Context: Emerging Tax Challenges

**Pre-COVID**
- Revenue mobilization needs, especially in LICs and EMEs (SDGs)
- High & rising inequality
- Ongoing structural transformations (digital, climate)

**COVID-19**
- Elevated debt levels, especially in AEs
- Reinforced inequality/rising support for redistribution
- Accelerate/redirect transformations

**Post-COVID**
- (Temporary) tax increases, after initial recovery
- Inclusive tax reform
- Tax reform to support strong & green recovery
What “Inclusive Growth” means in Taxation?

**Inclusive**
- Progressive taxes – a rising average tax with income or wealth
- Other dimensions:
  - Gender equity
  - Generational equity
  - Equality of opportunity
- Note that “tax incidence” not always straightforward

**Growth**
- Minimize tax distortions in e.g.:
  - Employment
  - Investment and saving
  - Innovation/productivity
- Corrective role of tax
  - Environment, health

How Taxation Matters for Inclusive Growth

- **Tax level**
  - Corresponding level of spending
  - Tipping point suggest > minimum level \( \approx 15\% \)
- **Tax mix**
  - Growth & equity rankings suggest ultimately a trade-off
- **Tax design**
  - Focus of today’s presentation
- **Tax implementation**
  - Often the binding constraint for level, mix & design

Source: Gaspar et al 2016
Today – Focus on Tax Design

- **Personal Income Tax**
  - Labor & self-employment income
  - Capital income

- **Wealth Taxes**
  - Net wealth
  - Wealth transfers (estate/inheritance)
  - Property & property transfers

- **Corporate Income Tax**

- **Consumption Taxes**
  - VAT/GST
  - Excises

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**Personal Income Tax - Labor**

- **Base**
  - Reasonable threshold level
  - Other credits, deductions – with caution

- **Tax rates**
  - Progressive rate schedule
  - Higher top rates?

- **Tax unit: individualization**
  - ↑ female labor force participation: efficiency gains + gender equity

- **Self-employed entrepreneurs**
  - Simplified presumptive regime

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Average personal net tax rates when entering employment

Sources: OECD(2016), IMF staff calculations
**Personal Income Tax - Capital**

- **Controversy**
  - Efficiency: zero-tax result has waning support
  - Equity: capital income highly concentrated

- **Tax base**
  - Classic system with reduced PIT gained popularity due to cross-border issues

- **Tax rate**
  - Dual income tax gained popularity over global income tax
  - Uniform rate on interest, dividends and (realized) capital gains

- **Enforcement mechanisms**
  - (Final) withholding taxes where feasible
  - Exploit third-party information – including international exchange of information

**Wealth Taxation**

- **Net Wealth Tax**
  - Relation to tax on capital returns?
  - Complement (NOR/ESP)
  - Substitute (CHE)
  - Repeal in OECD: valuation issues, exemptions, avoidance/evasion *at the top*
  - Renewed appetite due to wealth inequality

- **(Immobile) Property Tax**
  - Efficient, equitable, effective. Stable revenue source for local governments.
  - Raise rates, update market values.
  - EMDEs: improve cadaster and admin. capacity

- **Inheritance/gift tax**
  - Address inequality of opportunity
  - But enforcement constraints
Corporate Income Tax

• Progressivity
  - Incidence unclear but if on rents → capital owners

• Redesigning the CIT?
  - Rent tax has attractive neutrality properties
  - One example: allowance for corporate equity
  - Special appeal in the context of COVID-19

• Tax Incentives
  - Investment incentives generally ill-designed
  - Favor cost-based over profit-based incentives

• International Tax
  - Important for Asian countries – tailor to needs
  - Probably need to temper expectations

Consumption Taxes: VAT/GST

Regressivity of the VAT/GST?
• Not regressive when assessed against expenditures…
• …but still widely perceived as being problematic

Design issues
• Policy action focused on exemptions/reduced rates
• Blunt instruments to enhance progressivity
• Significant fiscal cost: >2%GDP in tax expenditures
• Complicate enforcement (compliance gap)
• Not always effective either: incidence issue often ignored

Key takeaway
• Need to assess VAT in conjunction with spending
• Adequate registration threshold
Consumption Taxes: Excises

Health-related taxation
• Tobacco, alcohol and unhealthy foods
• Best designed as specific taxes on volume

Corrective taxes
• Carbon tax – significant potential
• Local externalities: pollution, congestion, waste

Emerging excise taxes
• Telecom – if spectrum not auctioned (?)
• Digital Service Taxes – as a tax on user data (?)

Excise Tax Revenues in % GDP

Source: FAD WoRLD Database

Thank you