



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

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Three important tasks



- 1. Assess revenue impacts**
- 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 economic shock

- Reduced international flows of goods, capital and labour, falling commodity prices, social distancing measures

Acute fiscal impacts in lower-income countries

- 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, demonstrate scale of external financing needed, determine fiscal space for additional health sector spending and support to businesses and households

Revenue impacts in SSA

Higher reliance on international trade taxes

- Global trade could drop more than 2008
- Trade taxes average 22.7% tax revenues in SSA, 0.33% in OECD

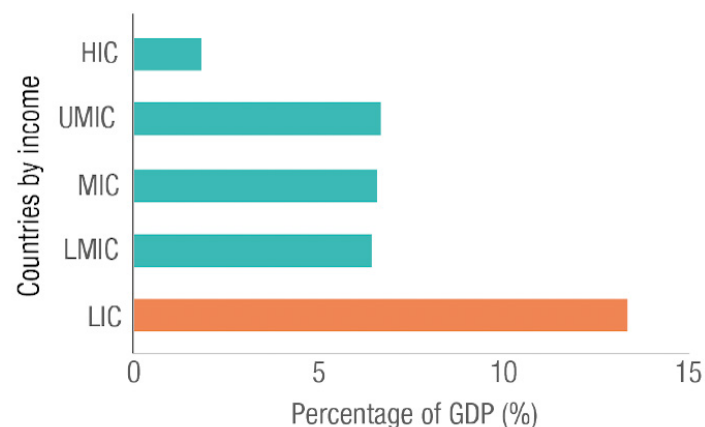
Greater reliance on natural resource revenues

- Sharp price falls in some commodities this year
- LICs more dependent on revenues from natural resources

Restrictions on international travel

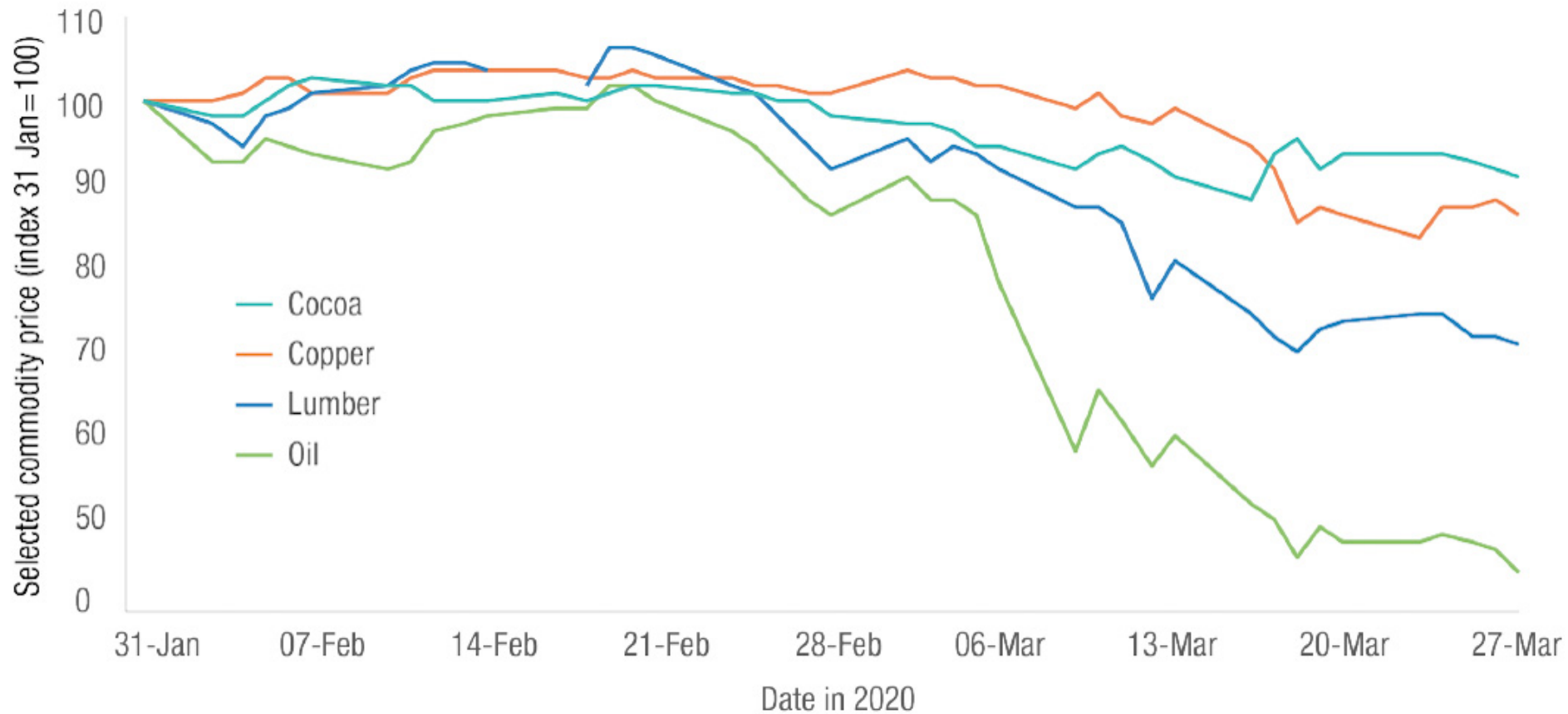
- Travel restrictions in 100+ countries.
- Impact on aviation taxes, hospitality and tourism sectors, MNCs using expatriate workers.

Natural resource rents (% GDP)



Impact on commodity prices will vary

Selected commodity prices

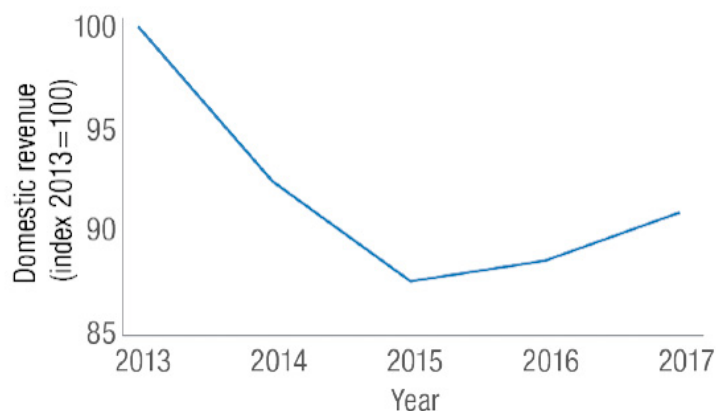


Experiences from Ebola

Similarities to coronavirus

- Restrictions on travel and trade
- Commodity price falls (iron ore)
- Social distancing measures

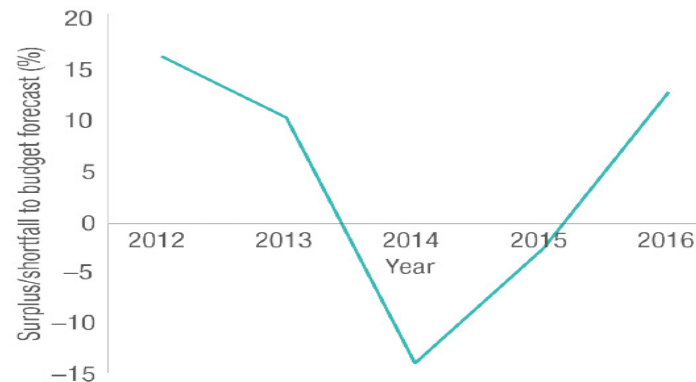
Liberia domestic revenues



Impact on revenues

- Fell 12.4% in Liberia with relatively slow recovery
- Shortfall of 14% against budget forecast in Sierra Leone

Sierra Leone revenue performance



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?

Challenges in lower-income countries

Administrative capacity constraints

- Lack of data, difficulty of remote-working, reliance on in-person transactions

Limited fiscal capacity and liquidity

- Ability to borrow not guaranteed, high debt servicing costs
- Tricky trade-off between simplicity and cost-effectiveness of tax measures

Large informal sectors with little interaction with tax authorities

- ~70% of non-agricultural employment is informal in sub-Saharan Africa
- 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?

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 reduce labour cost may mean businesses retain more staff

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

Waiving or reduction in taxes that 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

3. Using tax data

Official statistics too slow to inform policy

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

Tax admin data available sooner

- Can use data from taxes collected frequently, e.g. VAT/GST, WHT on salaries, customs duties. Advantage from fiscal devices / EBMs.

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 new ones.

Potential uses of tax data

- **Securing supplies of essentials.** Customs data used to anticipate shortages 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 from last year can show how quickly activity falling.
- **Targeting support.** Analysis by sector or region to identify worst-affected and target policy responses.
- **Preparing for recovery.** Sales data from EBMs could identify early signs of recovery, systemically important firms and sectors, and potential bottlenecks.