



How tax officials can respond to the coronavirus pandemic

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Three important tasks

1. Assess revenue impacts and potentially take measures to shore up fiscal position
2. Develop, appraise and implement tax policy responses
3. Facilitate use of tax data for economic and public health monitoring purposes

1. Assess revenue impacts

Global and domestic economic shock

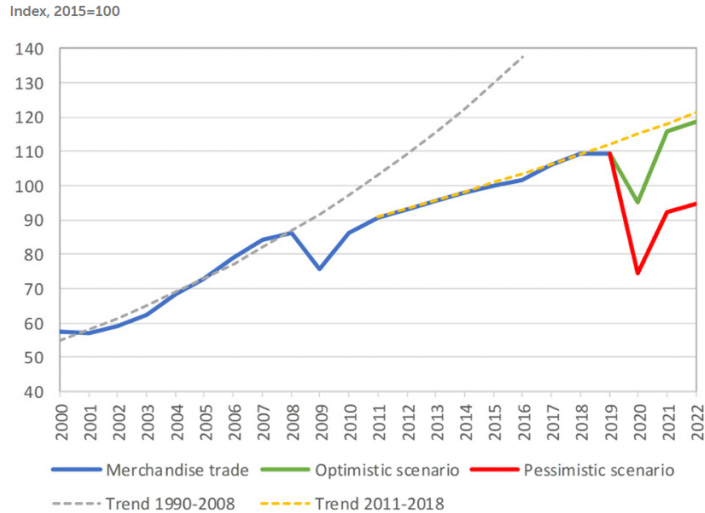
- Global: reduced flows of goods, capital and labour, falling commodity prices
- Domestic: social distancing measures

Fiscal impacts more acute in lower-income countries. More limited access to capital markets, widespread and simultaneous calls on external finance, less scope for temporary central bank financing

Important to assess revenue impacts frequently as crisis unfolds. Support cash and debt management operations, determine external financing requirements, identify space for additional health and fiscal support measures

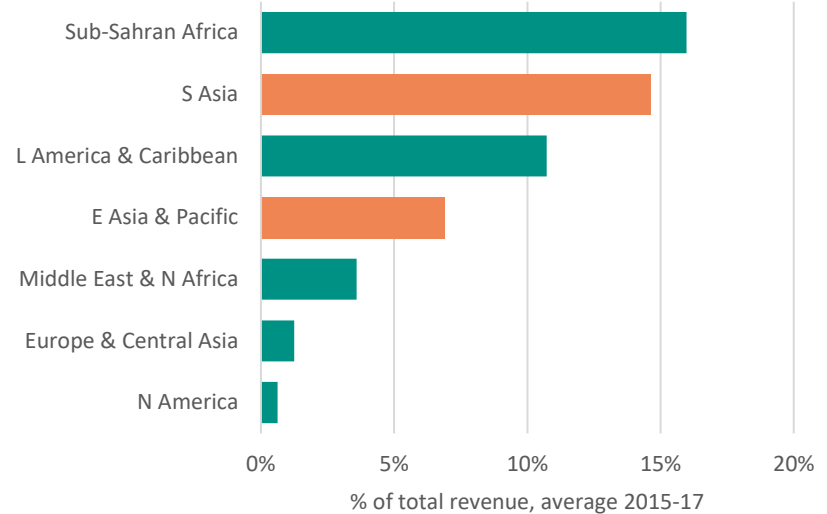
Declining global trade reducing trade taxes

World merchandise trade volume, 2000-2022



Source: WTO Secretariat.

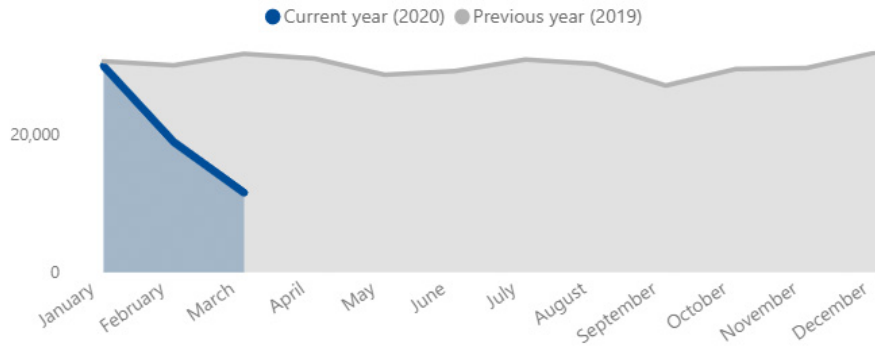
Share of revenues from trade taxes, 2015-17



Source: ICTD/UNU-WIDER

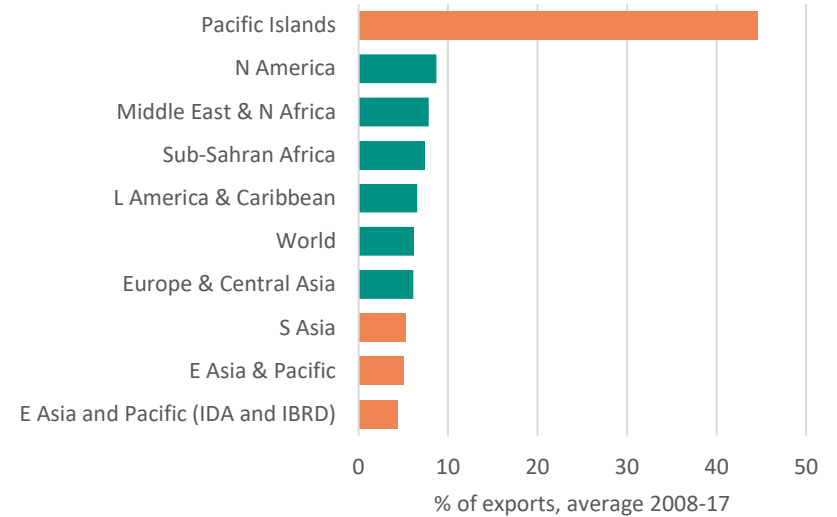
Restrictions on global travel impacting on tourism

Asia and the Pacific international tourist arrivals
(thousands)



Source: UN World Tourism Organisation

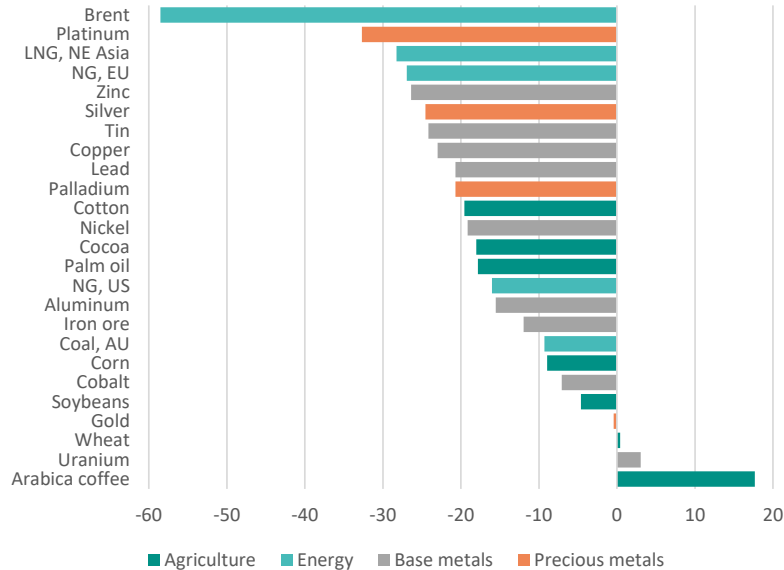
Tourism receipts (percent of exports)



Source: World Bank

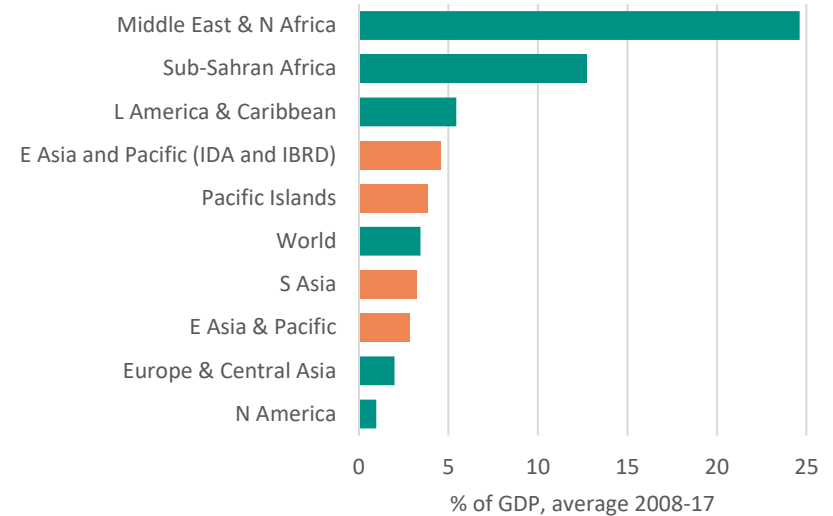
Falling commodity prices adversely impacting some countries

Impact of Covid-19 on commodity prices (percent)



Source: IMF World Economic Outlook April 2020

Natural resource rents (percent of GDP)



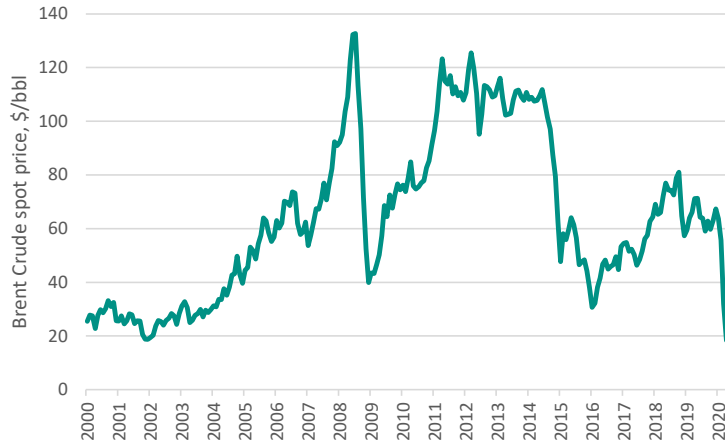
Source: World Bank

For other countries may be opportunities from commodities

Oil importing countries can benefit fiscally from low oil prices by reducing fuel subsidies or increasing fuel taxes

High gold prices could offset lower output from disrupted mine operations or create opportunity to increase tax and royalty revenues

Average monthly oil prices



Average monthly gold prices



Experiences from Ebola suggest revenue impacts can be large

Some economic similarities with Ebola

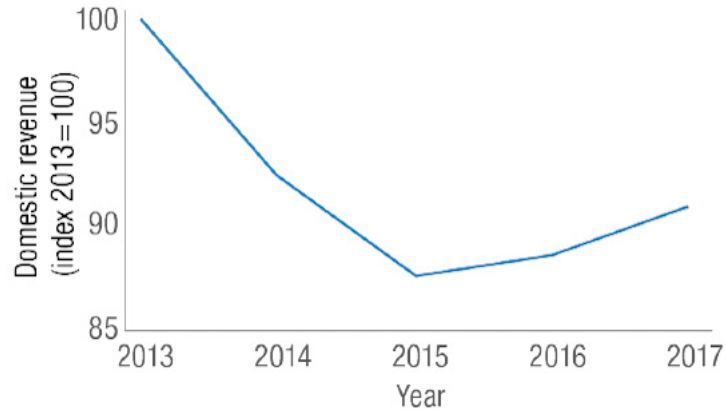
Restrictions on travel and trade and use of social distancing measures. Concurrent commodity price shock (iron ore).

Impact on revenues significant

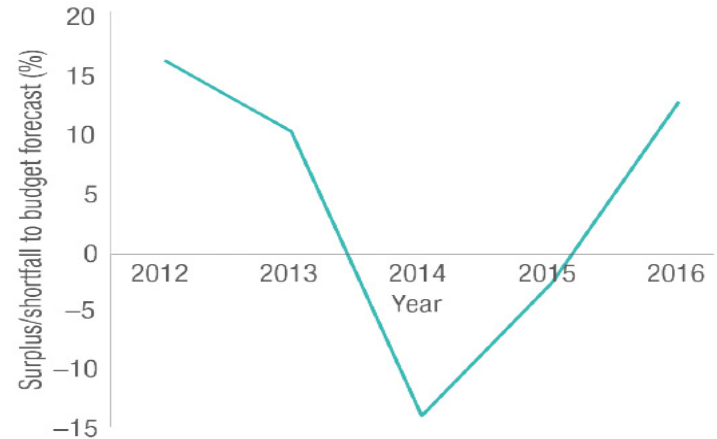
Liberia domestic revenues fell 12.4%

Sierra Leone 14% shortfall against forecast.

Liberia domestic revenues (2013=100)



Sierra Leone revenue performance (% forecast)



2. Tax policy response to the crisis

Three phases of tax policy response:

<i>Phase</i>	Support	Stimulus	Consolidation
<i>When?</i>	Immediate but temporary	After social-distancing measures have been eased or lifted	After economic recovery has properly taken hold
<i>Why?</i>	Help business and household survival	Boost demand to support economic recovery (if needed)	Restore fiscal sustainability (if needed)
<i>Examples</i>	Tax payment deferrals, expedited refunds, targeted help for affected sectors	Temporary reduction to VAT or increase in capital allowances	Revenue-raising measures consistent with MTRS: role for green taxes?

Importance of context

Appropriate policy response is very context specific

- Administrative and policy evaluation capabilities
- Fiscal capacity and government liquidity
- Economic structure, including sectoral composition and scale of informal economy
- And wider covid-19 impacts and measures

Low- and middle-income countries

- Often lower administrative capacity (data availability, remote working, manual processes and physical transactions)
- Often lower fiscal capacity, with potentially constrained borrowing, high debt servicing costs
- Tricky trade-off between simplicity and cost-effectiveness of tax measures
- Large informal sectors & measures to reduce/defer taxes of no direct help if do not pay tax
- Social-protection policies must play a key role
- Role for local government?

Principles for ‘support’ phase

General reductions in CIT and PIT rates unlikely to be appropriate

- Largest benefit to those still making profits and with significant income

Measures to bolster cash-flow of businesses likely more cost effective

- Extending deadlines, deferring payments, expediting refunds, updating advanced payment schedules
- Reductions in property- and turnover-based tax rates
- Can target at sectors most adversely affected

Measures that can reduce labour costs may mean businesses retain more staff

- Deferral and/or temporary reductions in payroll related taxes and contributions
- Wage subsidies for furloughed workers
- Can target at affected sectors & where employer-employee match matters

Principles for 'support' phase (II)

Waiving or reduction in taxes that can act as barriers to flows of money & info

- E.g. taxes on mobile money & money transfer, mobile airtime & data
- Cuts can reduce physical transactions and facilitate social distancing
- Tricky as these have become increasingly important revenue source

Consider postponing planned tax-raising and reform measures

- Reform can be disruptive and mean admin & compliance burdens
- Go ahead if postponing means extra admin/compliance or revenue is vital

Know the limits of national tax policy

- Spending measures likely better suited to helping informal sector and poorer households: social protection, funding for local government

Moving into the stimulus phase

Weak domestic and global demand may warrant fiscal stimulus measures

- Subject to fiscal capacity and Covid-19 situation

Consider explicitly temporary investment and consumption incentives

- Encourage businesses and consumers to bring forward investments & purchases
- More impactful & easier to revoke than changes in CIT and PIT rates
- Direct government investment may be more effective in current circumstances

Carefully unwind and modify ‘support’ measures to support recovery

- May need to partially roll over tax deferrals to avoid taxpayer liquidity crunch
- Phased withdrawal of and changes to furlough and wage subsidy schemes
 - Avoid spike in job losses, facilitate re-allocation and re-opening

Planning for the consolidation phase

Increases in tax revenues may be required for fiscal sustainability

- Higher debt, potentially higher spending and weaker growth outlook

Opportunity to further long-run reform agendas

- Increases in taxes (or reductions in subsidies) on fuel and carbon-based energy
- Reconsideration of tax expenditures and incentives,
 - Esp. for firms/sectors benefiting from govt support
 - Scale up social protection and scale down ill-targeted blanket tax breaks (e.g. widescale VAT exemptions or reduced rates)
- Increased use of e-tax arrangements and potentially increased registration

3. Using tax data

Official statistics too slow to inform policy

- Economic data lag events in real world. As events evolving rapidly with coronavirus official statistics too late to inform policy responses

Tax admin data become available earlier

- Can use data from taxes collected frequently (e.g. VAT/GST, withholding on salaries, customs duties)

Share with government, academics and researchers

- Anonymised tax data can enable others to undertake analysis and inform policy. Make use of existing data-sharing protocols and agreements or introduce them

Potential uses of tax data

- **Securing supplies of essentials.** Customs data used to anticipate shortfalls in essentials and identify trade dependencies
- **Dealing with health impacts.** Falling receipts could indicate whether social distancing effective and feed into modelling of virus spread
- **Snapshot of economy.** Comparing weekly or monthly data with equivalent period in prior years can show how quickly activity is changing
- **Targeting support.** Analysis by sector or region to identify worst-affected and target policy responses
- **Preparing for recovery.** Tax data could identify early signs of recovery and potential bottlenecks

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How tax officials in lower-income countries can respond to the coronavirus pandemic

<https://www.odi.org/publications/16816-how-tax-officials-lower-income-countries-can-respond-coronavirus-pandemic>

Mobilising revenue: opportunities for lower-income countries during the pandemic

<https://www.odi.org/publications/16950-mobilising-revenue-opportunities-lower-income-countries-during-pandemic>



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