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Opinion

Tax Reforms in the System of Post COVID-19 Anti-Crisis Policy

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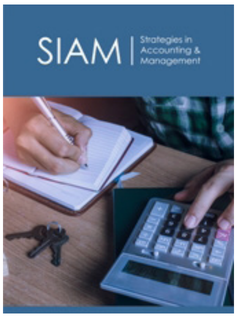

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Introduction

This remark is reaction to Post-COVID-19 crisis measures and acceptance (July, 2021) by 132 states the global tax reform on decrease the minimum rate of MNC in a 15% in jurisdiction of receiving income. We expand approach from separate tax reforms to tax policy as system in overcoming post-COVID crisis. We proceed as research background**,** that Tax policy and Tax reforms are the means to overcome the COVID-19 crisis, contributing to economic growth. The actual study is based on an analysis of tax regimes before the pandemic and has the purpose to find and develop instruments of tax regulation in anti-crisis tax policy. Such kind research employs macroeconomic indicators from the IMF, and WB databases. Some finding results from the lens of concept: fiscal policy and tax reform focus on achieving economic growth targets and benchmarks: quality of life, and green, digital, robot-assisted, and sustainable economy. Tax policies are ranked according to the TTCR indicator, economic growth, and quality of life. The comparative analysis of countries in terms of "Total Tax and Contribution Rate (TTCR)", "Labour Tax TTCR", other taxes TTCR has been conducted on the basis of WB/PWC tax ranking methodology. The research presents a classification of tax Systems according to six rankings and suggests tax policy modifications. We find as Findings & Value added that the main directions of tax policy reform are: 1) The tax system should maintain its progressive character while increasing social equity, a new quality of economic growth and life. 2) Income taxation is less conducive to economic growth than consumption taxation. The study suggests differentiation in tax policies for developed and developing countries. 3) The choice between a flat and a progressive personal income tax scale should be made on the bases of the thorough analysis of the tax systems of countries leading in the quality of life. Their regimes can serve as a benchmark. 4) The taxation of interest, dividends and capital gains under dual treatment is a promising tax policy direction. 5) Reforming the CIT on the basis of differentiated rental income would allow for part of the income to costs and part to profits. Some concrete thesis regarding tax reforms by tax systems ranking, tax type, base and rates.

Tax systems ranking by concept TTCR is crucial for economic growth and investment decisions. In 2018, the global average total TTCR tax burden amounted to 40.4%. It ranged from 25-50% in developed economies (around 40% on average) and 39-59% in developing countries. The global average rate of Profit TTCR taxes (%) amounted to 21.7%, with developed economies averaging 15.7%. Rates in Russia and China were extremely competitive, accounting for 7.3% and 6.2% of the total tax burden, respectively. These countries ranked alongside Switzerland (9.3%), Ireland (12.4%) and Sweden (13.1%). Corporate income tax in Russia was 20%, USA -21, China - 25%. Labour taxation (Labour TTCR taxes, %) accounted for 36.6% of Russia's total tax burden, in China – 46.2%, compared to a global average rate of 16.3%. In South America tax levied 14.5%, in Central Asia and Eastern Europe 12.7%, in the Asia-Pacific region 17.8%, in North America 16.1%, in the EU countries 25.5%. The global economy between 2013 and 2020 demonstrated stability in the tax burden: TTCR 38.8%, Profit taxes 17.3%, Labour taxes 18.3%, Other Taxes 3.1%. The tax system and TTCR have a significant impact on MNCs' investment decisions, the investment climate and for FDI. We showed that there is some correlation between the tax system (TTCR, tax accounting effort, number of tax payments), a country's investment policy and FDI. The research includes a ranking of tax systems and an assessment of their investment policies. A-rated countries focus on the fiscal function of the tax system. Some of them (China, Russia, Brazil) are additionally interested in FDI. These economies are attractive for FDI because of their huge domestic markets. OECD countries with conservative tax systems are oriented towards domestic capital rather than FDI. B-rated countries are classified as developed economies and some developing economies. The first group are classic investment-attractive countries with moderate tax policies. They have an optimal balance between fiscal functions and sustainable economic development through FDI. The second group is with a focus on FDI. The tax and investment policy rankings are presented in our research. What draws attention is the pattern - the lower the total tax burden (TTCR) is, the softer are the tax policies and the more liberal investment regimes for Domestic and Foreign Direct Investments are.

Concepts and approaches to tax policy reform

The fundamental principle underlying the tax system, namely, its progressive nature (the tax burden increases with the income/wealth of the taxpayer), is to be preserved. However, it should be complemented by other aspects: gender equality, a fair distribution of resources across generations and people living in similar environments. A new quality of sustainable economic growth requires taxes that minimise negative impacts on savings, investment and consumption, production of surplus value and employment. The tax system should stimulate the production of GDP and its fair distribution. “Excessive” taxation of income is detrimental rather than conducive to long-term economic growth. The average global rate of corporate income tax for the period from 1990 to 2020 has decreased by half from 40% to 20%. Moreover, income taxes can reduce inequality even more than consumption taxes. Developed economies are more adaptive to progressive taxation of individuals, they are more relaxed about corporate income taxation, environmental carbon taxes, inheritance and estate taxation, and have a wider VAT base. Developing economies have significant potential in administration, tax collection, simplification of the VAT system, wider use of taxation of the extractive sectors, and property and environmental taxes.

Labour taxation

On the one hand, personal income tax is relatively easy to collect, but on the other hand, it encourages the authorities to introduce a progressive scale to realise the principle of fairness.

Personal income tax exemption

The principles of fairness and progressivity imply exemptions. However, approaches to the tax threshold and tools of implementation vary considerably. A tax credit is more progressive than a tax deduction or a zero rate. It all depends on the tax rate: in developed economies it is 25% of average wage, in developing economies it is over 30%. Often the tax rate thresholds are higher than the average wage. As a result, tax collection is low and taxes are targeted at high incomes. The solution lies in setting a threshold value in a range between a reasonable minimum rate and the average wage.

Progressive scale of personal income tax

The choice between a flat rate (applied in 30 countries) and a progressive rate is determined by the balance each country has between ensuring the reproduction of the labour force, fairness and fiscal efficiency. The criteria include the collectability of taxes and the targeted social nature in which funds from progressive taxes are used. The Benchmark is the tax policies (rates, regimes) of the countries with the highest quality of life. The maximum personal income tax rates are dictated by the income level, the interest of the authorities in collecting the maximum tax revenues, and the propensity of the population to be fair through a progressive income scale.

Corporate income tax (CIT)

This tax is a part of income tax and an important source of budgetary revenue. A pandemic, being a force majeure, affects businesses and the labour market in different ways. A rent-based CIT permits income below the minimum threshold to be charged to costs and a portion to profits. Such approach to CIT is more conducive to companies oriented towards economic growth as a hedge against increased environmental risks and force majeure (pandemic). It also reduces borrowing against tax payments and defaults.

Consumption tax

What are the directions for VAT reform? First, a move towards a flat rate (the current global average rate is 15%) (Keen, 2013, p.5) would increase tax collection. Spending on services and food in household income in developing economies is higher than in developed economies, so reducing VAT will increase demand, revenue, and the volume of VAT. Secondly, a drastic reduction in the range of rates (which is too high (3-27%) (OECD, 2020), which will facilitate administration, reduce costs and, hopefully, make businesses more compliant with the tax law. Third, the VAT exemption undermines tax refund (credit, reimbursement) for the companies purchasing production resources. Fourth, the threshold of revenue (turnover) for VAT registration should be lowered for IT companies and e-commerce businesses (the number of which has increased in the pandemic). Tax concepts, regimes and goals constitute an important component of tax policy. Overcoming the Post-COVID crisis is impossible without tax reformation. The experience of the positive impact of tax reforms on economic growth in the USA (1954, 1969, 1986), England (2012-2013) and other countries convinces of the correctness of the trend of world science and monetary authorities.