Trade Union
Advisory Committee
to the OECD
*Commission
syndicale consultative
auprès de l'OCDE*

Comments on the OECD tax and fiscal policy response to Covid-19

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Executive summary

- The OECD center for tax policy has released mid-April a report on tax and fiscal policy in response to the Coronavirus crisis. This report emphasises the need for an expansionary fiscal policy coordinated with broader policy objectives, such as decarbonisation and the reduction of inequalities.

- The report seeks to prompt a debate on greater progressivity across the tax system to help governments restore public finances. It notes that the exceptional nature of the crisis is prompting reflection on exceptional measures, involving new sources of revenue or modifying the tax mix in existing systems.

- The OECD reasserts its past position on increasing the use of property tax, improving the performance of personal income tax. Interestingly however, it stays away from previous OECD calls to expand VAT and eliminate VAT exemptions (i.e. lower VAT rates for essential products and services)

- The report warns against reductions of corporate income tax rates. The OECD could have been bolder and call for their increase, as they have been steadily declining over the past decades whilst corporate profits are on the increase.

- The report is also instructive on the state of play of the discussions on taxation and digital economy. Pre-Covid 19, the negotiations on "pillar 1" (aiming at introducing a new tax targeting highly profitable consumer-facing businesses) were reaching a compromise, while "Pillar 2" (consisting in a de facto minimum tax rate globally) was stalled. The lines are now moving and pillar 2 is being seriously considered by governments. Such reform could indeed increase corporate tax revenues more significantly than pillar 1.

- The trade union movement is a strong supporter of an effective minimum tax rate. Further discussions on a fair and effective design of such reform must now take place.

- Concerning "pillar 1", the OECD Inclusive Framework is moving towards a supplementary tax that would apply to automated businesses only, mostly on-line platforms, with a high profitability rate. This would fall short of TUAC demands for an in-depth rethink of international taxation rules.

Overview of the OECD paper

The OECD center for tax policy has released a report on [tax and fiscal policy in response to the Coronavirus crisis](). This report was presented to the G20 Finance Ministers and Central Bank Governors on 15 April.

The report consists first of a mapping of the emergency tax and fiscal policy measures introduced by countries to address the health and economic effects of the crisis, and second of a discussion on tax and fiscal policy challenges. An immediate policy challenge is to maintain the funding and functioning of health care systems. A second policy challenge, also in the short-term, is to limit the economic effects of containment measures by injecting liquidities for workers and businesses. Economic recovery is a third policy challenge that will arise in the middle-term perspective, once the health crisis is behind us. The report there discusses at length the need for expansionary fiscal policy so as to stimulate broader household consumption and business investment. Finally, the report raises in its last sections a number of considerations for longer-term perspective, in particular tax policies that might help countries to be more resilient to face future crisis.

The mid-term tax policy mix

Drawing lessons from the past, including the 2008-2009 crisis, the latter part of the paper on the mid-term perspectives underlines that fiscal and tax policies need to be coordinated with broader policy objectives, such as trade flows but also decarbonisation and the reduction of inequalities. In particular, the section on longer-term tax policies notes that the "*exceptional nature of the crisis is prompting reflection on whether some exceptional measures could be contemplated. (…) This involves suggestions for new sources of revenue or modifying the tax mix in existing systems*". Overall, the report recommends specific support for developing countries, which have less fiscal space to face the crisis.

In several places, the report highlights that the time is not ripe for public budgets considerations as the path to recovery may be long. Without rushing into tax policy recommendations, the report is nonetheless giving some interesting pointers for future reflection. Very usefully, the report notes that the unprecedented nature of the crisis should prompt debate on how wide-ranging tax reforms, including solidarity levies, carbon taxes and supporting greater progressivity across the tax system, can help governments better restore public finances.

The report reasserts past OECD position on increasing the use of property tax, improving the performance of personal income tax. Interestingly however, it stays away from previous OECD calls to expand VAT and eliminate VAT exemptions (ie Lower VAT rates for essential products and services). Regarding corporate income tax, the report usefully states that tax cuts and reduction of corporate income tax are less effective to support stimulus that supports swift recovery. Here, the report could have been bolder and call for an increase of corporate income tax rates, which have been steadily declining over the past decades whilst corporate profits are on the increase.

It is nevertheless encouraging that the paper highlight the tax potential to reduce wealth disparities. There is indeed a timid but noteworthy reference to some academics' proposal for a progressive wealth tax. This echoes past calls from the International Monetary Fund to consider new wealth taxes.

Carbon pricing is raised in the report. Such taxes must stay progressive, and not penalise the most vulnerable households. Another important Pigouvian tax that the report fails to raise is the "financial transaction tax", which would play an influential role in encouraging long-term investment and go some way towards preventing speculative bubbles.

Finally, the last page of the OECD report states that considering the dramatic situation of developing economies, there may be a need to re-examine how international tax rules meet their needs. "*The imbalance between residence and source taxation, ongoing challenges with transfer pricing, the need for greater simplification and administrability of the new rules are persistent challenges identified by low income and low capacity countries, and require special focus*".

Changing priorities on taxation and digitalisation?

Beside the broader policy landscape on taxation, the OECD report happens to be fairly instructive on the state of play of the discussions on taxation and digital economy.

Pre-Covid 19, the negotiations on pillar 1 – aiming at introducing a new tax targeting highly profitable consumer-facing businesses – were moving forward towards a compromise. Pillar 2 – consisting in a de facto minimum tax rate globally – were stalled. In February 2020, TUAC released an assessment of the state of play, expressing disappointment at the first results.

According to the Covid report, the lines are now moving and pillar 2 is being seriously considered by governments. This development can probably be explained by first economic estimates showing that immediate revenue gains from pillar 2 would be significant, both for developed and many developing countries. In contrast, pillar 1 would have led more to a reallocation of existing taxing rights, rather than an actual increase in tax revenues. The trade union movement is a strong supporter of an effective minimum tax rate because such reform could limit tax competition between countries and lead to an increase of tax revenues globally, not just a chosen few. Further discussions on the design of such reform must now take place. To be effective, the rate must be as close as possible to the average global rate (20-25%). It is also important to ensure that the design of pillar 2 is fair towards developing economies, which are now more dependant than ever on corporate income tax revenues. In particular, the priority order must be such that they can have a fair claim on MNEs undertaxed profits. From a trade union point of view, there is a clear interest in ensuring that the applicable tax rules are as close as possible to where substantial economic activities are taking place.

The scope of pillar 1 seems to be shrinking and the OECD is moving towards a supplementary tax that would apply to automated businesses only, mostly on-line platforms. The argument developed by the report is that such companies derive extraordinary profits compared to more traditional companies, especially during confinement. The new tax would be allocated between countries in proportion to the volume of sales and irrespective of whether or not the company has a physical presence. Pillar 1 would continue to target high levels of profitability. The so-called Amount A, as proposed before Covid, consisted in a series of thresholds in order to exclude companies with the lowest profitability levels. If that is the way forward, then the required levels of profitability should be set at realistic level so as to catch major players. A "digital economy" tax which would fail to catch major online players would be difficult to justify. In any case, the proposed pillar 1 falls short of trade union demands. It would introduce a very narrow form of unitary taxation and the complex scope may generate further incentives for accounting manipulation.