Tax Policy Reforms 2017

OECD AND SELECTED PARTNER ECONOMIES

SUMMARY

OECD

Executive summary

This report is the second edition of *Tax Policy Reforms: OECD and Selected Partner Economies*, which is an annual publication that provides comparative information on tax reforms across countries and tracks tax policy developments over time. The report covers the tax policy reforms that were implemented, legislated or announced during calendar year 2016 in all OECD countries as well as in Argentina and South Africa.

The report is structured as follows: Chapter 1 describes the macroeconomic environment from the end of the crisis until 2016; Chapter 2 presents the latest trends in tax revenues and tax mixes in OECD countries, Argentina and South Africa; and Chapter 3 gives an overview of the main tax policy developments and tax reform trends in each category of tax in 2016.

The report shows that low growth rates in conjunction with improvements in public budgets have pushed many countries to continue introducing growth-oriented tax reforms. Numerous reforms have sought to encourage investment, in particular through reductions in corporate income tax (CIT) rates. Fiscal stimulus was also provided to individuals through personal income tax (PIT) reductions. while most CIT and PIT reforms are expected to have negative effects on revenues, many countries are anticipating revenue increases from VAT, excise duties, property taxes and environmentally related taxes which are generally considered less detrimental to economic growth than direct taxes.

Other important motivations behind tax reforms included enhancing fairness and deterring harmful consumption. The numerous PIT cuts targeted at low and middle income earners, in addition to supporting growth, were a response to low income growth, especially at the bottom of the income distribution, while many of the increases in excise duties and environmentally related taxes were aimed at deterring harmful behaviours and consumption.

This year's report identified a number of important tax reform trends:

- **Personal income taxes on low and middle income earners have been reduced in a number of countries, but the impact of these tax cuts on redistribution and overall tax wedges is expected to be limited**. The PIT reforms introduced in 2016 have generally lowered PIT rates and narrowed tax bases, in particular for low and middle-income earners. However, most of the PIT reforms are expected to have negative revenue effects, meaning that despite greater progressivity, the overall redistributive impact of PITs might not necessarily increase. In addition, while tax wedges are expected to be further reduced – especially for low-wage earners – as a consequence of recent PIT reforms, social security contributions (SSCs) continue to remain high in many countries.
- **In relation to corporate income taxes, there has been continuing progress on the implementation of BEPS related measures and we have also seen competition on corporate tax rates intensifying**. On the one hand, efforts to protect corporate tax bases against international tax avoidance continued, in line with countries' commitments to implement the minimum standards and

recommendations agreed upon as part of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project. On the other hand, we have seen an intensification of competition on CIT rates, which had already been identified as an emerging trend last year, after a period of relative stabilisation in the years immediately after the crisis. Many of the countries that lowered their CIT rates have done so through multi-year cuts, but there were a few exceptions, most notably Hungary which introduced a very significant and sudden CIT rate reduction. This year's report also points to increasing tax competition through new or enhanced tax incentives, in particular for research and development (R&D) and intellectual property (IP)-related activities.

- **Countries have stopped increasing standard VAT rates to raise additional revenue and the most significant area of reform in the last year has been regarding the application of VAT in the digital sector**. Apart from Greece which raised its standard VAT rate, there were no changes to standard VAT rates in 2016, suggesting that the willingness of countries to raise additional revenues through increases in the standard VAT rate has diminished, in part because these rates have already reached high levels in many countries. One of the most significant evolutions in the area of VAT has been the increasing number of countries aligning their tax rules on cross- border supplies of services and intangibles with the OECD International VAT/GST Guidelines.
- **A large number of countries reported excise duty increases, as a way to simultaneously raise revenues and influence consumer behaviour**. Excise duty increases on tobacco products were particularly numerous. Reported reforms and future reform plans also confirmed the increasing popularity of taxes on soft drinks in many countries.
- **In the area of environmentally related taxes, the recent trend that has seen taxes on transport fuels increase continued in many countries**. This differs from fuels in other sectors which, despite also causing considerable harm to the climate, the environment and human health, often remain taxed at very low rates. There were also a number of reforms related to vehicle taxes, generally involving increased taxes on conventional fuel vehicles and expanded tax incentives for alternative fuel vehicles.
- **There were more changes reported in the area of property taxes than last year and these reforms were often aimed at raising taxes**. The taxes that were raised generally included recurrent taxes on immovable property as well as transaction taxes on both movable and immovable property. Some reforms related to real estate taxation sought to "cool" housing markets by targeting investment in housing. Inheritance tax reforms, on the other hand, mostly involved tax reductions.

The countries undertaking the most wide-ranging reforms were predominantly members of the European Union (EU), with Austria, Belgium, Greece, Hungary, Luxembourg, the Netherlands and Norway being identified as having introduced the most comprehensive tax reforms in 2016. With the exception of Greece, which continued its efforts to meet the fiscal targets under its third bailout programme, comprehensive tax reform packages were aimed at supporting growth, in particular through reductions in taxes on labour and corporate income. Reflecting the fact that reforms were generally growth oriented, all the countries that introduced comprehensive tax reforms except Greece are expecting negative revenue effects, at least in the short run. Revenue estimations also show that comprehensive labour tax reforms are expected to be much more costly than comprehensive corporate tax reforms.

Tax Policy Reforms 2017

OECD AND SELECTED PARTNER ECONOMIES

This report is the second edition of *Tax Policy Reforms: OECD and Selected Partner Economies*, which is an annual publication that provides comparative information on tax reforms across countries and tracks tax policy developments over time.

This year's report covers the tax reforms that were implemented, legislated or announced in 2016. Two non-OECD countries, Argentina and South Africa, have been included in this year's edition, in an effort to progressively expand the scope of the publication to key partner economies. Monitoring tax policy reforms and understanding the context in which they were undertaken is crucial to informing tax policy discussions and to supporting governments in the assessment and design of tax reforms.

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264279919-en***.

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit ***www.oecd-ilibrary.org*** for more information.

OECD*publishing*
www.oecd.org/publishing

THE LONDON BOOK FAIR WINNER
INTERNATIONAL EXCELLENCE Awards 2017
IN PARTNERSHIP WITH THE PUBLISHERS ASSOCIATION

ISBN 978-92-64-27990-2
23 2017 11 1 P

9 789264 279902