

The Economist Review-

At a Glance of Tax and Fiscal Policy to Economic growth

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This report focuses on how tax policy can aid governments in dealing with the Business and Investment. The report finds that governments have to take decisive action to contain through various measures, help businesses stay afloat, supporting households and helping preserve employment. This readiness to act helps boost confidence. However, further action, with broader and stronger measures, is needed. Policies will need to be adapted to the evolving economic challenges. Containment measures may only be removed gradually, so recovery may be uneven. Where recovery is weak, fiscal action can strengthen it. In this context, multilateral collaboration will be vital for recovery and to strengthen the global economy's resilience to future shocks. The report finds that specific support will be necessary for developing countries, including through international coordination, financial support and adaptation of tax rules that benefit all countries. Public finances will eventually need to be restored. All options should be explored, including revamping old tools, introducing new ones, and bolstering ongoing efforts to address the international tax challenges posed by the digitalisation of the economy.

General Overview of tax and Fiscal Policy to Economic Growth

Impacts of Economic Policy measure to supported business cash-flow, household income and employment

① **Governments' economic policy responses have been rapid and extensive.** The fiscal packages so far have aimed at cushioning the immediate impact of the sudden drop in economic activity on firms and households, and to preserve countries' productive capacity. While there are large variations in the size of fiscal packages, most are significant, and some countries have taken unprecedented action. Getting the support to where it is most urgently needed, including to small and medium-sized enterprises, nevertheless poses significant administrative challenges.

② **Maintaining business cash-flow has been a core goal of the fiscal policy measures that have been introduced,** supported by monetary and financial policies. Measures have included extending deadlines for tax filing, the deferral of tax payments, the provision of faster tax refunds, more generous loss offset provisions, and some tax exemptions, including from social security contributions, payroll taxes or property taxes.

③ **Countries have also implemented wide-ranging measures to help businesses retain their workers** through short-time work schemes or wage subsidies. There is evidence, from policies implemented in the wake of the global financial crisis, that keeping people in work through such schemes is an effective way of providing income support and limiting job losses, while avoiding costly search and matching processes as recovery progresses.

④ **Income support to households has been extended in many countries,** generally through targeted cash benefits rather than through tax cuts, given the need to deliver support quickly. There are also instances where access to sick-leave benefits has been eased and eligibility expanded, with several countries broadening the coverage of unemployment benefits to self-employed workers in particular.

Policy reform should protect household income and employment, and keep businesses afloat

① **As containment and mitigation measures continue, further adaptation to fast changing circumstances will be key.** Tax policy should continue to focus on limiting hardship while maintaining the ability for a quick rebound. This phase calls for fine-tuning and potentially expanding the set of policies already implemented. The costs of policy action may be high, but the costs of inaction are likely to be greater.

② **Protecting household income and employment remains essential** during economy growth. This phase may extend over time, which would increase the need for policy support as the impacts on households and businesses become longer and more widespread. There may be a case for extended wage and income support from governments. Particular consideration should also be given to the self-employed and workers in the informal sector.

③ **Businesses are increasingly exposed to solvency risks in addition to liquidity risks as the crisis continues.** Policies should adapt to the changing nature of risks, and could include extending deferrals, expanded loss carry-backs which help loss-making firms, and accelerated VAT refunds. The design of these measures should avoid increasing non-compliance risks.

④ **Tax support should be targeted to those that need help the most.** While administratively costly, targeting may help improve outcomes over time by allowing stronger support where the need is most pressing. Support can focus on the hardest hit sectors. Small and medium-sized enterprises could be prioritised as they may be less able to withstand liquidity and solvency risks. Businesses where employment risks are pronounced could be targeted too, to limit adverse impacts on households and aggregate demand.

Fiscal stimulus may be required to shore up recovery the economy.

- a) **Strong and sustained support will need to continue and evolve with the gradual recovery.** Debt payments may lead to reduced consumption and investment. Supply shocks may also persist and productivity be reduced where containment and mitigation measures are prolonged or only relaxed gradually and partially. Where the recovery is anaemic, there may be a case for maintaining expansionary fiscal policy for a sustained period to stimulate broader household consumption and business investment. The support measures can be reoriented towards this goal, rather than replaced by large public works.
- b) **Stimulus during the recovery phase needs to be carefully timed and well targeted** given potential differences in the timing of exit from containment and mitigation across sectors and countries. Efforts should be made to avoid locking parts of the economy in support mode where support is no longer needed, while continuing to provide sustained liquidity and income support where still required. Stimulus should provide immediate incentives to spend, be credible and well-communicated to avoid further eroding confidence and resulting mostly in increased savings instead of consumption. Stimulus could also connect to longer term policy objectives, including resilience to health risks, decarbonisation and other

areas where positive spillovers exist.

- c) **Policy coordination will make stimulus even more effective.** Countries and those with most room to act, could act strongly and create positive feedback loops through trade and investment links, providing a boost to the global economy, particularly since strengthening the ability of countries to respond to the economy growth.

Exploring options for tax policy in the aftermath of the economic growth.

① **Tax revenues are likely to be significantly reduced for a number of years, due to the direct effects of the crisis as well as due to policy action during the crisis.** The best way to boost tax revenue will be to support solid growth, including through sufficiently strong and sustained stimulus.

② **Tax policy can contribute to covering the costs of the crisis and policy responses to it.** Efforts to restore public finances should not come too early, but when they come tax will have a key role to play. Revenue levels and tax structure may need to be adapted after the pandemic. This can occur in tandem with other policies to smooth the costs of the crisis over time.

③ **The unprecedented nature of the crisis is prompting a reflection on whether some new tax measures could be contemplated and more traditional ones reconsidered.** This could include reflections on how to support progressivity of the overall tax system.

④ **In a post-crisis environment, it is likely that addressing the tax challenges of the digitalisation of the economy and ensuring that Citizens pay a minimum level of tax will become more prominent.** The work of the Inclusive Framework to address the tax challenges of the digitalisation of the economy is ongoing and progressing, keeping track of the changing global economic circumstances.

⑤ **The increased use of digital services and the need to collect more revenues could provide new impetus to efforts to reach agreement on issues internationally.** Governments could focus on incentivising investment while strengthening the taxation of economic rents and boosting resilience. Tax cooperation will be more important to avoid that tax disputes trigger trade wars which would harm recovery. Increasing tax certainty, by improving dispute resolution and prevention mechanisms, is part of this effort.

International support could help developing countries respond strongly

Low income and low capacity countries may further benefit from new efforts at the international level to address the challenges they face in taxing cross-border activity and offshore assets. Whilst significant progress has been made in recent years in increasing international tax cooperation, many developing countries, especially low income and low capacity countries, feel they have yet to benefit substantially, and perceive the need for further reforms. The Inclusive Framework should take stock of progress and identify new measures that could be taken to specifically address the challenges low income and low capacity countries are facing in international tax.

The Policy Context

- a. **This note offers suggestions to governments on how tax policy can help support economies growth.** These suggestions are structured along how policy responses may evolve, with a focus on tax policy.
- b. **Containment and mitigation could be followed by a potentially long transition phase.** In this phase, the relaxation of the measures could be gradual, e.g. differentiated by type of activity, or partial, e.g. depending on location or demographic. While economic activity would gradually be allowed to resume, continued restrictions could continue to apply for specific sectors, e.g. tourism and hospitality. It could also be intermittent, i.e. relaxed and then tightened again as renewed outbreak risks rise.
- c. **Against this background, four broad policy phases can be observed or anticipated.** The initial response to the outbreak (Phase 1), focussing on liquidity and income support, is anticipated to evolve gradually into a more sustained effort to reduce the adverse impacts of containment and mitigation (Phase 2, which starts during containment and mitigation, and continues into the transitioning out of containment and mitigation). This is expected to shift gradually towards recovery, which could to a degree be simultaneous with Phase 2 as different parts of the economy transition out of mitigation at different speeds (Phase 3)., while noting that in some instances containment and mitigation measures may need to be reinstated. Ultimately, once economies have recovered, a shift towards restoring public finances can be anticipated, during which there may be renewed attention for strengthening resilience (Phase 4). These phases partly overlap, and may vary across countries. The framework may facilitate sequencing policy responses as circumstances evolve. The tax policy priorities and instruments in each phase are discussed in the following paragraphs.

In Phase 1, the initial response, tax systems play a key role in quickly delivering financial support to businesses and households. However, tax policy needs to be part of the overall policy package that combines tax, spending, health, financial and monetary policies. Countries have acted forcefully to limit the hardship caused by the direct effects of containment and mitigation measures and to allow economic activity to resume quickly. Short-term fiscal, monetary and

financial policies have focused on maintaining business liquidity and supporting household income. The policy mix has varied depending upon the country-specific policy architecture, including the strength of automatic stabilisers.

In Phase 2, as containment and mitigation persist, broader and more sustained tax policy responses will be required. Tax policy should continue to focus on limiting hardship and maintaining the ability for a rebound. This phase calls for fine-tuning and potentially expanding the set of policies already implemented. On the business side, this includes adapting to the changing nature of risk, notably from liquidity- to solvency-risks: the longer lockdowns remain in place, the greater the strains on firm balance sheets may become even if liquidity support is provided. Instruments can include deferring tax payments, which can be similar to interest-free loans, and some countries are going further by waiving social security contributions and selected taxes, or taking over wage payments. Strengthened support to households will also be critical to help them cope with greater risks of job and income loss, as the crisis continues.

Phase 3 is about recovery, where fiscal stimulus may be needed to support investment and consumption. The build-up of corporate and household debt, increasing business closures and unemployment, and increasing economic uncertainty may reduce future investment and consumption. Where the recovery is anaemic, there may be a case for maintaining expansionary fiscal policy for a sustained period to stimulate broader consumption and investment, and build confidence. As mentioned above, the transition from Phase 2 to Phase 3 will most likely not be linear and smooth, with containment and mitigation measures being removed only gradually. This increases the risks of heterogeneous effects across firms and households. Supply shocks may also persist if the pace and the extent of relaxation differ across countries or regions, which would in turn reduce productivity.

- d. **Stimulus needs to be carefully timed and well targeted.** In transitioning towards stimulus, the removal of the short-term measures introduced in the containment phases should be done carefully and gradually, taking into account how different firms and households may have been impacted differently. Fiscal action should also learn the lessons from the global financial crisis (GFC), where fiscal stimulus was too limited in many countries that had room to increase it, and turned contractionary too early, unnecessarily lengthening the crisis and worsening debt positions. Stimulus may need to be adapted if supply bottlenecks remain or if certain sectors face a particularly strong rise in demand.
- e. **Policies must match countries' specific circumstances and there will be no one-size-fits-all responses.** In particular, developing countries may face specific challenges given their weaker healthcare systems and their more limited fiscal space. Whilst at the international level low income and low capacity countries especially have struggled to benefit from the international standards and instruments developed in recent years. In the short term, resource-rich countries

may find their economic and fiscal situation worsened by recent oil price shocks. Thus, policy priorities as well as the room for policy response will differ across countries. Whilst most policy differentiation will take place at the domestic level, there may also be scope for some differentiation at the international level, where low income and low capacity countries may benefit from additional measures.

- f. **Policy coordination is key to an effective response.** One lesson from the GFC is that policy action can have positive or negative externalities across countries. Economic support by some countries can create positive feedback loops through trade and investment links, providing a boost to the global economy. By analogy, there could be negative feedback loops through debt markets where countries in tight fiscal circumstances take expansionary fiscal action by themselves. There is thus a case for those countries with most room to act strongly to limit negative international spill-overs.

In Phase 4, attention could shift to tax policy to help restore public finances. The financial strain on governments resulting from the support measures provided to businesses and households in earlier phases may be considerable. Once economies have recovered, countries may need to consider ways of raising revenues to restore long-term fiscal sustainability and fund public investments to strengthen the resilience of health systems, address distributional concerns and other longer-term risks, e.g. to counter climate threats. However, raising revenues will have to be timed and carried out carefully to be consistent with growth, inclusiveness and sustainability objectives.

Taking stock of recent measures

The fiscal packages have very similar objectives across countries: they aim to cushion households and businesses from the worst impacts of the containment and mitigation measures and to ensure that households and businesses are able to resume economic activity as quickly as possible. For businesses, this often means providing liquidity to help them stay afloat. For individuals, the priority has been to provide income support to the most directly affected households.

1. **While these measures are often referred to as “fiscal stimulus” measures, they are better thought of as emergency, or initial, responses.** A traditional fiscal stimulus package to boost the economy by encouraging investment and consumption would be an ineffective emergency response in current circumstances given the policy restrictions imposed upon economic activity.
2. **There have been similarities as well as differences between fiscal packages across countries.** The measures introduced to support businesses have been fairly similar across countries, with a strong focus on tax payment deferrals. The introduction or expansion of short-time work schemes has also been common. There have been more significant differences across measures to support household
3. **There are large variations in the size of fiscal packages, but some countries have taken unprecedented action.** The size of fiscal packages varies across countries. For instance, some measures involve permanent losses, even if only for one year (e.g. short-time work schemes). Other measures will likely have a temporary impact on budget balances (deferrals, filing extensions, loss offsets) as deferred taxes should be expected to be paid later on. Finally, state loans and loan guarantees, which appear to be the most significant measures in overall fiscal packages, do not represent a direct fiscal cost. However, they create contingent liabilities which, in some cases, could turn into actual expenses either in 2020 or later.
4. **These cost estimations do not account for the longer-term tax revenue impacts of the economic shock.** The estimates focus on the revenue costs of the short-term relief measures, and do not take into account the lower revenues that will be collected from taxes as a result of the crisis, nor the costs of the fiscal stimulus measures that may be introduced once the pandemic is under control. In addition, the revenue impacts of the measures will depend on their take-up rate, which may be more significant than initially anticipated as the crisis persists. Some measures may also be extended if the economic situation does not improve or if the healthcare crisis continues. The current cost estimates therefore do not capture the full tax policy challenge ahead, which will also depend on the evolution of GDP and key aggregates. Overall, the fiscal packages will very likely have significant implications for public budgets and debt levels, although their impact will

vary across countries.

Support measures for businesses

- a) **The majority of short-term measures is to seek to ensure that businesses have sufficient cash flow.** Many businesses are experiencing a sharp decline in liquidity, hindering their ability to pay for wages, rents, intermediate goods, interest on debt, and taxes. Thus, many measures have focused on alleviating cash flow difficulties to help avoid escalating problems such as the laying-off of workers, temporary inability to pay suppliers or creditors, and, in the worst cases, closure or bankruptcy.
- b) **Cash flow support has been provided through a mix of tax and non-tax measures.** Regarding non-tax measures, the most common instrument where the government guarantees all or part of the value of bank loans granted to eligible businesses. Other measures have included small interest-free loans and cash grants. These schemes typically target small businesses or businesses in the most affected sectors. Other non-tax measures include the deferral of payments of non-wage business costs such as rent or interests.
- c) **A few countries have introduced measures that will reduce the tax burden on businesses during the health crisis.** These measures have focused on tax categories where the tax base does not vary with the immediate economic cycle, which therefore could be unduly punitive for some businesses facing sharp losses in revenue. The most common type of waiver has been related to social security contributions, with about a quarter of countries introducing such measures. Other common examples have been waivers of property taxes and presumptive taxes for small businesses and, in some cases, reduction of water usage taxes or vehicle taxes. Italy granted a tax credit for workshops and shops amounting to 60% of rental fees related to the month of March 2020. A few countries have also waived specific levies on tourism and airline companies, and some have reduced or exempted inputs used in certain sectors (including air transport, tourism, and manufacturing) from import taxes.

Support measures for households

① **A number of countries have introduced measures to enhance households' cash flow.** Government have to extended tax filing deadlines, tax payment deferrals or extended payment plans for households unable to make their tax payments. These measures are provided mostly for personal income taxes, but in some countries pertain to property taxes. In some cases, tax payment deferral measures are targeted at low-income households or property below a certain value. Other tax measures have included accelerated refunding of excess payments from personal

income tax, and flexible arrangements for tax debt repayments (sometimes targeted towards lower incomes). Non-tax measures have included the early release of superannuation in Australia, the deferral of interest payments on mortgage debt for primary residences and the deferral of payments of utility bills.

② **Most countries have introduced measures to provide income support to households, generally through enhanced cash benefits targeted at the most vulnerable households.** Government have to social protection systems in place that provide income replacement for households affected by sickness, job loss or a drop in earnings. These systems cushion income losses for many workers and act as automatic stabilisers. Given the severe nature of the crisis, many countries have taken steps to expand these systems over the last weeks, to cover groups or cases that were not covered previously (independent workers, families with unexpected caring needs), to simplify access and make increase levels of protection.

③ **Support has largely been provided through direct transfers rather than through the tax system.** While the choice between providing income support through direct cash transfers or through the tax system will typically depend upon the architecture of each country's tax and transfer systems, most countries rely primarily on transfers to redistribute income. Given the immediate need to provide financial support to the most vulnerable households in the crisis, transfers are likely to be preferred as payments can be made more quickly and may be easier to target.

④ **The households targeted and the design of these measures vary across countries.** Cash transfers are specifically targeted to those households that are directly affected by the virus (e.g. sick workers) or its immediate economic consequences (e.g. temporarily unemployed workers). Some measures specifically provide support to the self-employed . Other countries are providing cash payments to low-income households more broadly, as these may be the most severely affected by the crisis and will likely have less savings to draw from to support themselves. Introduced a cash bonus for people without formal work, which is expected to benefit two million people. Some benefits have also been aimed at families (e.g. through increases in child benefits). In some cases, benefits are provided as one-off payments, while in other cases they are provided as temporary increases in regular benefits. New Zealand made a temporary change to its in-work tax credit by removing the hours' threshold, so that workers who see their hours in work reduced below the hours' threshold will still be able to claim the payment.

⑤ **In emerging market and developing countries, some countries have reported cash transfers for households.** Some have been targeted at vulnerable households (e.g. Kenya), while others are being distributed more widely to low-income households (e.g. Peru). Additional measures have included a 30% reduction in PIT rates for individual entrepreneurs directly or indirectly engaged in the tourism sector in Uzbekistan.

Measures to support investment and consumption

1. **A limited number of countries have introduced measures to support investment and consumption.** Investment support measures have included temporary increases in thresholds for low-value asset write-offs as well as accelerated depreciation (e.g. Australia). Indonesia has waived or exempted import tax for manufacturing companies in 19 sectors for a six-month period. Italy introduced a corporate tax credit for sanitation costs in workplaces. A few countries have also attempted to support consumption through temporary reductions in standard and reduced VAT rates.

Policies through containment

This section discusses how tax policy responses could evolve as containment phases continue. Governments will need to continue monitoring and adjusting policies to evolving circumstances. This Section offers suggestions on how to approach this challenge. Recalls policy challenges and the role of tax policy, in conjunction with other policy areas. Identifies some of the lessons learned from the measures that countries have adopted to date. Considers further measures to support businesses and households as the crisis and containment and mitigation measures persist. Touches upon administration and implementation challenges.

Challenges and the role of tax policy during containment

- a. **Prolonged containment and mitigation measures cause deeper negative impacts on businesses and households.** They may also make it harder for economic activity to return to previous levels once these measures are removed. Job losses could significantly increase if containment phases are prolonged. Firm bankruptcies could result in losses of firm- and worker-specific capital (i.e., informal knowledge, practices and capacities that reside in a network of entrepreneurs, employers, employees and customers), which would take time to replace. Defaults on mortgages and consumer loans by households in financial distress and defaults on business loans due to folding businesses, also create a risk that a crisis with origins in the real economy spreads to the financial sector. This contagion risk can be mitigated through early and significant policy action. As with the virus itself, action before the worst effects are apparent is better than action once effects have already materialised.
- b. **Developing countries may be particularly impacted by the crisis.** Investment in developing countries has been withdrawn at a faster rate than during. High population density and large informal sectors may reduce the efficacy of containment and mitigation measures. Developing countries also often have weaker health and social protection systems, exacerbating both the health aspects (where the population is unable to take time off work or to access adequate medical care) and the economic impacts, particularly on households. Higher levels of public debt, especially in foreign currencies, undermine the use of fiscal and monetary policy to support the domestic economy. Many emerging markets have seen sharp currency depreciations in recent weeks, which exacerbates these pressures. Developing countries that have a high share of revenues from commodities and natural resources will be particularly affected if the recent decline in global demand and prices persists, while those reliant on tourism will be affected by the collapse of international travel. Remittances may also be impacted by prolonged containment and mitigation measures in developed countries.
- c. **There is significant uncertainty about the length of time it will take to**

bring the health crisis under control. In best case scenarios, a combination of improved treatments and testing, expanded healthcare capacity, and suppression of the existing outbreak could reduce the duration of containment and mitigation measures and the associated suppression of economic activity. However, if the severity of the virus outbreak is worse than anticipated, or improvements in treatments or testing do not materialise, the reduction in economic activity may be more severe. Such a prolonged period of severe economic disruption would be unseen in recent history.

- d. **Strong action now can save costs over time.** Support measures to businesses and households are important to cushion the immediate impacts of the crisis, but also to help safeguard the capacity of economies to rebound as soon as the crisis abates. Where fiscal space is available to governments, the costs of inaction may be greater than the costs of action. Fiscal action should also learn the lessons from the GFC, where fiscal stimulus was too limited in many countries that had room to increase it, and turned contractionary too early, unnecessarily lengthening the crisis and worsening debt positions. Substantial action now can strengthen confidence and reduce the likelihood of needing further tools.
- e. **Efforts to reduce the scale of the health crisis are of first-order importance.** To support these efforts, governments may wish to consider providing expanded expensing or depreciation allowances or other tax incentives to businesses in support of health policy objectives. This could include efforts to expand research or manufacturing capacity in the development of tests, treatments or vaccines. Governments should carefully design these policies to ensure that companies already in these sectors do not receive windfall gains.
- f. **Tax policy needs to be coordinated with other policy levers,** including healthcare policy, trade policy, social and labour market policy, financial and monetary policies. For example, in some countries, social spending may be more effective in providing financial support to households. Similarly, while tax policies can support business cash flow through targeted measures, managing corporate debt burden and access to credit for businesses are also important.
- g. **Fiscal policy also needs to be coordinated with monetary policy.** Reactions by monetary authorities in the face of the crisis have been substantial and there may be a case for monetary authorities to support fiscal expansion. Many central banks have cut policy interest rates aggressively and have committed to buy large amounts of government bonds and private assets, along with implementing numerous measures to support liquidity in the financial sector and to boost bank lending to businesses and households via special programmes and the easing of prudential regulation. Interest rate cuts and large-scale asset purchase measures will help lower the cost of borrowing for governments, and for the private sector at large. Lower public debt servicing costs will stem not only from lower market interest rates but also from remitting central bank profits to fiscal authorities. As long as the remuneration of central bank reserves is close to zero,

there will be minimal servicing costs on government debt held by central banks. Thus, to the extent that central banks keep government bonds on their balance sheets indefinitely, this part of government debt will be explicitly monetised .

- h. **If the crisis should risk undermining public debt sustainability, more explicit debt monetisation options could be considered.** One possible arrangement could involve the central bank deciding on the timing, the duration and the amount of money created and credited to a government account, and the government deciding whether and on what to spend this money. Such a division of responsibilities would ensure that independent central banks remain responsible for maintaining stable inflation and that democratically elected authorities remain responsible for deciding on fiscal policy and the associated distributional consequences.

Lessons learned from countries' tax policy responses so far

- a) **Countries have quickly introduced fiscal, monetary and financial policies, with many adopting a sequenced approach.** The timing of countries' tax policy responses has generally been rapid. Some countries have proceeded step-by-step, progressively extending and expanding the initial relief packages as the situation has evolved, which seems appropriate given the high degree of uncertainty involved in the crisis.
- b) **Most of the short-term measures are temporary.** This is in line with a sequenced approach, where policy responses are re-assessed regularly. Clearly signalling that measures are temporary also limit the risks of lobbying by pressure groups to introduce more permanent changes in the tax system that may not be desirable in the longer run. It may also be appropriate to have time-bound deferrals of filing and reporting obligations, not least to ensure that governments have the necessary data to monitor the ongoing impact of the crisis. Tax returns and tax reporting, including through e-invoicing systems, play an important role in assessing and managing compliance and revenue risks, but also in understanding which sectors are most severely affected and where support should therefore be prioritised. Where tax administrations choose to discontinue these deferrals for informational purposes, accompanying measures could be put in place to ensure that this does not generate heightened cash flow difficulties for businesses.
- c) **Most countries have adopted a broad approach, using a combination of fiscal and financial support tools** (e.g. taxes, benefits, loan guarantees). Indeed, countries should consider the broad range of policy tools available to them in order to provide the most effective responses. Countries could benchmark their support measures against those of other countries on an ongoing basis and consider whether they are making use of the full set of policy levers available to them.
- d) **The objectives and design of the short-term measures supporting businesses generally appear appropriate.** Providing liquidity support to businesses, in particular through tax deferrals, has been a priority in a majority of countries. Tax deferrals are particularly helpful in providing timely cash flow support when they are applied to taxes that are payable throughout the accounting year and within relatively tight deadlines such as VAT, payroll taxes, customs duties and excises.
- e) **The need for income support to affected households has been rapidly addressed by many countries.** Income support to households has been another critical component of countries' policy packages, often targeted at the most vulnerable and severely affected households (sick workers, unemployed and self-employed), although the level and type of targeting has varied across countries (see below). Many countries have also expanded sick leave and unemployment benefits to workers who are otherwise not protected.

Such measures are particularly justified as non-standard workers have been significantly affected by the crisis and financial support may be necessary to encourage them to comply with containment and mitigation measures. Countries could continue to endeavour to target all impacted sectors of the population, including those that might not be usually well protected by social welfare systems.

- f) **Most of the short-term measures so far have been targeted to those households and sectors most affected, although the level and type of targeting has varied.** Targeting support to taxpayers who need it most reduces the fiscal costs as well as avoids providing support to taxpayers who may not need it. It also implies that the amount of support that can be provided to those in need can be larger. However, tighter targeting implies that accessing support will be more complicated and more time-consuming. In the short-term, when support is critically needed and when it may not be clear who is impacted the most, targeting can result in under-provision of support. The extent of targeting in different countries has also been in part linked to the design of their welfare systems. In countries with well-developed welfare systems, support in response to the crisis has been more closely targeted at those who have been most severely impacted and who are less well covered by provisions of the social protection systems in place (e.g. self-employed workers). In other countries, broader support has often been provided.
- g) **Policy makers should be careful to ensure that announced measures are effective and, where possible, well targeted.** Unless investment tax incentives provide a strong steer towards production that is critically needed to address the health crisis (e.g. protective equipment, etc.), their main impact may be only after the crisis for most businesses. CIT rate reductions will provide the largest benefit to those businesses that are still making profits. VAT rate reductions are less effective given the heavily constrained consumption options, and may be difficult to roll back once they have been introduced, even on a temporary basis. There is also evidence that the impact of lower VAT rates on consumption and consumer prices may be short-lived. In cases where countries have made assistance available to businesses only upon request, the volume of applications has sometimes overwhelmed public administrations. Countries could endeavour to make support measures automatic and quick, especially for SMEs where awareness about availability of programs may be low. Using existing mechanisms and systems, rather than creating new ones will generally be preferred.
- h) **Some cash flow oriented measures could be further considered.** Countries that have not yet introduced measures to support business cash flow could do so. Accelerated VAT refunds, more flexible VAT bad debt relief and a temporary extension of optional cash-accounting regimes can provide strong cash flow support to businesses and yet have only been introduced in a limited number of countries. These tools could be considered, although these measures should be implemented carefully to safeguard against increased risks of abuse.

Further measures to support businesses and households

① **While the economy recovers, several existing measures could be extended or fine-tuned and new measures could be considered.** For instance, as the crisis and containment phases continue, liquidity risks can turn into solvency risks for many businesses, requiring the strengthening of existing policy responses or the introduction of new ones. The coverage of household support may also need to be revised as the repercussions of the health and economic shocks evolve. Policymakers should continue to respond with speed.

② **As the containment phase continues, solvency risks may become more prominent in addition to liquidity issues.** Many governments have supported businesses through the deferral of tax liabilities and other measures to increase cash flow. However, with extended strong reductions of consumer and business demand, many businesses are at risk of going bankrupt even in the presence of substantial liquidity support. The corporate tax system can be used to support business liquidity and solvency, through the deferral of tax liability, but also through reductions in corporate tax liability.

③ **Liquidity and solvency risks may differ across firms,** being stronger for firms in sectors most affected by containment and mitigation measures as well as for those supplying intermediate inputs to these firms. SMEs may be less able to access bridging financing than large enterprises and may receive less benefit from the emergency actions taken by monetary authorities. SMEs are strongly present in the tourism and hospitality sectors, which have been hard-hit by containment and mitigation measures. They may thus be more at risk of their liquidity crises turning into solvency issues. Multinational enterprises (MNEs) may also face liquidity and solvency challenges, but they often have more cash reserves. The targeting of measures could focus on sectors most affected by shutdowns, with greater support for SMEs, and where the employment risks are largest.

④ **Extended tax deferrals may be used to support business balance sheets.** Unlimited tax deferrals – implying a shift in the timing of the tax liability without incurring any additional interest – are economically equivalent to interest-free loans to support businesses. Providing such support through the tax system rather than providing interest-free loans through the banking system may be successful in targeting more firms at a faster pace. Tax administrations should also possess more relevant information (e.g. tax return files including financial and tax information from previous years) to help to ensure that more and the right firms are supported.

⑤ **Cash flow support could be augmented by expanding loss-carry-back measures to target firms that are currently in a loss position.**

Expanding loss-carry-back measures, e.g., by extending time limits or increasing refund ceilings, could be particularly impactful due to the countercyclical effects of these measures. In addition, these measures have the advantage of targeting lossmaking firms that will typically not benefit from other tax measures such as rate reductions, deferrals or exemptions. For SMES it could be considered to allow losses to be offset against personal income of shareholders/directors to allow them to be used immediately. Loss-carry-forward measures will have a less immediate effect as the related tax benefits can only be realised if and when firms become profitable again. However, they could still have positive effects on investment decisions through their impact on expectations after the health crisis has passed. Extending cash flow support measures should nevertheless avoid storing up problems for the future, making it more difficult for taxpayers to return to normal if, for example, debts build up to unsustainable levels or deferred payments lead to severe cash flow problems at a later date.

⑥ **Inventory valuation could be temporally adjusted to encourage MNEs to build up stocks of crucial intermediate inputs.** Global value chains (GVCs) strongly rely on just-in-time supply of inputs, as inventories are a cost that needs to be minimised. They often also have little built-in redundancy, which may have increased vulnerability to interruptions or shortfalls of production in specific locations, as these can create significant disruptions across the entire production process. Building up inventories of crucial inputs and components can reduce the vulnerability of GVCs, thus making MNEs more resilient to future disruptions. This process can be incentivised by the corporate tax system by allowing firms to use more generous inventory valuation methods. For example, a move from valuation based on the first-in-first-out (FIFO) to the last-in-first-out (LIFO) method can create significant reductions in the tax costs associated with inventories; in a more uncertain macroeconomic environment, with potentially increasing inflation in the future, it would also decrease firms exposure to inflationary risks.

⑦ **Temporary tax rate reductions or exemptions of some businesses from specific taxes could be considered.** Such measures could be particularly relevant for tax bases that may not shift downwards with the crisis quickly, e.g., property taxes, turnover taxes, or presumptive taxes. To contain revenue impacts, it may be beneficial to target these interventions to certain businesses.

⑧ **Indirect tax measures could further relieve pressure on liquidity and reduce subsequent solvency risk.** This is particularly important in respect of VAT, which may often be due before businesses have effectively received payment from their customers (e.g. at the time of invoicing). When the volume of payment delays or defaults escalates, businesses face growing pressure to pre-finance VAT on their sales that they have not, and may never receive, from their customers – thus further increasing cash flow pressures. Deferral of VAT payments, possibly complemented with temporary flexibility in VAT bad debt relief and greater access to cash-accounting regimes, could mitigate these adverse impacts. Even where businesses receive VAT payments from their customers, tax payment deferral is an efficient and relatively easy to monitor way of alleviating cash flow pressures.

⑨ **Governments may also wish to consider targeted measures to defer payment of excise duties** e.g. the hospitality sector. Targeting is important, notably to avoid unnecessary revenue losses for instance from granting excise payment deferrals to high-street chains, which may have captured a significant share of the consumption – including alcohol consumption – lost by pubs and restaurants and are less likely to have cash flow issues.

⑩ **Accelerating VAT refunds could help to improve business cash flow, subject to careful limitation of fraud risks.** While output VAT is falling for many businesses as a result of declining sales, the input- VAT on fixed costs keeps accruing. The latter may be significant as many businesses may have outsourced key functions or face payment obligations under longer term contracts. This is leading to growing amounts of excess input VAT credits, i.e. VAT incurred on costs and investment that cannot be credited against VAT collected on sales. This may generate spill-overs, with businesses potentially defaulting on their invoices to avoid the growing cost of non-refundable VAT, and defaults rippling through supply chains. Thus, governments could consider increasing their administrative capacity to accelerate processing of VAT refund claims, while limiting risks of refund fraud through risk-based compliance management. This could include capping the amounts of accelerated refunds or restricting them to taxpayers with a good compliance record.

⑪ **Overall, tax measures to support businesses should consider a country's level of economic development.** In many instances, reducing, exempting and deferring income taxes, social security contributions, or VAT is a key channel through which support can be provided to firms and households. However, where these taxes do not form a large part of the tax mix or where policy changes are constrained for legal or practical reasons, changes in other taxes may need to be considered, including payroll or excise taxes. Where countries face financing challenges, these policies should be carefully targeted to provide the best balance of economic support and fiscal sustainability. Developing countries that raise substantial portions of their revenue from CIT or VAT levied on foreign MNEs may wish to target support to the domestic sector and domestic SMEs or micro-enterprises in particular. This has the benefit of reducing funding pressures which may be more acute, while

providing as much support as possible for the domestic sector.

⑫ The continuation of the crisis involves significant risks for households. Historic increases in unemployment are being experienced in many countries. Even where this is due to containment and temporary, labour market connections, once lost, take time to repair. Labour market matching is costly and slow, so that the decline of unemployment can be expected to be slower than its increase. Households where family members have been directly affected by the virus may face deteriorating finances, in particular where social insurance is less expansive. This may, in turn, negatively impact the rest of the economy.

⑬ Different countries will need different policies depending on how containment and mitigation measures and restrictions to economic activity evolve and which risks they judge to be most acute. This is especially the case if these measures need to be maintained for a longer period, or if they need to be reinstated after a period of time, and thus become more costly.

⑭ There is a case for expanded wage and income support from governments. governments should put in place policies to this effect . Maintaining workers in their current jobs at reduced hours or reduced pay through short-time work schemes supports household spending, can potentially improve adherence to containment and mitigation measures, helps to maintain labour market attachment, and can limit hardship and economic contagion.

⑮ Social protection systems are softening households' income losses and helping to stabilise the economy, unemployment benefits replace a large proportion of previous earnings for people who lose their jobs, and some countries have facilitated more timely access to those benefits or have increased their generosity. If the crisis persists, in most countries, the unemployed will be gradually moved onto minimum-income benefits (social assistance), which are less generous but secure a basic standard of living. Countries should provide jobless benefit recipients with "active" employment support, supporting and requiring active job search. If the recovery is slow and labour demand remains depressed, public employment services should help workers productively use longer spells of unemployment to update and develop their skills by enrolling them in quality training.

⑯ Economies should anticipate that public expenditures on social benefits may have to remain high for a long period. This could be the case if the containment and mitigation phase lasts longer than anticipated, or if unemployment rates only decline slowly during the following recovery. High public social- expenditure levels may contribute to fiscal consolidation pressures, in particular after public-debt levels will have risen during the initial reaction to the crisis. During the GFC, some of the countries where unemployment rates rose most strongly saw themselves forced to pro-cyclically reduce access to benefits or cut benefit levels to curb expenditures. This deprived vulnerable households from much-needed income support, and prevented social safety nets from effectively fulfilling their role as automatic stabilisers.

⑰ Short-term work schemes and other wage support policies can be

effective for employees, but particular consideration could be given to non-standard workers and workers in the informal sector. These workers are particularly challenging to deliver support to as they may not always file tax returns, particularly where income levels are low or where informality is high. These workers are also at risk of violating containment and mitigation measures where financial situations are tight. In some countries, self-employed workers and informal workers have been brought within the scope of unemployment insurance and sick leave has been provided for self-employed workers, as these workers tend to receive less income support than other workers.

⑬ **Countries that have taxes on mobile money and money transfers could consider waiving them temporarily** (Steel and Phillips, 2020[22]). The use of mobile phones for financial transactions is especially widespread in Africa, and has played a big role in reduce financial exclusion. In recent years a number of countries have also introduced taxes on such mobile money transactions. Waiving such taxes temporarily may help encourage the use of mobile money instead of cash, reducing the risk of infection from cash transactions. Some telecom companies have already agreed to waive their fees to reduce the physical exchange of money.

Tax administration and implementation considerations

- a. **Given the speed and magnitude of the shock and its repercussions on businesses and households, rapid delivery of support is critical.** This creates a case for providing support through existing and tested channels where these exist. Where there is a choice between different existing channels, speed of delivery should be a key consideration. For instance, countries may find it timelier to provide income support to households through cash benefits rather than through the tax system. Another approach proposed by some is to avoid targeting and provide income support broadly, but to subject these payments to tax as regular income, which would imply that low-income households would keep the full amount of income support, while wealthier households and those whose economic circumstances have been affected the least would return some of the support via the tax system.
- b. **Developing countries face additional challenges in delivering rapid and effective support.** It is more difficult for them to provide support through the tax system. Large informal sectors mean that many businesses are not paying or underpaying taxes, and therefore cannot benefit from the waving or deferral of tax payments or quicker tax refunds. Welfare payments and social benefits are less widespread, reducing the scope for governments to use existing mechanisms and schemes to provide additional benefits. Support could instead be provided to individuals and households through cash transfers, through a recurrent minimum

income, or through energy and housing subsidies to the poorest. Developing countries may also want to involve local authorities more to identify and target the most vulnerable and use simple online platforms to increase visibility and accessibility.

- c. **Unintended adverse effects from support measures should be mitigated.** For example, decisions to defer tax reporting may have impacts on refunds in some countries. As a result, taxpayers may see their cash flow problems increase rather than being alleviated in cases where there has been over-withholding or excess advance payments were made. In addition, in some countries there may be a link between income as reported in tax returns and eligibility for benefits or for loan applications. Making the deferral of reporting obligations optional could alleviate these risks. This could be complemented with a prioritisation of returns that involve refund claims.
- d. **Experience suggests that tax compliance may decline during times of crisis.** Taxpayers facing severe economic stress may feel forced to evade tax filing and payment obligations to alleviate financial pressure. Businesses may choose not to remit the taxes collected on their sales (such as VAT) or withhold from their employees. Taxpayers that are facing sudden, severe financial stress might see no other option than to move their activities from the formal to the informal sector, in the absence of appropriate and targeted government responses. This may have a severe negative effect on a country's tax compliance culture, potentially resulting in a longer-term and more persistent decline in tax revenues.
- e. **Some support measures may encourage non-compliance.** The deferral of tax payments and tax collections, for instance, may be subject to abuse and fraud if these are not carefully administered. This may include schemes to dispose of assets before debts can be collected, or where deferred payments are siphoned off in fraudulent schemes. Measures to accelerate refunds of VAT credits and other taxes, and payment of direct financial support more generally, are also particularly vulnerable to abuse during a crisis as cash-strapped businesses may be tempted to file fraudulent claims.
- f. **Tax authorities are advised to continue managing such risks of abuse** in accordance with well-established risk-based compliance management principles, adjusted to the specific needs and circumstances of the pandemic as it evolves. Providing targeted assistance to those that may be particularly affected by the crisis and that may therefore present greater compliance risks is the first crucial step, but this may need to be complemented with enforcement measures. This could include the operation of adjusted risk-based systems. Differentiating between businesses with a good compliance history and those with poor or unknown compliance histories is one option. Tax administrations may also wish to consider how their communication and engagement with taxpayers during the pandemic might help to improve longer-term compliance.

- g. **Crisis response measures should be tailored to countries' administrative capacity and specific compliance risks.** This is particularly relevant for developing economies, which may have limited revenue administration capacity and be confronted with relatively high levels of non-compliance and informality. In such circumstances, tax administrations may consider limiting certain tax measures, such as accelerated payment of VAT refunds, to businesses with a good compliance history or limiting the amounts involved. This could be complemented with temporary measures to focus tax administration capacity on issues specific to the crisis, such as assessing and monitoring taxpayers and tax issues that present particular compliance risks as a result of the crisis, and provide targeted assistance. This could include reaching out proactively to selected taxpayers to provide targeted assistance as appropriate and/or monitor compliance through a number of basic compliance indicators, such as late filings and the evolution of tax arrears.

Recovering from the crisis

Where recovery is anaemic, there may be a case for a longer period of expansionary fiscal policy to stimulate broader demand. Debt overhangs built up by businesses, households or the financial sector during the containment phase may lead to reduced consumption while these debts are paid down. Expansionary fiscal policy could focus on reducing those tax categories that are most harmful to clean and inclusive growth, while seeking to avoid windfall gains to businesses and households.

Gradually and carefully relaxing short-term measures

① **As economies recover, there is scope to re-evaluate many short-term measures** and boost economic dynamism. There may be cases where prolonged support for households, especially through unemployment benefits, may reduce labour market activation. Prolonged wage support may also disincentivise staff turnover where it is needed, particularly in countries where net replacement rates of unemployment benefits are traditionally high. Similarly, extended support for businesses may maintain 'zombie' firms that would not have survived in the absence of containment and mitigation measures. Tax reductions and deferrals may also damage medium-term revenue raising capacity.

② **The removal of short-term measures should avoid spikes in tax liabilities.** The removal of measures such as tax deferrals should ensure that where tax payments were deferred, large tax liabilities do not generate cliff-edges that could result in solvency problems for recovering businesses and jeopardise recovery. This could be achieved by spreading tax payments over several tax years, averaging tax bases across several years (for turnover taxes or SSCs), and ensuring that carry-forward provisions are in place for corporate taxes.

③ **Containment and recovery policies can co-exist.** As mentioned above, exit from the crisis may not be smooth or straightforward. Containment and mitigation measures may continue over time, be reinstated having been discontinued, or de-confinement may be partial. The pace and extent of the relaxation of containment and mitigation measures may also differ across countries and regions, which may result in lasting supply shocks and reduced business productivity. The mix of containment and recovery-oriented support measures should therefore remain closely aligned with the nature of the containment and mitigation measures in place. For instance, in the event of partial relaxation, businesses that are still subject to containment and mitigation measures (e.g. international travel, sports or music industries) may need continued liquidity and solvency support even while such measures are relaxed for other sectors.

④ **In the event that containment measures are relaxed unexpectedly quickly, there may be significant pent-up demand across the economy.** Policymakers need to actively monitor and adjust stimulus measures to ensure that the

combination of pent-up demand and stimulus measures do not generate excessive inflation, and that stimulus measures do not generate mal-investment or asset bubbles . This is particularly the case for countries where governance may be weaker, inflation historically higher, and currency values more volatile.

Delivering effective stimulus

1. **Ensuring robust demand for consumption and investment goods is key to recovery.** Policymakers should create conditions that strengthen consumption and investment. Stimulus packages will need to be calibrated for different countries, depending on the size of the output gap that results from the crisis. Fiscal stimulus packages should be temporary, well-communicated, and not create permanent deficits. Communication is important to ensure that stimulus results in demand and not just the paying down of existing debt or increased savings.
2. **Household support could target less affluent households.** This may be more inclusive, and would ensure a higher multiplier effect as research suggests that lower income households are more likely to spend as opposed to save additional disposable income received through fiscal stimulus packages relative to other households, Particular consideration should be given to ensure that groups not well covered by standard fiscal tools, e.g. because they are mostly active in the informal economy, are reached.
3. **Policymakers should aim for stimulus that supports swift recovery and limits windfall gains.** Accelerated depreciation allowances could be considered, whereas tax cuts for capital income and gains, and broad CIT reductions may be less effective. Policymakers could also avoid provisions that principally cause differences in the timing of consumption or investment but have limited impact on aggregate behaviour, such as reductions in capital gains taxes.
4. **Coordination across countries can make stimulus considerably more effective.** While the costs of the health and economic crisis will not be symmetric or necessarily synchronised across countries, no country can contain the economic crisis on its own and collective inaction or mostly uncoordinated or unilateral action would exacerbate the overall social and economic costs. An international effort would therefore be more effective to contain the economic crisis, and governments could contribute in line with their relative economic strength by jointly raising fiscal spending. Governments who engage in stimulus that is too early, too large, or on their own, may find themselves facing funding difficulties or currency mismatches. International institutions may have an important role to play in facilitating the coordination of stimulus policies.

Ensuring an inclusive recovery

1. **Policy can help in avoiding that the unequal impacts of the crisis worsen inequalities.** This may be achieved through continued and targeted support to low-income households, in particular through proven mechanisms, such as earned income tax credits and tax credits for low-income families with children. As mentioned, this could also support economic recovery as these households will be more likely to spend additional income than higher income households. Efforts should also be made to provide support to those remaining largely outside of the system, including informal workers and the homeless.
2. **Policies could seek to reduce the vulnerability of self-employed and gig workers.** These workers usually do not benefit from the same level of social protection as regular employees and generally have weaker collective bargaining power. They are also highly represented in some of the sectors that have suffered the most from the health and economic crisis (e.g. taxi drivers, small shop and restaurant owners, artistic performers). The crisis has exposed their high degree of vulnerability. A number of countries have temporarily expanded sick leave or unemployment benefits to non-standard workers, and consideration may be given to strengthening their social protection in the longer run.
3. **Policies should seek to repair damage to labour markets.** Reducing unemployment is not only a consequence but also an enabling factor in economic recovery. There may be a case for expanded active labour market policies in those sectors where unemployment has risen most.
4. **International cooperation will be needed to support developing countries.** The pandemic has shown that globally all countries are only as safe as the most vulnerable country. To reduce the risk of future pandemics significant improvements in resilience will be needed in many developing countries, and they will need support to achieve this. More broadly, continued international support will be needed to help rebuild their economies following the shock. While there has been progress in international tax cooperation in recent years, the benefits of this have yet to be realised in many developing countries, especially low income and low capacity countries; as such further work will be needed at the international level to ensure that low income and low capacity countries are able to effectively tax cross-border activity and offshore assets. This will include a need for both financial support, including assistance to build digitalised tax systems, but more significantly a review may be needed of international standards and instruments.

Targeting business support based on needs and social returns

- a) **As economic support measures put into place during containment and mitigation is phased out, investment could be stimulated.** Accelerated depreciation allowances or similar investment incentives could be considered to support domestic investment. These incentives could be targeted towards investments that reduce future risks and strengthen resilience. They could prioritise sectors that have been most severely hit by the health and economic crisis.
- b) **Differentiated recovery may call for differentiated support.** For example, there may be catch-up growth in manufacturing sectors as consumers make up for lost purchases and businesses re-stock inventories (though this may depend on the debt overhang for businesses from the containment phase). This can create inflationary pressure in those sectors. However, in the services sector, lost consumption by households may not be recovered or only have recovered only very partially, suggesting that the path to recovery may be slower.³ Parts of the services sector may also recover more slowly than others (e.g. tourism). Similarly, in some countries that recover early from the health crisis, sectors linked to global supply chains may see limited recovery until the health crisis abates in trade partner countries. There may be a case to continue to target policies (e.g. subsidised loans or grants, or targeted tax deferrals or tax exemptions) towards those sectors most affected.
- c) **Specific support measures could be provided for individual entrepreneurs and owners of small, closely held companies.** On the one hand, this could include support to facilitate a fair division of the economic losses in the case of a bankruptcy; on the other, support could also be provided to help setting up new businesses or diversify existing businesses in the post-crisis economy. These measures should be closely coordinated with credit and financial policies.
- d) **A further consideration could be to award favourable tax treatment for investments characterised by positive social spill-over effects.** Such spill-overs can exist with research and development (R&D) in general, but may be particularly pronounced for investments that strengthen the ability of economies to cope with epidemics, both in the short and in the long run. Similar arguments apply to support for environment-friendly investments. Resilience is now thought to have been underprovided, and its public good characteristics suggest that a role for public policy, including tax policy, is justifiable.
- e) **Governance is key when designing incentives to invest in resilience, and countries should take into account their level of governance and level of development.** Developing countries have often struggled to design effective tax incentives, improving or avoiding future incentives should be a priority. Repeated studies have shown that many tax

incentives provided by developing countries were not necessary for the investment to take place. As countries developing countries seek to attract investment after the epidemic many will face difficult choices between seeking to ensure employment for citizens and vital tax revenues for public services. Increased transparency and greater regional/international coordination to avoid a race to the bottom could help reduce the risks of wasteful incentives.

Strengthening resilience

① **Resilience to economic shocks could be improved through a combination of tools.** Automatic stabilisers can quickly cushion the impacts of crises. They can also encourage demand when it lags, and ensure a faster recovery. As mentioned before, investment incentives can also be used to steer businesses towards investments that strengthen our preparedness for future shocks and reduce future risks (e.g. health-related and R&D investments, teleworking, low carbon technologies). Measures that permanently provide greater social protection to non-standard workers will also make them less exposed to future risks.

② **Recovery policies provide opportunities to help attain environment-related objectives.** The use of tax incentives could support stronger environmental commitments and performance in pollution-intensive sectors that may be particularly affected by the crisis. Where these exist, phasing out fossil-fuel subsidies may also become more appealing when funding needs soar, but this needs to be combined with more targeted relief for vulnerable households.

③ **In developing countries, the revenue impacts during the crisis may be more pronounced,** for a number of reasons. Firstly, the sharp decline in global and domestic trade will affect revenues more in developing countries as many rely more heavily on revenues from taxes on trade and international transactions. VAT revenues in developing countries may be significantly affected where these taxes are collected largely at the border. Secondly, several developing countries have a high share of revenues from commodities and natural resources, and are more exposed to fluctuations in global demand and prices. Oil prices presently are very low, although this is also due to factors other than the pandemic and that may evolve – but persistently low prices would continue to have considerable revenue impacts. Developing countries with a large tourism sector (such as small island developing states) will also experience a significant drop in revenues, and this loss in revenue could be prolonged especially if the health crisis lasts longer in developing countries than in advanced economies. Finally, developing countries are typically more reliant than developed countries on corporate taxes and on consumption taxes, which are both likely to face substantial falls and a slower recovery than many other tax types.

Impact on budget balances and public debts

There is an important role for international institutions, as well as development aid, to play in ensuring access to finance at sustainable rates. Sustained development aid and cooperation from advanced countries should also play a critical role in bolstering developing countries' capacity to fight the pandemic.

Towards fiscal policy in the aftermath of the crisis

- a) **Reforms of the prevailing tax landscape could be considered anew,** such as base broadening measures and tackling inefficient tax expenditures which could be easier to address in the context of a broad reconsideration of the tax system. Governments may also consider new and under-used tax bases. Where governments need to expand tax revenues, efforts can focus on raising revenues from tax bases that will be the least detrimental to growth, including recurrent taxes on immovable property and general consumption taxes. Further analytical work will be needed, recognising that efforts to restore public finances have not begun and may be a while. This time window should be used to explore possible avenues for tax reform.
- b) **While many businesses are facing unprecedented difficulties during the crisis, some may see profits rise.** The expansion of teleworking and the shift towards digital commerce observed during the crisis may prove sticky and more economic activity may move online. Companies that are able to continue, and possibly even expand, their operations during the crisis as well as those that are able to return to normal production quicker or adapt faster may earn economic rents. Governments could focus on incentivising investment while strengthening the taxation of economic rents and boosting resilience.
- c) **Increased use of digital services and the need to expand revenue raising could provide new impetus to efforts to reach agreement on Pillar 1 issues internationally.** The focus of the work on companies with high levels of profitability should facilitate revenue raising without negatively impacting the recovery of companies that have suffered heavily from the crisis. A swift recovery will require smooth functioning of global supply chains. In this light, policy makers could work to avoid the risks of unilateral action in the digital taxation area and the disruption of the international tax and trade agenda that could result from failing to reach a consensus-based outcome on digital taxation. The focus of Amount A of Pillar 1 on high-profitability companies would mean that companies running losses would be less likely to be impacted, which would limit negative effects on growth or the recovery of these companies from the crisis.
- d) **Overall, tax cooperation will be even more essential so tax disputes do not turn into trade wars which would harm recovery**

chances further. This also means that progress will have to be made on increasing tax certainty, notably by improving dispute resolution and prevention mechanisms.

- e) **Finally, increased revenue needs should prompt investments in strengthened tax administrations,** through increased use of new technologies and digitalisation. Models of highly digitalised tax administrations can increase compliance and reduce burdens on taxpayers from more seamless and frictionless taxation. The benefits of investment in better tax administration may be particularly high for developing countries. Simplifying taxation via both administrative and policy measures, including simplified taxes for microbusinesses, could also help to bring some informal workers.

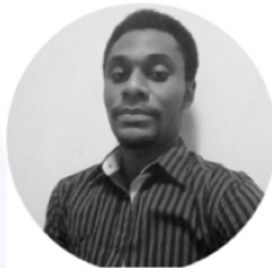
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