



Special Series on Fiscal Policies to Respond to COVID-19

This is one of a series of notes produced by the Fiscal Affairs Department to help members address the COVID emergency. The views expressed in this note are those of IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Tax Issues: An Overview¹

Objectives

Focus in this note is not on general stimulus measures but on immediate, targeted and mostly temporary measures to (i) support health priorities; (ii) secure survival of solvent enterprises; (iii) protect affected individuals; and on (iv) secure or enhance revenue sources into the medium term.

Considerations

(i) A premium on measures that act fast and move the tax system permanently in desirable directions; (ii) Limited reach of tax system can limit potential in some emerging and developing countries, even as a means to target spending measures; (iii) There are some 'do not's.'

I. HEALTH-FOCUSED MEASURES

- **Promote contact-less processes and procedures, both digital** (e.g., e-filing, mobile payments—which can be established quite fast— electronic drop boxes for collecting returns; incentivizing tax reductions might even be provided for use of these methods) **and more traditional** (e.g., accelerate move to more narrow/targeted physical customs checks and post-release control; strengthen call-centers; use physical drop boxes). Increase self-assessment of taxes or other payments and minimize processes that require manual intervention from/personal contact with the tax administration. ***This is an area in which the crisis provides opportunities for making real long-term improvement.***
- **For health/hygiene products and relief consignments approved by authorities** provide tax/customs exemptions—though rates are already often low—and quick release procedures at customs.
- **Avoid tax measures that encourage contact between people.** It would be inappropriate at this point to stimulate demand in many of the most affected sectors (transport, hospitality...), which depend upon personal contact (e.g., by reducing tourism levies or aviation taxes – in the latter case also adverse to climate objectives).² Some nudges may be possible (e.g., tax-favoring home delivery) but risk becoming entrenched.

¹ For further detail on administrative measures, see the separate note on "Tax and Customs Administration Responses" provides more detail on the administrative measures discussed here.

² This in contrast to the experience of the Great Financial Crisis, where e.g. one way to support the car industry was by boosting demand for new cars. Relief of output-independent taxes to these sectors may be appropriate. Note that the transport concerns may apply to passengers but not to cargo.

- **Provide selective cost-based support to ease critical shortages** (e.g. full expensing of critical investments), which are preferable to profit-based ones that do not incentivize supply.

II. BUSINESS SURVIVAL

On the administration side, bearing in mind that compliance will likely decline, possible measures to maintain the integrity of the system while limiting undue business failures include:

- **Ensuring that tax prepayments reflect a plausible assessment of likely outturns**, rather than being purely backward-looking.
- **Extending payment arrangements** for taxpayers able to show they are experiencing cash flow problems; ensuring that interest rates on late payments are reasonable; waiving penalties in genuine hardship cases.
- **Expediting VAT and other legitimate refunds**, but with post-crisis enforcement/verification; **enhancing cross-crediting** against other liabilities while ensuring proper accounting for all taxes.

On the policy side, consider:

- **Extending arrangements for carry back of losses.** Consider (partial) refundability of losses and easing restrictions on acquirer's use of acquired firm's tax losses, while recognizing risk of excess concentration.
- **Ensuring that waived interest, rent or other charges not treated as taxable income and possibly grant deduction for the lender/landlord.**

...and temporarily:

- **Reduce/eliminate minimum business taxes unrelated to profitability.**
- **Reduce/eliminate turnover/simplified taxes for small businesses.**

And generally:

- **Avoid: tax holidays, dividend/capital gains cuts, cuts in environmental taxes and blanket amnesties.**

III. DIRECT PROTECTION

- **Use earned income tax credit-type schemes where they exist**, either for direct support or (if faster needed) as informational basis for cash transfers; consider loosening work requirements for such schemes.
- **Provide a double deduction in corporate tax (or other uplift) for sick pay wages paid to workers placed on part-time.**
- **Consider payroll/social security tax reductions** (while safeguarding benefit entitlement), perhaps limited to the low paid, and possible refunds to the self-employed.

IV. SECURING REVENUE AND PROMOTING SOLIDARITY

- **Consider increasing higher rates of income tax/higher end property/wealth taxes**, perhaps through a 'solidarity surcharge.' Low oil prices currently enable higher fuel taxes without increasing consumer prices.
- **Put in place a Business Continuity Plan and implement/strengthen crisis management structures in revenue agencies.** A sequenced approach is necessary to adapt to progression of COVID-19.
- **Monitor closely larger taxpayers likely to be able to comply with standard filing and payment obligations**, recognizing that the compliance burden of filing and liquidity issues of payment may be greater concerns for smaller businesses.