Tax policy considerations in the wake of COVID-19

A summary of the Responsible Tax roundtable discussions on potential tax policy responses to the COVID-19 pandemic

KPMG International

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Purpose of the Responsible Tax roundtables

Launched in 2017, KPMG's[1] Global Responsible Tax project has a guiding principle that tax policy is best achieved once the perspectives of multiple stakeholders have been considered. Over the last 4 years, we have brought together stakeholders from diverse backgrounds to explore common ground on tax policy design, including transparency, international competition and digitalization.

The COVID-19 pandemic has given rise to an even greater focus on tax, including as a crucial means for providing initial relief as an immediate response and, longer term, to stimulate growth that will be critical to fund the social and economic recovery efforts as well as to reduce deficits.

In June 2020, the IMF estimated that governmental fiscal support measures, which had been announced, already amounted to nearly US$11 trillion globally (IMF: 2020) and, with 'second waves' emerging in various jurisdictions, that figure is likely to increase. Tax systems were on the front line of delivering support in many countries, but there are also questions of whether the COVID-19 crisis provides an opportunity for deep structural reform, including questions of how to meet future revenue needs for increased health and social expenditure and the reduction of government debt arising from the pandemic situation. With these broader questions in mind, we decided to launch a series of roundtables looking at tax policy post-COVID-19 and bringing together a diverse range of voices and stakeholders to inform the discussion. Write-ups of each roundtable can be found at home.kpmg/responsibletax.

The intention of this roundtable series was to see if an emerging consensus[2] could be achieved as to how tax policy could effectively support a post-COVID-19 recovery for the benefit of all. This summary sets out the key themes and focus areas that have emerged in the course of roundtables held to date. KPMG's role was as a convener of the conversations, and the views expressed in the roundtables are not necessarily the opinion of KPMG International or any KPMG firm, nor were the views expressed by individual participants necessarily those of their respective organizations.

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[1] KPMG is a global organization of independent professional services firms providing Audit, Tax and Advisory services. We operate in 147 countries and territories and have more than 219,000 people working in member firms around the world. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

[2] By consensus we mean a broad agreement of most participators although not necessarily unanimous. Some participators may have had different perspectives or expressed an opposing view.

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Outline of the roundtables

Eleven virtual roundtables were held from June to September 2020. The first three roundtables covered the various stages of the pandemic:

Reaction

as the pandemic began to **impact** countries and the **economy**

Resilience

as **countries** and businesses went through a period of **lockdown**

Recovery

as countries began to **emerge**

New Reality

what fundamental **changes** would persist after the **pandemic**?

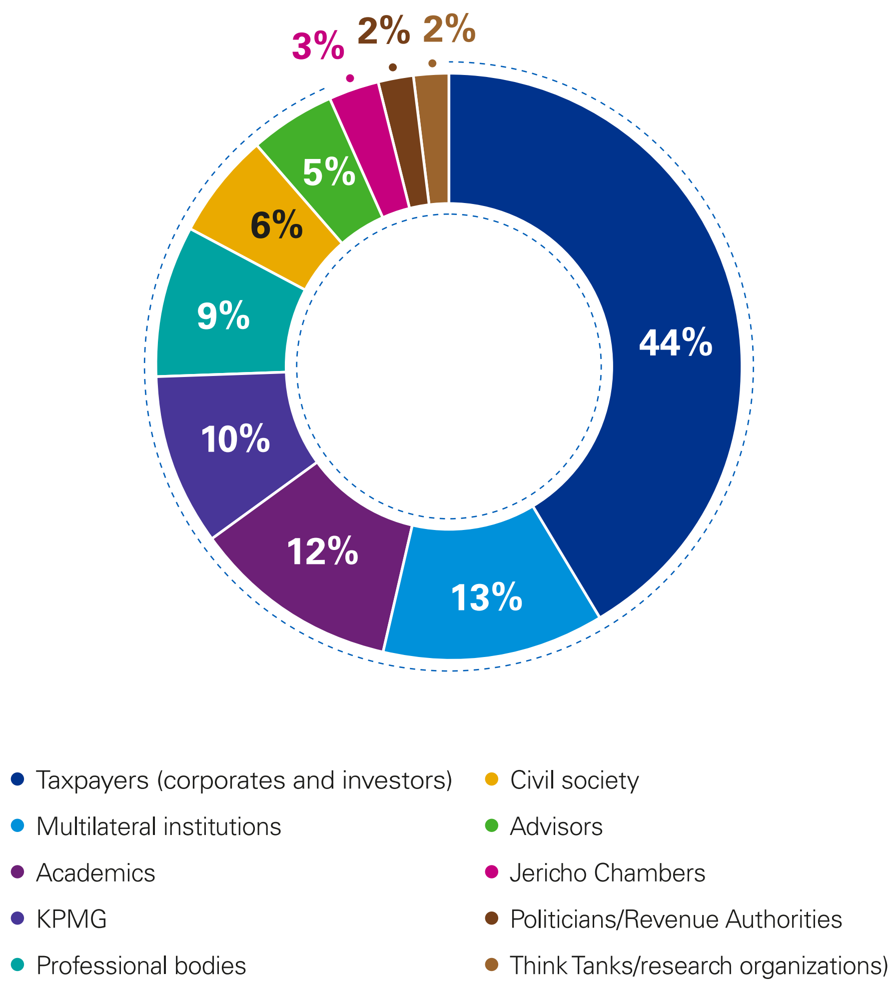
The remaining roundtables looked more deeply at the new reality phase and focused on three key workstreams that were identified as important in the earlier roundtables:

1. **measures to stimulate economies**
2. **revenue-raising measures**
3. **measures to drive the 'green recovery'.**

The roundtables had a global focus and drew from the knowledge and insights of a wide range of stakeholders, including various multilateral institutions (IMF, OECD, IFC, World Bank, UN), taxpayers (individuals and corporates, particularly multinational business entities), civil society, academics and professionals. The roundtables were held under Chatham House Rules and attendees spoke in a personal capacity.

Attendance at each roundtable ranged between 10 and 20 participants with more than 100 people participating overall. Clearly, the roundtables do not claim to be exhaustive studies or representative of a quantitative analysis of the issues. Moreover, as tax systems differ depending upon many factors — including economic, social, political and cultural — not all comments will be relevant to all jurisdictions.

Breakdown of roundtable participants



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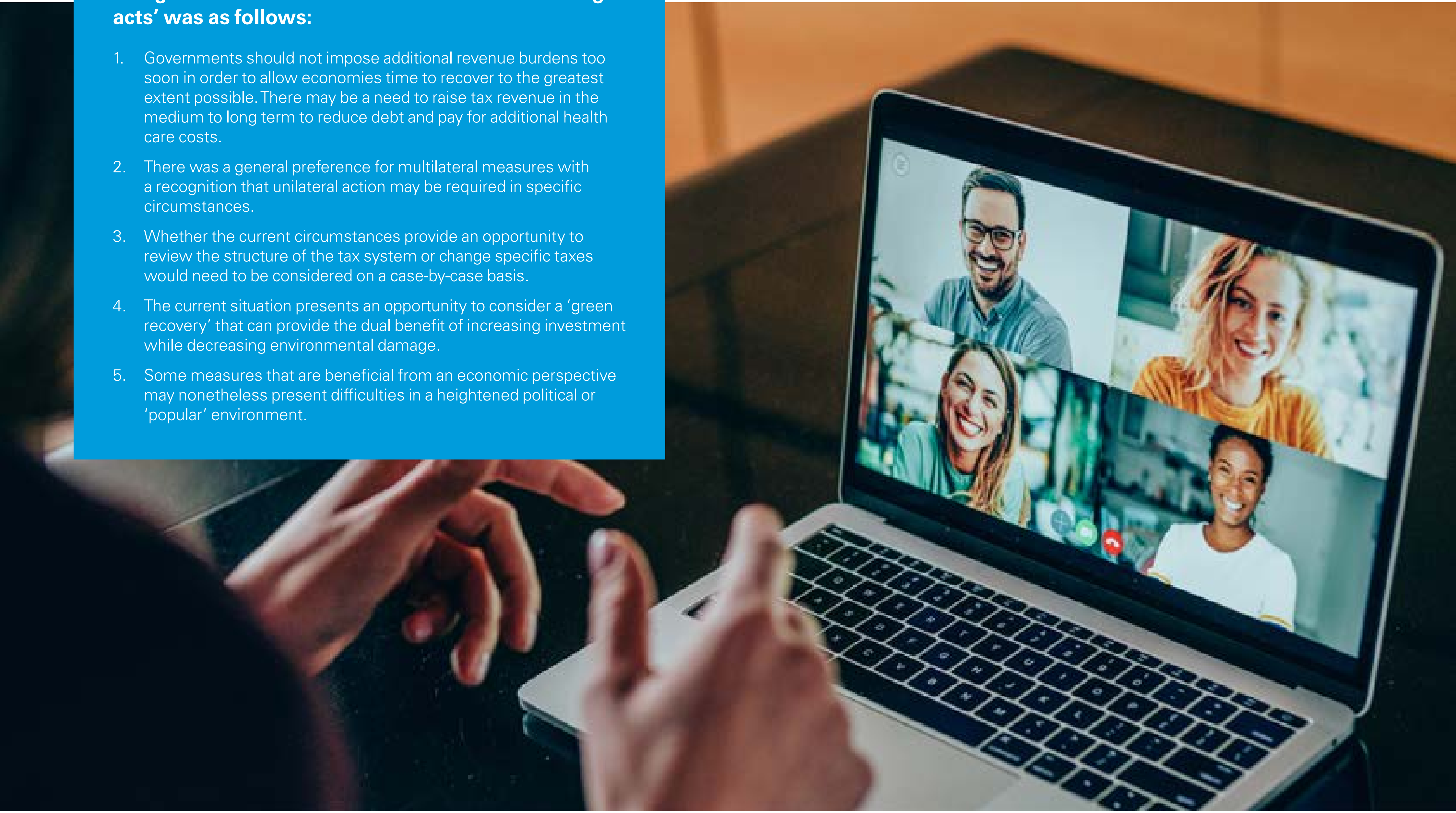
Five 'balancing acts' or dilemmas

In the course of the discussions, participants identified five key dilemmas that governments were likely to face in considering policy options. They were:

- **the need to stimulate the recovery versus the disadvantage of excessive debt**
- **the desire for multilateralism versus the need for countries to act according to their situation**
- **the call for immediate short-term temporary measures versus deep structural change**
- **the opportunity to shift to a greener economy versus concentration on growth**
- **the time for consultation and expert advice on the best solutions versus political scope for implementation**



The general consensus on each of these 'balancing acts' was as follows:

1. Governments should not impose additional revenue burdens too soon in order to allow economies time to recover to the greatest extent possible. There may be a need to raise tax revenue in the medium to long term to reduce debt and pay for additional health care costs.
2. There was a general preference for multilateral measures with a recognition that unilateral action may be required in specific circumstances.
3. Whether the current circumstances provide an opportunity to review the structure of the tax system or change specific taxes would need to be considered on a case-by-case basis.
4. The current situation presents an opportunity to consider a 'green recovery' that can provide the dual benefit of increasing investment while decreasing environmental damage.
5. Some measures that are beneficial from an economic perspective may nonetheless present difficulties in a heightened political or 'popular' environment.

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Stimulating the economy

Stimulating the economy

The first of the three key workstreams concerned the need for an initial economic stimulus. Two roundtables were focused on what measures corporates considered to be most useful in stimulating economic growth as economies emerged from lockdowns. One was held with European companies and another with a focus on African and Asian companies.

Consensus from these roundtables gave rise to the following propositions:

1. Corporation taxes are more beneficial at relatively low rates with a broad base.
2. Stimulus measures should be targeted, temporary and timely.
3. From a global perspective, measures that increase the total pool of R&D investment activity are preferable to those that simply move activity from one jurisdiction to another location.
4. Flexible loss carry-back mechanisms can be a beneficial mechanism to provide liquidity to companies.
5. The quickest stimulus measures involve putting cash into people's hands. Examples might include reducing VAT or income tax on a temporary basis to act as a stimulant to spending.
6. Certainty is key for investment and growth.

Other items that were discussed included:

- reducing employer-based taxes, including social security payments, to provide a mechanism to assist in job retention and creation; and
- exploring ways to support those currently in the informal economy, while bringing them into the formal economy. This was a particularly strong consideration for those in developing countries, particularly in Africa and Asia.

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Raising revenue

The second of the three key workstreams concerned how governments might increase tax revenues with minimal damage to the economy. Three roundtables focused on general tax-raising measures, including income and capital gains taxes, corporation tax and indirect taxes; taxing the holding and transfer of wealth; and the taxation of land.

Consensus points from these roundtables were as follows:

1. 'Across-the-board' increases in corporate income tax or VAT were not perceived to be beneficial. Current global corporation tax rates of between 20–25 percent were seen to be in the right range.
2. Countries should consider whether the level of progressiveness of their personal tax system is appropriately set.
3. Taxing income and gains is more efficient than high wealth taxes. Some considered that taxing short-term capital gains closer to ordinary income would be beneficial. It was generally thought that gift and inheritance taxes were preferable to wealth taxes.
4. Taxation of property by businesses gives rise to different policy considerations to domestic property taxes for individuals.
5. Property transfer taxes tend to be less efficient than land value taxes, but they raise difficult issues on transition and public acceptance.
6. Green taxes can raise revenue while creating a benefit for the environment, but one also needs to consider the extent to which they are regressive (e.g. taxes on heating bills).

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Driving a 'green recovery'

The third of the three key workstreams involved two roundtables looking at whether tax incentives could be used to drive more investment into the 'green recovery' and the extent to which existing tax rules created barriers to cross-border investment. The first was held with representatives from sovereign wealth funds and pension funds. The second was held with representatives from the asset management industry.

The outcome of these two discussions was then discussed with representatives from a number of multilateral organizations (IMF, OECD, World Bank, IFC, UN) in a third roundtable.

Consensus points from these roundtables were as follows:

1. Now is an unprecedented time to invest in innovation, new technologies and regions that have yet to develop a green industry.
2. The certainty of the tax charge rather than the rate itself was more important in creating the right investment climate for the green economy.
3. Some tax incentives have proven to be beneficial in particular circumstances and need to be considered on a case-by-case basis.
4. Tax neutrality in structures that facilitate pooling of investments to diversify risk for green growth and investment would be beneficial.

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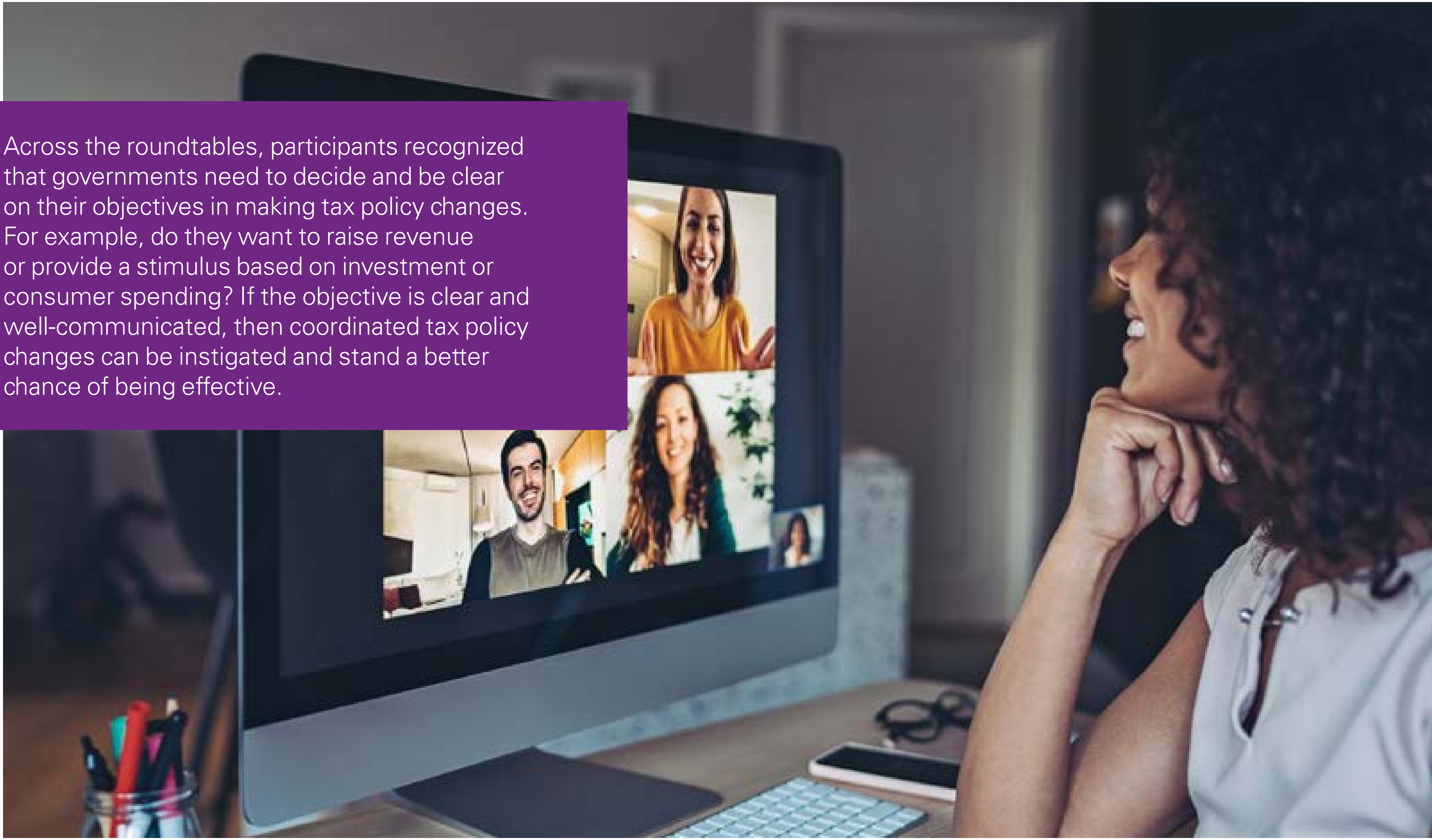
Importance of clarity of objectives

The importance of clarity



Across the roundtables, participants recognized that governments need to decide and be clear on their objectives in making tax policy changes. For example, do they want to raise revenue or provide a stimulus based on investment or consumer spending? If the objective is clear and well-communicated, then coordinated tax policy changes can be instigated and stand a better chance of being effective.

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Conclusions

The views from the various participants suggest several general indicators that may be useful for policymakers in thinking about how tax policy could be used to address a post-COVID recovery for the benefit of all. These are directional paths for further discussion that would need to be considered according to the needs and objectives of the jurisdiction. Their relevance to any particular jurisdiction will depend upon the existing tax system, as well as the economic and social circumstances, and the cultural and political environment.

Conclusions

It was very positive to see that there were a significant number of consensus points among the 100 plus stakeholders in the course of these roundtables. The main ones were as follows:

— Governments should not impose additional revenue burdens too soon in order to allow economies time to recover to the greatest extent possible.

— Stimulus measures should be targeted, temporary and timely.

— Current global corporation tax rates of around 20–25 percent are about right.

— In many countries, the possibility of moving aspects of taxing capital gains and income closer to the taxation of earned income could be reviewed.

— The current climate presents an opportunity for a 'green recovery' that can provide the dual benefit of increasing investment while decreasing environmental damage.

— Now is an unprecedented time to invest in innovation, new technologies and regions that have yet to develop a green industry.

— The certainty of the tax charge rather than the rate itself is more important in creating the right investment environment for the green economy.

— Tax neutrality in structures that facilitate pooling of investments to diversify risk for green growth and investment would be beneficial.

— Clarity of purpose is critical. If the objective is clear and well-communicated, then coordinated tax policy changes can be instigated and stand a better chance of being effective.

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