TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

Tax policy responses to the Covid-19 crisis

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Across-country comparison

- **Broad alignment of types of measures across countries, but countries differ in “depth” of measures taken**:
  - More restrictive lock-down = more measures taken
  - Less restrictive measures = less but more “generous” measures (tbc!)
- Although **timing of implementation varies** across countries, most countries have implemented **several reforms** (and continue doing so).
- **Country variation follows the automatic stabilisers that are in place:**
  - Well-developed unemployment benefit system requires less need for temporary/ new cash transfers
- **Providing cash to households & strengthen business cash flow: limited role for tax policy measures during first stage of crisis** – very limited role of measures to support investment or consumption
- **Countries have learned from the 2008/9 crisis**. Examples:
  - Partial unemployment system
  - Measures taken to allow households to defer mortgage interest payments (e.g. Spain)

Support to keep businesses afloat

- **Main priority for countries has been to support business cash flow**
  - **Non-tax measures**:
    - Increased lending to firms, where government takes on some risk (e.g. loan guarantees)
    - Wage subsidies paid by government to the employer (under the condition that the employer does not fire its employees)
    - Very few countries have taken measures to help businesses to defer non-tax payments or have paid non-wage subsidies to take over burden of non-wage costs.
  - Wide range **of tax administration measures**
  - **Few tax policy measures**
- **Support measures targeted at specific business sectors (tourism, transport and airlines, restaurants and bars)**

Specific measures to boost business cash flow

Tax administration measures

- Tax filing extension: 30% of OECD and G20 countries
- Deferral of tax and/or social security contributions (SSCs) payments and/or reduction or waiver of advance payments: 80% of OECD and G20 countries
- Enhanced tax refunds (VAT and/ or previously withheld taxes that are returned to the business): 30% of OECD and G20 countries

Tax policy measures

- Reduction in employer SSCs – in particular where the workers face reduced hours, but are retained
- Enhanced tax loss provisions (carry-forward or carry-backward) (e.g. in CZE, NLD, NOR, POL, SVK, USA)

Cash-flow support for households

- **Cash-transfers**
  - **Partial unemployment scheme for workers that continue to be employed,** e.g. wage subsidies, but paid to the employee rather than the employer
  - **Wage subsidies for individuals that have to stay at home to take care of children**
  - **Increased eligibility of cash transfers,** e.g. extending the availability of unemployment benefits to the self-employed
  - **Increased access to benefits,** e.g. no longer waiting period before sickness/ unemployment benefits can be received
  - **Increased amounts of benefits**
- **Tax administration measures:** deferral of tax liabilities, extend filing deadlines, etc.
- **Hardly any tax policy measure taken so far**
- **Deferral of household fixed costs** (e.g. CHL, ESP, FIN, IRL, GBR, GRC)

Tax measures to support the healthcare sector

- **Personal Income Tax and/or Social Security Contributions reductions for health sector workers,** e.g. bonuses, overtime, etc.
- **Measures to increase number of health sector workers,** e.g. entice retired workers back into the sector without affecting their pension rights or benefit entitlements
- **Business tax rate cuts or accelerated tax depreciation targeted at production of health equipment, goods and services**
- **VAT exemptions/ rate reductions for medicines, equipment and services rendered in the fight against virus**, about 25% of OECD and G20 countries
- **Expediting customs clearance of goods in support of the fight against Covid-19**
- **Tax support for medical and charitable donations**
- **Encouraging payments by credit card**

Measures announced in developing countries

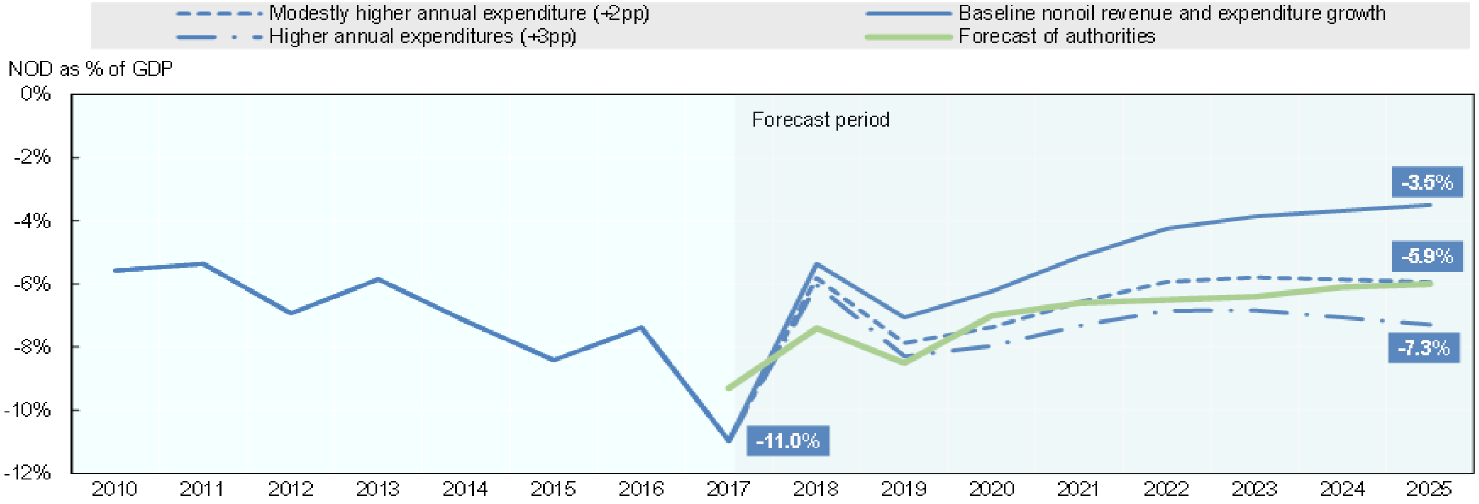
- **Overall similar tax measures taken as OECD and G20 countries**, with focus on strengthening business cash flow and health sector.
- **In some developing countries, also informal sector workers have received support,** e.g. cash transfers
- **Some developing countries have used this crisis as a "window of opportunity" to pass broader tax policy reforms**, e.g. introduction of progressive PIT rate schedule and rate reductions

Which tax policy measures to consider during the exit phase and afterwards in Kazakhstan?

Kazakhstan is an ambitious country which faces many tax challenges

- Kazakhstan aspires to become one of the top 30 global economies by 2050.
- However, tax revenues in Kazakhstan are low, undiversified and volatile.
- Resource revenues currently fuel the National Fund and the budget.
- Tax reform is needed to raise tax revenues to support the ambitions of the authorities including to reduce the nonoil deficit.

Figure: The nonoil deficit could range from 4 – 7% in 2025



The Country Tax Policy Review of Kazakhstan evaluates tax policy design

- The Review provided an evaluation of the design of a number of taxes in Kazakhstan, including the following:

A. PIT

- Employee incomes are low and self-employment is widespread
- PIT revenues are low and have been falling slowly in recent decades
- Most forms of personal capital income are exempt

B. SSCs

- The underperforming health system needs funding
- SSC funds are very low, but have risen slowly
- The SSC base has been narrowed by atypical designs

C. VAT

- The VAT is well-designed but there is scope for improvement.
- VAT revenues are moderate
- Many exemptions on goods and services narrow the VAT base

D. CIT

- There is a two tier business economy – widespread low income self-employment and a few large firms.
- CIT revenues are high, but volatile
- Many CIT exemptions narrow the CIT base

And provided a number of evidence-based tax policy recommendations for Kazakhstan

- The Review developed a range of tax policy recommendations across different taxes based on the available evidence.

A. PIT	B. SSCs	C. VAT	D. CIT
• **Consider introducing a progressive PIT system** in the medium term • Introduce the yearly tax declaration and strengthening tax admin	• **Maintain but do not raise rates further.** • Considering reviewing a typical designs (such as deduction of pension contributions from the base and heritable pensions)	• **Increase the VAT rate modestly**, taking account of inflationary pressures in the economy. • Strengthen the VAT refund system. • Restore the VAT chain within Special Economic Zones.	• **Maintain or reduce rates while simultaneously broadening the base**. • Phase out the many CIT exemptions • Abolish the newly proposed shift of SME CIT revenues to local government.

Which tax policy measures to consider during the exit phase and afterwards?

- Continue to implement measures that allow businesses and households to stay afloat.
- Do not start increasing tax rates too quickly; do resist the temptation to cut tax rates permanently in order to stimulate economy.
- Immediate expensing or accelerated tax depreciation measures for a short period of time to bring forward investment
- Start planning for tax reform to finance the non-oil and budget deficit. Use the opportunity to reform and align the tax system with best practice – see CTP's Country Tax Policy Review.

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