Unweighted averages. Excludes Estonia because the country was not an OECD member when this annual dataset was compiled.
(7)	VAT on industrial products (IPI) is levied at federal level on goods at the manufacture/import level. Rates depend on the type of product and
(8)	The central government levies VAT at a rate of 17% on supplies of goods and services directly related with production and delivery of goods. Other services not subject to VAT are taxed under Business tax at a provincial level.
(9)	The central government levies a Central VAT (CENVAT) on the manufacture/production of goods at a standard rate of 10% and a Service tax
(10)	2010 data for corporate tax rate.
(11)	2008 data for top personal income tax and corporate tax rates

3. Drivers of Reform

26. What has driven these tax reform trends? A number of common factors can be identified.

27. There has, for instance, been a widely perceived need to provide a fiscal environment that encourages investment, risk-taking and entrepreneurship; and provides improved work incentives. In many cases, the response to this driver has reflected a common intellectual framework that points to a combination of broad tax bases and low rates being the best way to collect revenues while ensuring that taxes distort business and household decisions as little as possible. The perception that tax reforms on these lines may have contributed to the improvement in productivity growth compared with the 1970s in countries like the US and UK may also have been influential in generating support for such an approach.

28. Another key driver has been globalization. The liberalization and integration of markets have made capital more internationally mobile and significantly increased cross-border ownership of business, through both direct and portfolio investment. These pressures have encouraged a reduction in CIT rates, particularly in small open economies.

29. For many OECD countries the effects of globalization may have been enhanced by perceptions of 'tax competition'. This has encouraged countries to make their business tax regimes more attractive not only in absolute terms, but also relative to other countries, particularly through reductions in statutory corporation tax rates. While globally investment is likely to have been higher, there is a risk that investment may have been diverted by tax considerations away from the location where (pre-tax) returns would have been greatest. Furthermore, favourable regimes have been developed by some tax jurisdictions to attract profits and tax receipts (i.e. tax base shifting) away from the countries where investment actually takes place. These competitive pressures raise questions about whether more international co-operation on tax policy might be desirable to avoid tax competition having pernicious effects.

30. Governments have to maintain taxpayers' confidence in the integrity of their tax systems. Fairness, simplicity and transparency have become the bywords of reformers. Fairness requires that taxpayers in similar circumstances pay similar amounts of tax and that the tax burden is appropriately shared and social cohesion is encouraged. Simplicity requires that paying one's taxes is as straightforward as possible; and that the administrative and compliance costs of collecting taxes are kept at a minimum. Transparency requires that the operation of the tax system is well understood, helping provide the certainty which investment and other economic decisions require. All have played a part in shaping tax reforms.

31. 'Fairness' arguments have tended to reinforce economic efficiency arguments for broadening tax bases by phasing out tax breaks that favour particular groups. On the other hand the taxes that are most geared to 'ability to pay' are those on income (and capital) and these are the taxes that tend to most harm incentives. Governments have had to consider such trade-offs in considering how far to cut statutory tax rates on personal and corporate income. It is difficult to generalize about the effects of tax cuts on the distribution of income for a number of reasons: tax cuts may have encouraged more income to be declared (and therefore measured), some tax cuts such as introducing or improving the generosity of earned income tax credits favour poorer households while cuts in top PIT rates favour better off households, different indicators may tell slightly different (e.g. the average tax rate paid by top income recipients may have fallen but they may account for a higher share of tax revenues), and so on. Also the increased emphasis on better tax compliance may in many countries have improved the fairness of the tax system.

4. Some Concluding Observations

32. In recent years, tax policies have been driven primarily by macroeconomic considerations – notably to attenuate the impact of the sharp economic downturn precipitated by the financial crisis. Some

countries, though, are now starting to take discretionary action to reduce their budget deficits. Thus a number of countries (*e.g.* Greece, Ireland, Portugal, Spain and the UK) have increased tax rates. Macroeconomic considerations will inevitably continue to play a major part in shaping tax policy in the next few years, as governments seek to restore sound public finances while enabling economic recovery to strengthen.

33. Nevertheless, the importance of the structural aspects of tax policy has also (if anything) increased, given the contribution that raising the underlying growth rate of output could make to restoring sound public finances. As the OECD Tax Policy Brief on 'Tax Policy Reform and Fiscal Consolidation' noted:

- Innovation, investment and entrepreneurship remain critical for the growth of potential / trend output; and thus for tax receipts and the affordable amount of public expenditure in the medium term. Tax policies that minimize the distortion of business and consumer decisions (including firms' decisions whether to invest at home or abroad), while encouraging innovation remain essential.

- In considering what taxes to use to raise additional tax revenues as part of a fiscal consolidation, OECD analysis of 'Tax and Growth' suggests that increasing broad based taxes on consumption and/or recurrent taxes on residential property would be a more growth-oriented strategy than increasing taxes on income (especially corporate income tax).

- Scaling back ineffective and distortive tax expenditures (thus broadening the tax base) can avoid the need to raise tax rates (where achievable reductions in the share of public expenditure in GDP are inadequate to restore sound public finances and tax revenues have to be increased).

- Severe recessions can have long-lasting effects on trend output. Hysteresis effects in labour markets make it difficult to reduce long-term unemployment even in a recovery. Tax policies that support 'making work pay' will continue to be important.

- The tax biases favouring leverage and capital gains over income – in an environment of easy macroeconomic policies and lax financial regulation – played some part in encouraging excessive risk taking in some sectors prior to the crisis. Reform could help support future financial stability and avoid a recurrence of the sort of costs (such as lost output due to the recession) currently being experienced.

- Market-based instruments, including taxation (and tradable emissions permits) provide a means of tackling environmental challenges such as the emission of greenhouse gases contributing to climate change at least resource cost; and with least damage to prospects for sustainable economic growth.

34. The international dimension to tax policy will remain critical. This can range from learning from other countries' experience (*e.g.* under the auspices of the OECD) to addressing the increased need for co-operation between tax authorities in the design and implementation of tax policies to meet the challenges posed by globalization, tax competition and climate change. As in the area of trade, an internationally agreed set of "rules of the game" could help countries simultaneously to gain the full benefits of globalization, protect their tax bases and address environmental challenges.

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