3 Tax Policy Reforms

This chapter provides an overview of the tax reforms adopted by 71 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, including all OECD countries. It looks at the reforms that were announced and implemented in 2021, examining trends in each category of tax including personal income taxes and social security contributions, corporate income taxes and other corporate taxes, taxes on goods and services (including value added taxes, sales taxes, and excise duties), environmentally related taxes and property taxes.

This chapter provides an overview of the tax reforms adopted in the 71 Inclusive Framework jurisdictions that responded to the OECD's annual tax policy reform questionnaire.[1] It looks at the reforms that were introduced or announced in 2021. It examines trends in each category of tax including personal income taxes and social security contributions(Section 3.1), corporate income taxes and other corporate taxes (Section 3.2), taxes on goods and services, including value added taxes, sales taxes and excise duties (Section 3.3), environmentally related taxes (Section 3.4) and property taxes (Section 3.5).

The discussion in this chapter is primarily based on countries' responses to the 2022 Annual Tax Policy Reform Questionnaire, which was completed by countries between January and February 2022. This annual questionnaire asks responding countries to describe their tax reforms as well as to provide details on their expected revenue effects and other relevant information; including the rationale for the tax measures (see Box 3.1).

Country coverage varies across this Chapter. Differences in country coverage may be the result of variances between the categories of the reforms that countries reported on as well as the different data sources used.

Each Section of Chapter 3 starts with a short discussion of tax revenue trends within the five aforementioned tax categories, followed by descriptions of the tax reforms introduced or announced by countries. As in previous editions of the *Tax Policy Reforms* report, tax revenue data covers 43 countries – all 38 OECD countries as well as the five non-OECD Inclusive Framework jurisdictions of Argentina, Brazil, China, Indonesia and South Africa.[2] As with Chapter 2, preliminary 2020 data were not available for these five non-OECD countries nor for some OECD countries (Australia and New Zealand for the most part, but also Greece and Japan for some tax categories) at the time of writing the report.

The tax policy trends sub-sections that follow cover the 71 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting that responded to the OECD questionnaire. Furthermore, the description of these tax reforms is often complemented by more detailed policy analysis using data from existing OECD publications. This may include effective tax rates on labour (Section 3.1), corporations (Section 3.2) or carbon (Section 3.4), for example, whose country coverage varies from the tax revenue and tax policy trends sub-Sections described above. All differences in country coverage are explained in the body of the report or in accompanying endnotes.

Box 3.1. The OECD Annual Tax Policy Reform Questionnaire

At the Working Party No.2 on Tax Policy Analysis and Tax Statistics (WP2) meeting in November 2009, delegates from OECD countries agreed to start collecting information on the main tax measures adopted in each country in a more systematic fashion. The motivation for this proposal was to provide consistent and comparative information on tax reforms to inform policy discussions in OECD and non-OECD countries.

At the November 2010 WP2 meeting, the following criteria were agreed for deciding whether a tax policy measure was sufficiently substantial to be reported in the questionnaire:

- A significant change in a tax rate;
- A change in the tax base that is expected to change revenue from that base by more than 5% of total tax revenue or 0.1% of GDP; and
- A politically important systemic reform.

Any central or sub-central tax policy measure that was implemented, legislated, or announced in the previous calendar year that meets at least one of the criteria listed above must be reported in the questionnaire.

For each reform, the questionnaire requests information on the type of tax; the dates of entry into force, legislation, or announcement; the direction of the rate and/or base change; and a detailed description of the reform. The questionnaire also asks for the rationale behind the reform and estimates of the revenue effects of the tax measures.

3.1. Personal income tax and social security contributions

Countries continued to lower the tax burden of personal income taxes (PIT) and social security contributions (SSCs) in 2021 to support low-income households amid the COVID-19 pandemic and promote economic recovery. Most of the countries that responded to the OECD tax policy reforms questionnaire introduced PIT and SSC reforms in the tax year 2021, mostly through lowering tax rates and reducing the size of tax bases. The most common rationale behind these reforms was to boost economic growth, while, at the same time, promoting equity in personal income taxation, particularly for those on low and middle incomes. While the latter rationale represents a broad continuation of PIT reforms in recent years, the focus on economic growth has gained renewed importance in response to the economic repercussions of the COVID-19 crisis. PIT rate changes have been less common than in previous years, and mostly involved rate reductions for low- and middle-income households. PIT base narrowing measures have been frequent and often sought to promote employment and provide in work-benefits, as well as supporting families with children and particularly those on lower incomes. More limited changes in the taxation of household capital income were introduced. Finally, reforms to SSCs largely came in the form of SSC reductions in 2021, several of which involved temporary rate cuts and base narrowing measures in response to the adverse economic effects of the COVID-19 pandemic.

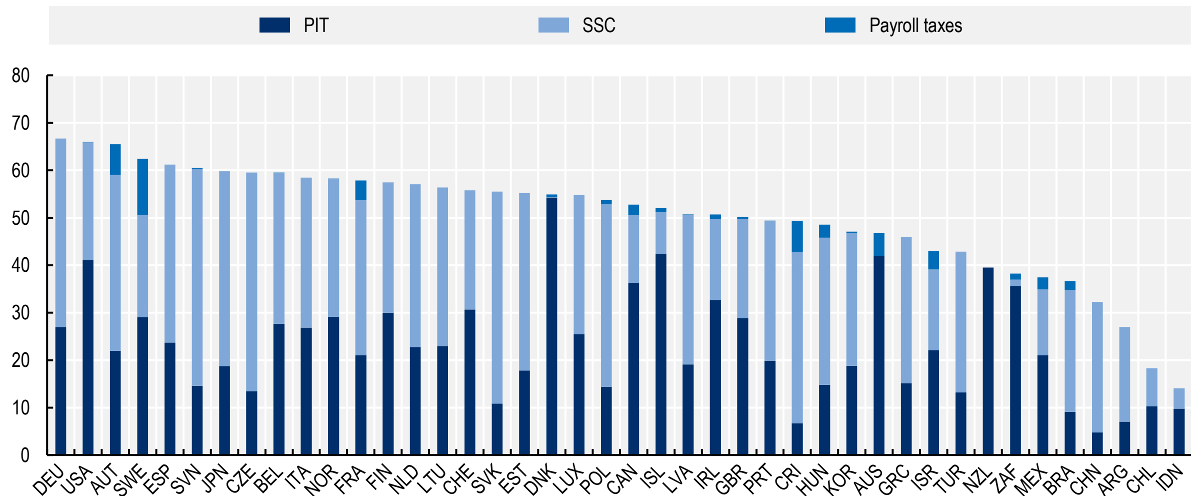
3.1.1. PIT and SSCs are major sources of tax revenue

PIT and SSCs are significant sources of tax revenues in most countries. Together, they account for around half of total tax revenues, with PIT making up 23% and SSCs 26%, of total tax revenue on average across OECD countries and the five selected non-OECD Inclusive Framework jurisdictions (Argentina, Brazil, China, Indonesia, and South Africa). As shown in Figure 3.1, PIT, SSCs and payroll taxes

accounted for over 60% of total tax revenue in Austria, Germany, Spain, Slovenia, Sweden, and the United States. In the Czech Republic, Japan, the Slovak Republic, and Slovenia, SSCs alone accounted for at least 40% of total tax revenues while PIT accounted for 40% or more of total tax revenues in Australia, Denmark, Iceland, and the United States. PIT, SSCs and payroll taxes represent a much smaller share of tax revenues in Argentina (27%), Chile (18%) and Indonesia (14%).

Figure 3.1. Tax revenue share of PIT, SSCs and payroll taxes by country, 2020

Share of total tax revenues



Note: 2019 data for Argentina, Australia, Brazil, China, Greece, Indonesia, Japan, New Zealand, and South Africa. The OECD average includes the latest data available for OECD. The five additional Inclusive Framework jurisdictions included are Argentina, Brazil, China, Indonesia and South Africa.
Source: OECD Global Revenue Statistics Database, OECD Revenue Statistics Database.

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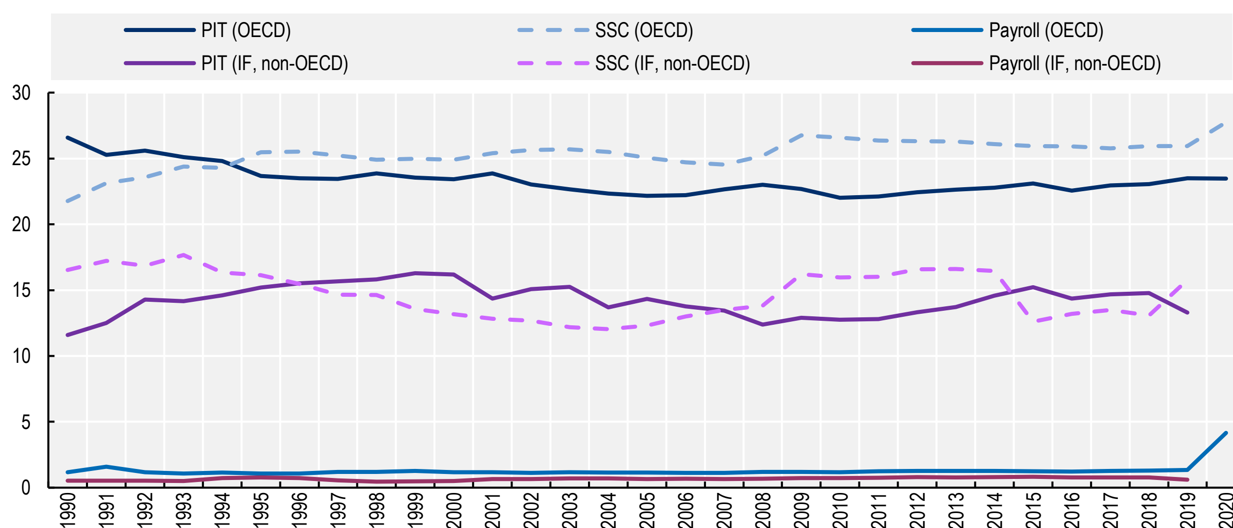
Over the past five decades, SSCs have gradually overtaken PIT as the most important source of tax revenue in OECD countries, while PIT and SSCs are more volatile and less significant as a share of total tax revenue in the selected non-OECD Inclusive Framework jurisdictions. In both OECD countries and non-OECD Inclusive Framework jurisdictions, the sum of PIT and SSCs has slightly increased over time, however, considerable differences remain in their respective tax mix (Figure 3.2). Across OECD countries, PIT has gradually declined as a share of total revenue while SSCs have increased. In 1965, SSCs comprised 17.6% of tax revenues on average while PIT accounted for 26.2% of total taxation. By 1995, they were about equal at approximately 25%. In 2020, SSCs represented 27.7% of total tax revenues on average, surpassing the PIT share of 23.5%. In the five non-OECD Inclusive Framework jurisdictions, PIT and SSCs accounted for a much smaller share of total tax revenues in 2019 (the latest year for which data is available for all countries covered), with 13.3% and 15.8%, respectively while their share in total tax revenues is also more volatile. The proportion of SSCs in the total tax mix increased significantly both in OECD countries and the non-OECD Inclusive Framework jurisdictions in the aftermath of the global financial crisis, with a similar increase observed in OECD countries in response to the COVID-19 pandemic.

Figure 3.2. Average tax revenue share of PIT, SSCs and payroll taxes in OECD and partner countries, 1990-2020

Share of total tax revenues (%)



Note: The five additional Inclusive Framework jurisdictions included are Argentina, Brazil, China (People's Republic of), Indonesia and South Africa. For Indonesia, data are included from 2002-2019; for China, data are included for 2019; for other Inclusive Framework jurisdictions, 2019 data are the latest available.
Source: OECD Global Revenue Statistics Database, OECD Revenue Statistics Database.

https://stat.link/kszuvb

PIT and SSCs were increased in most OECD countries in 2020 following the COVID-19 pandemic, both in absolute terms and as a share of total tax revenue.[3] In the 34 OECD countries for which provisional data were available for 2020, 19 countries recorded an increase and 15 countries a decrease in both nominal PIT and SSC revenues. As a share of total tax revenue, 27 countries saw their PIT revenue increase while seven countries recorded a fall. The share of SSCs in total tax revenues increased in 28 countries while it fell in six countries. In several countries, the relative PIT and SSC tax revenue decline was therefore smaller compared to the decrease in total tax revenues. On average across the 34 OECD countries for which data are available, the share of SSCs in total tax revenues increased by 1.8 p.p. in 2020 (from 25.9%) while the PIT revenue share remained stable at 23.5% compared to the previous year. These trends highlight the efforts of governments to promote job and income security in the face of the economic repercussions of the COVID-19 crisis.

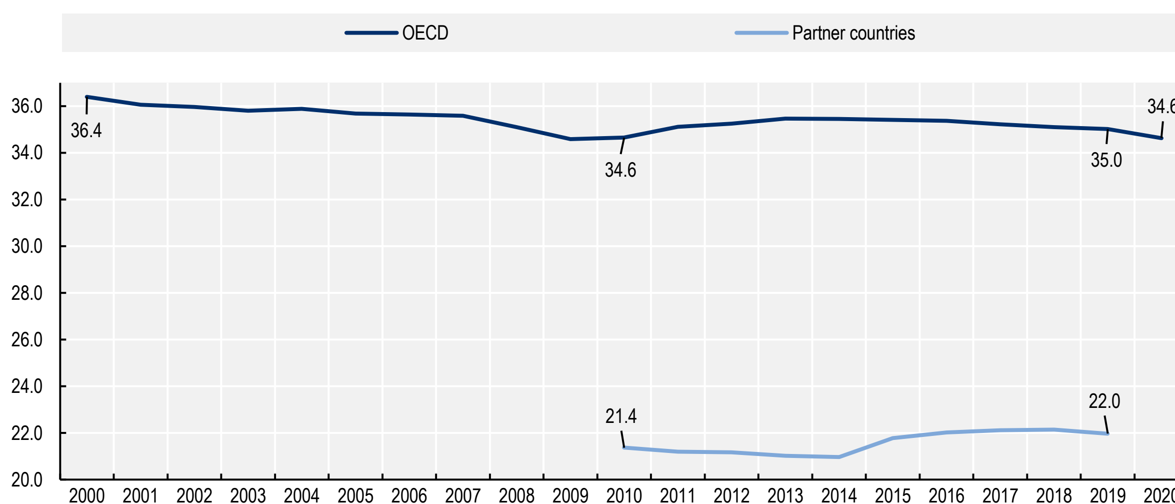
3.1.2. Taxes on labour income continued to decline on average in 2020

The average tax burden on labour income has declined in recent years in OECD countries while it has increased in the five selected non-OECD Inclusive Framework jurisdictions over the same time period (Figure 3.3). The average tax wedge – the total tax payments on labour income as a percentage of total labour costs – for single workers earning the average wage was 13 p.p. higher in OECD countries compared to partner countries in 2019, however, with considerable cross-country variation among the five non-OECD Inclusive Framework jurisdictions. In Brazil and China, the average tax wedge in 2019 was 32.5% and 30.7% respectively, close to the OECD average of 35.0%, while it was estimated at 16.9% in South Africa and 7.8% in Indonesia. Over time, the average tax wedge has declined from 36.4% in 2000 to 34.6% in 2020 in OECD countries while it increased marginally from 21.4% in 2010 to 22.0% in 2019 in

the five non-OECD Inclusive Framework jurisdictions. The increase in the tax wedge between 2009 and 2013 in OECD economies largely reflects fiscal consolidation measures taken in response to the global financial crisis. Since then, the average tax wedge has declined consistently, with a particularly marked reduction of 0.39 p.p. between 2019 and 2020 in response to the COVID-19 pandemic. Between 2010 and 2019, the average tax wedge in the non-OECD Inclusive Framework jurisdictions increased consistently in Indonesia and South Africa, and remained relatively stable in Brazil, while it decreased continuously in China over the same observation period.

Figure 3.3. Evolution of the average tax wedge on labour income in OECD and selected non-OECD Inclusive Framework jurisdictions, 2000-2020

Average tax wedge for a single person without children earning 100% of the average wage



Note: Comparable data were not available for Argentina, Brazil, China, Indonesia, and South Africa. The non-OECD IF jurisdiction average includes data for Brazil, China, Indonesia, and South Africa from 2010-2019; for China, the model assumes that the worker is based in Shanghai.
Source: OECD Taxing Wages Database, OECD (2021[1]).

StatLink https://stat.link/kezfoh

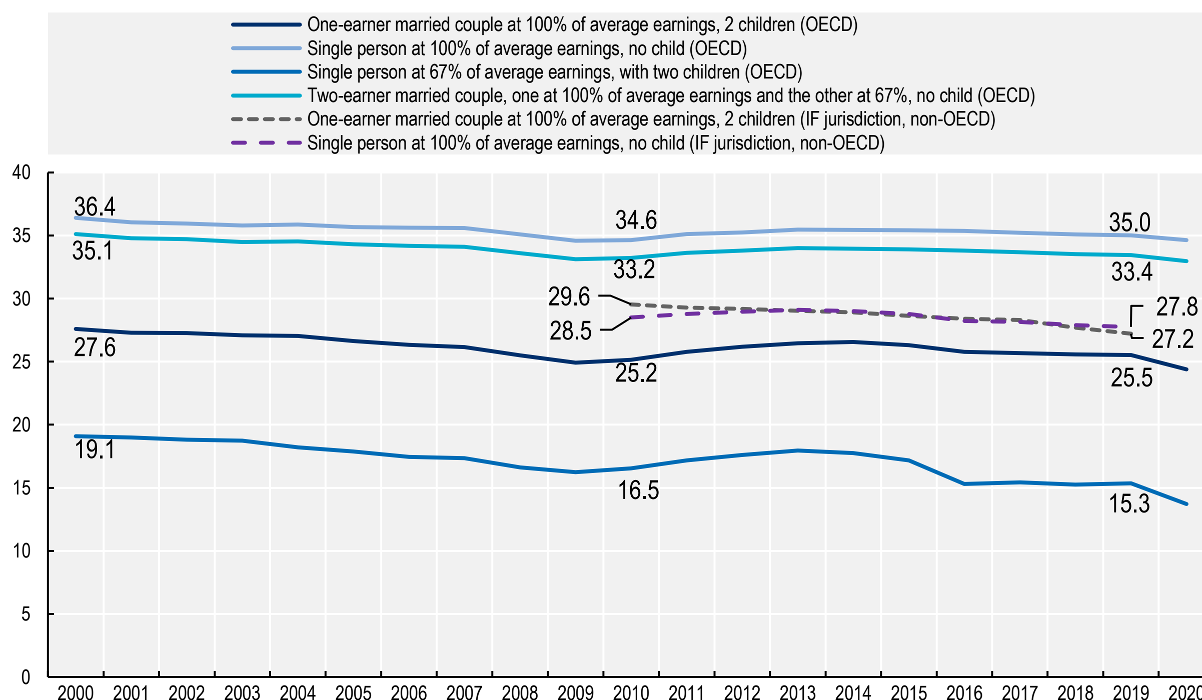
The decrease in the tax burden for single earners without children earning the average wage has mainly been driven by lower income taxes. Between 2019 and 2020, the tax wedge fell in 29 out of 37 OECD member countries.[4] For 21 out of the 29 OECD countries, the decrease in the average tax burden was predominantly driven by lower income taxes, linked to policy changes, including measures related to the COVID-19 pandemic, but also partially due to lower nominal average wages. In five OECD countries, the decrease in the average labour tax burden was mainly linked to lower SSCs (Finland, Greece, Hungary, the Netherlands, and the United Kingdom) while increases in Canada and the United States reflected the temporary cash transfers paid to single-worker households during the COVID-19 crisis who would not typically receive these types of benefits. In Iceland, the decline was driven equally by a reduction in income taxes and employer SSCs as a share of labour costs. In seven countries, the increase in the average tax burden has mainly been associated with growth in wages, which has seen workers on the average wage move into higher tax brackets (OECD, 2021[2]).

There are significant differences between the taxation of workers and families with and without children across Inclusive Framework jurisdictions (Figure 3.4). In OECD countries, the average tax wedge for a one-earner married couple with two children was 9.5 p.p. lower compared to a single person with no children in 2019. Across different family types, policy-related factors were the predominant driver

of lower average tax burdens. Governments across the OECD relied mainly on enhanced or one-off cash benefits instead of support programmes granted within the labour tax system. A particular focus has been on families with children, which is reflected in the notable decline in their average tax burden.

Figure 3.4. Evolution of the average tax wedge in OECD and selected non-OECD Inclusive Framework jurisdictions, by family type, 2000-2020

Average tax wedge



Note: Comparable data were not available for Argentina, Brazil, China, Indonesia, and South Africa. The partner country average includes data for Brazil, China, Indonesia, and South Africa from 2010-2019; for China, the model assumes that the worker is based in Shanghai.
Source: OECD Taxing Wages Database; OECD (2021[1]).

https://stat.link/mzna7d

3.1.3. Top PIT rate increases and PIT rate reductions for low- and middle-income households have raised the progressivity of tax systems

PIT reforms are important tools for governments to achieve different policy objectives, including raising tax revenues, stimulating economic growth, and enhancing the redistributive impact of the tax system. These reforms can involve the upward or downward adjustment of PIT rates and the broadening or narrowing of PIT bases but may require a trade-off between equity and efficiency. For instance, while PIT rate increases on those in the upper income brackets strengthen progressivity and fairness, in some cases they may also reduce economic incentives to work, save and invest. This section looks at the PIT reforms that were recently introduced in the 71 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting that responded to the OECD questionnaire, beginning with PIT rate reforms followed by PIT base changes.

Very few countries increased their top PIT rates in 2021 to raise the progressivity of their tax systems

Three countries undertook top PIT rate reforms, which involved rate increases (Table 3.1). Canada, New Zealand and Norway raised their top PIT rate through the introduction of new income tax brackets at the top of the PIT rate schedule. Norway introduced a fifth band for income over NOK 2 million (USD 232 829)[5] effective from January 2022, which is taxed at a rate of 17.4%, and is paid in addition to the 22% general income tax rate (and the 8% SSC for employees). This reform represents a 1 p.p. net increase in the top PIT rate from 2020 and 2021 (employee SSCs were reduced by 0.2 p.p.). A tax rate of 16.4% will be applicable to the fourth income tax band from the beginning of 2022.[6] The New Zealand government introduced a new top tax rate of 39% from April 2021 for individuals earning over NZD 180 000 (USD 128 570) per year. The previous top tax rate of 33%, which was applied to all income earned over NZD 70 000 (USD 50 000) up to March 2021, was subsequently applicable to earnings between NZD 70 000 and up to NZD 180 000. The Canadian province of Newfoundland and Labrador added three new income tax brackets on top of its existing five band structure. Effective from January 2022, income between CAD 250 000 (USD 199 380) and CAD 500 000 (USD 398 760) will be taxed at 20.8%, while earnings between CAD 500 000 and CAD 1 000 000 (USD 797 520) will be subject to a 21.3% tax rate. A tax rate of 21.8% will apply to income above CAD 1 000 000, representing a notable increase from the previous top PIT rate of 18.3% in 2021.[7]

Table 3.1. Changes to personal income tax rates

	Rate increase	Rate decrease
	2021 or later	
Top PIT rate	CAN [1], NOR, NZL	
Non-top PIT rate		ARM, AUT, ITA, LUX [2], MLT [2], POL

Note : 1. Signifies that tax reform was implemented at the sub-central level (Province of Newfoundland and Labrador). 2. Signifies that PIT tax rate changes apply to income from temporary work.
Source: OECD Annual Tax Policy Reform Questionnaire.

Countries continue to cut PIT rates for low and middle-income earners

More countries introduced non-top PIT rate reforms compared to top rate measures, many of which were comprised of rate cuts to support low and middle-income earners. Italy introduced a significant PIT reform (see Box 3.2), which included a reduction in the number of tax brackets from five to four as well as a reduction in PIT rates for the second- and third-income band. The rate for the second income band was cut from 27% to 25% while the rate for the third band was reduced from 38% to 35%. The fourth tax bracket was eliminated, which was previously composed of a tax rate of 41% applicable to taxable income between EUR 55 000 (USD 65 051) and EUR 75 000 (USD 88 706). The top PIT rate remained unchanged at 43% but applies now to taxable income above EUR 50 000 (USD 59 137) (IBFD, 2022[3]). Armenia reduced its flat PIT rate from 23% to 22% in January 2021. Austria will reduce the PIT rates that apply to the second and third tax bracket from 35% to 30% and 42% to 40%, respectively, with effect from July 2023.

Several countries introduced PIT rate reforms for part-time employment and other professional groups. Poland reformed the lump-sum tax rates for certain businesses on the registered revenues that apply to specific business activities. A flat rate of 14% is applied to income earned, for instance, by doctors and engineers, while the revenue of IT specialists will be taxed at a rate of 12% from 2022 onwards. Malta reduced the tax rate it applies for the first EUR 10 000 (USD 11 827) of income earned from part-time work from 15% to 10% – by decreasing the labour tax burden, the government hopes to partially address labour shortages in certain sectors. Luxembourg also introduced a reform to the taxation of income received by

temporary workers. From 2022, income paid by temporary work agencies is taxed at a flat rate of 10% (tax applies on the gross wage after the deduction of social security contributions) if the hourly gross wage does not exceed EUR 25 (USD 30).

Box 3.2. Personal income tax reform in Italy

Italy announced several significant tax reforms in 2021, which aim at simplifying the tax system and promoting economic growth. These reforms are expected to reduce tax revenues by EUR 4.8 billion (USD 5.68 billion) in 2022 and around EUR 7 billion (USD 8.28 billion) in 2023 and 2024. The child benefit tax credit (ANF) and other benefits supporting children have been replaced by a universal child benefit (AUF). The main beneficiaries of the PIT reform are expected to be middle-income households.

Reform of the income tax schedule

The reforms included a reduction in income tax brackets from five to four as well as a reduction in the marginal tax rates for the second and third bracket (Table 3.2). The reform also redefined the third income tax band, lowering its upper threshold to EUR 50 000 (USD 59 137). The fourth income band was eliminated while the top income rate applies to all taxable income above EUR 50 000.

Table 3.2. Changes in tax bands and marginal PIT rates

2021			2022		
Lower bound	Upper bound	Tax rate	Lower bound	Upper bound	Tax rate
0	15 000	23%	0	15 000	23%
15 001	28 000	27%	15 001	28 000	25%
28 001	55 000	38%	28 001	50 000	35%
55 001	75 000	41%	50 001		43%
>75 000		43%			

Note: Amounts in EUR.
Source: OECD Annual Tax Policy Reform Questionnaire.

Changes to allowances and tax credits

Italy also revised the structure of its tax credit system for employment, self-employment, and pension income. Tax credits were generally increased for lower- and middle-income earners while tax credits for higher income earners were reduced. The upper income threshold (i.e., income for which tax credits are reduced to zero) was lowered from EUR 55 000 (USD 65 050) to EUR 50 000.

Reform of the child tax credit

The PIT reform also replaced the child benefit tax credit and other benefits (e.g., child allowance) with a single, universal allowance (“*assegno unico e universale*”), which will become effective as of March 2022. The allowance includes a monthly cash-transfer, the amount of which is based on the economic situation of the household and calculated with the help of the Equivalent Economic Situation Indicator (“*Indicatore della Situazione Economica Equivalente*”). Parents with children under the age of 21 are eligible to receive the benefit. The universal allowance is generally more generous compared to previous arrangements, though it depends on the individual economic situation of the household. Notably, it also benefits households on low incomes who are not liable to PIT (which were previously excluded).

Source: OECD Annual Tax Policy Reform Questionnaire; IBFD (2022[3]); Panteghini and Pellegrino (2022[4]).

3.1.4. Reforms narrowing PIT bases have continued in 2021

Many countries have continued to narrow their PIT bases. Overall, these measures are expected to reduce tax revenues. Of the countries undertaking PIT base reforms, 57 were base narrowing and nine were base broadening measures (Table 3.3), which generally follows trends observed in recent years. Most PIT base reforms introduced in 2021 or later were aimed at supporting individuals and families on low incomes who were often particularly hard hit by the economic impact of the pandemic. Several reforms also sought to reduce the tax burden on middle-income households with the intention of increasing household consumption and promoting economic recovery. Thirteen reforms involved increases in personal tax allowances, tax credits and tax brackets to support low-income earners and employment, while nine reforms were aimed at supporting children and other dependents. PIT base reforms also aimed at supporting the elderly, particularly those on low incomes. Five countries expanded the scope of their earned income tax credit (EITC) and other in-work benefits. Promoting economic recovery while alleviating the tax burden on low-and medium-income households was the predominant rationale behind many base narrowing tax provisions.

Table 3.3. Changes to personal income tax bases

	Base broadening	Base narrowing
	2021 or later	
Personal allowances, credits, tax brackets	ITA, NOR, GBR [2], URY [1,2]	ALB, BRA, CAN, CZE, FIN, IRL, ITA, LTU, LVA, NOR, POL, SWE, ZAF
Provisions targeted at low-income earners, EITCs and other in-work benefits		CAN, FIN, ITA, SWE [1], USA
Self-employed and unincorporated business		AUT, DEU, POL, MEX, TUR
Children and other dependents		AUT, BEL, BGR [1], CAN, CHE, CZE, FIN [1], ITA, POL
Elderly & disabled		CAN, MLT, POL, SWE
Employment	BEL, NLD, SWE	AUS, AUT, BEL, CAN, DEU, HUN, IRL, NLD, NOR
Environmental sustainability		ITA, BEL [1], CAN, FIN [1], MYS, SWE
Miscellaneous expenses, deductions, and credits	ESP, NOR	AUS, CAN, DEU, HUN, KOR LVA, SWE

Note: Temporary COVID-19 response measures are not included in the table.
1. Denotes a temporary PIT reform.
2. Denotes a new tax.
Source: OECD Annual Tax Policy Reform Questionnaire.

Many countries increased the generosity of their general PIT allowances and credits

In nine countries the basic tax allowance was increased to reduce the PIT burden and support the progressivity of the tax system. Increases were introduced in seven OECD and two non-OECD Inclusive Framework jurisdictions. In Poland, the basic allowance will be raised almost four-fold from PLN 8 000 (USD 2 072) to PLN 30 000 (USD 7 768), from 2022 onwards. Lithuania has indicated that it will increase its basic allowance from EUR 4 800 (USD 5677) to EUR 5 520 (USD 6529) from 2022 for people earning below the national average wage. For taxpayers whose income exceeds the national average wage the tax-free threshold of EUR 4 800 (USD 5677) continues to apply (IBFD, 2021[5]). Latvia increased its monthly basic allowance from EUR 300 (USD 355) to EUR 350 (USD 414) as from January 2022 onwards, while a further increase to EUR 500 (USD 591) will apply from July 2022 onwards. Norway increased its basic allowance from NOK 52 450 (USD 6 106) to NOK 58 250 (USD 6 781), ensuring that the allowance increased more than average growth in wages (KPMG, 2021[6]). In Finland, the basic allowance for municipal tax purposes was raised to EUR 3 740 (USD 4 423) from EUR 3 630

(USD 4 293). Brazil raised its monthly income tax-exempt threshold from BRL 1 904 (USD 35) to BRL 2 500 (USD 463) (IBFD, 2021[7]). In Albania, the basic allowance was increased from ALL 30 000 (USD 290) to ALL 40 000 (USD 386) as from 2022 onwards. In Prince Edward Island, Canada, the personal income tax exemption level was raised from CAD 10 500 (USD 8 374) to CAD 11 250 (USD 8 972) with effect in 2022.

In Canada, the Czech Republic and Ireland, general tax credits were expanded. Ireland announced that it will increase its Personal Tax Credit from EUR 1 650 (USD 1 952) to EUR 1 700 (USD 2 011) from 2022. The Canadian province of Prince Edward Island increased its low-income tax credit threshold from CAD 19 000 (USD 15 153) to CAD 20 000 (USD 15 951), for a tax credit of up to CAD 350 (USD 279) per person (with additional claims possible for those with a spouse and children), effective from 2022.

Tax brackets were shifted upwards in several countries in 2021. Ireland increased standard rate bands for all earners by EUR 1 500 (USD 1 774) from 35 300 (USD 41 750) to EUR 36 800 (USD 43 525) for single individuals and from EUR 44 300 (USD 52 395) to EUR 45 800 (USD 54 170) for married couples and civil partners with one earner. A tax rate of 20% applies below the threshold while a rate of 40% is levied above the threshold. Iceland introduced an annual adjustment factor applied to the tax-free threshold and tax brackets, which is determined by the yearly change in the Consumer Price Index plus a one percentage point increase to account for annual rises in productivity. Poland revised its band threshold upwards from PLN 85 528 (USD 22 147) to PLN 120 000 (USD 31 073) and from January 2022, income above PLN 120 000 will be taxed at a rate of 32% while income below is taxed at a rate of 12%. Albania increased the base of its second tax bracket, with the top PIT rate applying from ALL 200 000 (USD 1 930), up from ALL 150 000 (USD 1 450). Finland raised the thresholds for all its income tax brackets by EUR 1 100 (USD 1 300). The adjustments account for the general increase in the earnings level and is aimed at supporting sustained household purchasing power. Tax bands in South Africa were also adjusted upwards to account for inflation.

Several countries introduced PIT measures aimed at supporting particularly lower income households with children as well as promoting the compatibility of work and family life.

Several countries introduced PIT measures aimed at supporting families and children. In Austria, the child tax credit will be raised from EUR 1 500 (USD 1 774) to EUR 2 000 (USD 2 365) per child under the age of 18 from July 2022. Moreover, the child tax refund for single-earner and single-parent households was raised to EUR 350 (USD 414) (EUR 450 (532 USD) from 2023 onwards) and extended to people in partnerships. The Czech Republic increased the child tax credit from CZK 19 404 (USD 895) to CZK 22 320 (USD 1 030) for the second child and from CZK 24 204 (USD 1 117) to CZK 27 840 (USD 1 284) from the third child, taking effect retrospectively from January 2021. Poland introduced an additional tax relief for families with four or more children, which exempts income from certain sources (i.e., labour) from personal income tax up to PLN 85 528 (USD 22 146). In Canada, several measures were introduced throughout 2021 to support families and children. The province of Quebec enhanced the refundable tax credit for childcare expenses to align the costs of non-subsidised childcare services with the cost of subsidised services. The province of Newfoundland and Labrador introduced a Physical Activity Tax Credit, which provides a tax credit of up to CAD 2 000 (USD 1 595) per family for expenses related to physical activities, including for instance sport club registration or membership fees.

Several PIT measures were also aimed at reducing disincentives for second earners to participate in the labour market and at reconciling work and family life. Tax policies can play an important role in promoting gender equity and reducing income and wealth inequalities more broadly (Box 3.3). Italy introduced a major reform unifying its former child benefit tax credit and other minor benefits into one single, universal allowance (Box 3.2), with the explicit aim to strengthen second earner labour market participation. In Switzerland, deductions for external childcare for federal income tax purposes were increased from CHF 10 100 (USD 11 052) to CHF 25 000 (USD 27 357) in 2022. Finland raised the

maximum tax credit for household expenses on domestic and care work in a two-year trial to assess the potential employment effects.

Box 3.3. Gender and taxation

Promoting gender equality, as reflected in the Universal Declaration of Human Rights and the Sustainable Development Goals, is a human rights objective for many governments, including in G20 and OECD countries (OECD, 2022[8]). Improving gender equality is not only an issue of fairness but can also produce a significant economic dividend. Working towards more inclusive economies in which women participate fully is important for economic growth and, in the context of the COVID-19 pandemic, will be crucial in ensuring an inclusive and robust recovery. Research shows that improving gender equality and reducing gender-based discrimination can generate substantial economic benefits, by increasing the stock of human capital, making labour and product markets more competitive, and increasing productivity.

Tax policy can contribute to gender equality and to governments' efforts to reduce inequalities. A growing body of research shows that even in tax systems that do not include explicit gender biases, other implicit biases exist due to the interaction of the tax system with differences in the nature and level of income earned by men and women, consumption decisions, the ownership of property and wealth, and the impact of different social expectations on male and female taxpayers.

Against this background, governments can act to improve the gender outcomes of taxation; removing overt biases and reconsidering tax settings that currently result in implicit gender biases; and evaluating avenues within the tax system to design and implement tax policy that promotes gender equality.

The first analysis of its kind

The report *Tax Policy and Gender Equality: A Stocktake of Country Approaches* (OECD, 2022[8]) is the first cross-country report to analyse national approaches to tax policy and gender outcomes, including assessments of explicit and implicit biases, tax policy reforms to improve gender equity, and policy processes and priorities. Covering 43 countries from the G20, the OECD and beyond, the report was prepared as part of the OECD's efforts to mainstream gender equality under the Indonesian G20 Presidency.

The report focuses on various aspects of tax policy design and implementation, on a cross-country basis. It explores the extent to which countries consider gender equality in tax policy development and tax administration, how they address explicit and implicit gender biases in their tax systems, and the availability and use of gender-disaggregated data. It analyses country perspectives on how and to what extent gender should be considered in the tax policy development process (including via gender budgeting). It also takes stock of the impact of the COVID-19 pandemic on gender equality in the tax system and highlights how countries consider gender outcomes in their tax responses to the pandemic.

Key findings and country priorities

The report finds that gender equality is an important consideration in tax policy design for most countries, and that about half of them have already implemented specific tax reforms to improve gender equity, most commonly in the taxation of personal income.

Although few countries noted examples of explicit bias in their tax system, more than half of the countries indicated that there was a risk of implicit bias. As with explicit biases, these implicit biases can either exacerbate or reduce gender inequalities already present in society and the examples noted by countries suggest a more nuanced policy response to gender bias in taxation is needed.

Most countries have access to gender-differentiated data for policy analysis, but access to data is concentrated on male and female incomes and labour market participation. Detailed data on consumption and on property and wealth ownership is less commonly available and was identified by several countries as a key data gap.

Finally, countries indicated that aspects of labour taxation were the key priority for future work to improve tax systems to increase gender equality. Identified policy areas include the impact of tax credits and allowances on gender equality, the taxation of second earners, the relationship between the progressivity of the tax system and gender equality, and the impact of social security contributions. A secondary priority is work on identifying the policy rationales and an assessment framework for considering the use of explicit biases to reduce gender inequality. Another common priority is exploring gender bias in the taxation of capital income and capital gains, notably in wealth and inheritance taxes.

Source: OECD (2022[8]).

Several countries significantly increased the generosity of their Earned Income Tax Credits and other in-work tax benefits

More countries introduced reforms to Earned Income Tax Credits (EITCs) and other in-work benefits compared to previous years. In-work benefit programmes typically involve tax reductions or cash transfers, which are conditional on labour market participation. The value of EITCs commonly depends on the recipient's earned income. Typically, the value of the credit increases gradually with income (phase-in) until it reaches the maximum credit amount (plateau). Beyond a certain earned income threshold (the phase-out threshold), the value of the credit is gradually reduced to zero. Programmes are typically means-tested and may be targeted at specific groups. When designed correctly, such measures have the potential to improve labour market participation and reduce poverty.

Canada, Finland, Italy, and the United States increased in-work tax credits to promote work incentives and provide financial support for low-income households. The United States raised the maximum credit amount for workers without qualifying children from USD 538 to USD 1 502. Moreover, certain eligibility criteria have been relaxed, including for instance limits on investment income, the allowance that applies to separated spouses claiming EITCs and for taxpayers with qualifying children who fail to meet certain identification requirements (IRS, 2022[9]). In Canada, the federal government increased its in-work tax credit by raising phase-in rates and phase-out thresholds, while also increasing phase-out rates. Finland increased its maximum earned income tax credit to EUR 1 930 (USD 2 283) from EUR 1 840 (USD 2 176) and raised its phase-in and phase-out rates. Italy reformed the structure of its earned income tax credit, generally increasing tax credits for low-income and medium-income taxpayers (Box 3.2).

A few countries introduced PIT base reforms for the self-employed and unincorporated businesses.

Austria, Poland and Türkiye reported PIT base reforms for the self-employed and unincorporated businesses, which generally reduced their tax burdens. In Austria, the percentage of profits that partnerships and the self-employed can claim as tax exempt was raised from 13% to 15% with effect from 2023 – this basic tax-free allowance can be claimed only on profits up to a value of EUR 30 000 (USD 35 482), i.e., a maximum EUR 3 900 (USD 4 615). Austria also introduced several new tax credits for investments. Poland enhanced PIT reliefs to support research and development (in parallel with changes to its CIT), including for instance an increase (of up to 200%) in the deduction of qualified costs for R&D centres and an increase (of up to 200%) in the deduction of qualified costs related to employing staff conducting R&D for all taxpayers. Poland also introduced a robotisation relief that allows for an

additional deduction of up to 50% of eligible costs related to robotisation. Türkiye introduced a provision whereby social content creators (e.g. influencers) and app developers are subject to a 15% withholding tax (and not the personal income tax) if their earnings do not exceed the amount specified in the fourth income segment of the personal income tax return (IBFD, 2021[10]). Taxpayers previously liable to small business taxation were also exempt from income tax.

Several countries provided support for the elderly through their PIT regime

Malta, Poland, and Sweden introduced PIT measures to support the elderly, some of which also incentivise pensioners to stay active in the labour market. Supporting low-income older people continues to be an important policy rationale for age-related tax concessions. Latvia increased the monthly basic allowance for pensioners from EUR 300 (USD 355) to EUR 330 (USD 390) in January 2021, with a further raise to EUR 500 (USD 591) taking effect from July 2022 onwards. Similarly, Sweden increased the basic allowance for elderly people in 2022. In Estonia, the basic allowance for pensioners will be raised to the same level as the average-old age pension in 2023, making average old age pensions tax exempt. In Malta, pension income will no longer be counted as part of the PIT base between 2022 and 2026. This measure is intended to encourage pensioners to remain active in the labour market after reaching the age at which they can receive their pension. Poland also introduced a personal income tax exemption (up to PLN 85 528 (USD 22 146)) for people who continue working after reaching the statutory retirement age and do not take their retirement pension.

In Canada, PIT measures introduced for the elderly involved tax credits for care services and home improvements. The Canadian province of Quebec enhanced the refundable senior assistance tax credit targeting low-income seniors starting in 2021 and increased the generosity of the refundable tax credit for home-support services for seniors, effective from 2022. Ontario extended the temporary seniors' Home Safety Tax Credit for the tax year 2022, for renovations that improve safety and accessibility or help elderly people to be more functional or mobile at home.

Several countries have sought to facilitate employment in a changing work environment through employment-related tax provisions

Countries are supporting employers and employees to manage changing work environments and the transition to increased working-from-home. Ireland started allowing for the deduction of heat, electricity, and broadband expenses for home office days from 2022 onwards. In the Netherlands, employers may pay a tax-free "working from home" allowance of EUR 2 per day (USD 2.37). To simplify the regulation of temporary employment, Sweden reformed its rules governing the place of employment and temporary work, with expenses for temporary work and assignments in a different location now being tax deductible if the assignment lasts less than one month and the distance between the workplace and home is more than 50 kilometres. Germany allows taxpayers to fully depreciate computer hardware and standard business software in the year of acquisition instead of over a three-year period, taking effect from January 2021, retroactively. Austria introduced a non-taxable expense compensation for working from home of up to EUR 3 (USD 4) per day for a maximum of 100 days within a tax year, which will be in place until December 2023. Similarly, Canada simplified the rules for deducting home office expenses and increased the temporary flat rate to CAD 500 (USD 399) for the tax years 2021 and 2022 tax year.

Several countries reformed the tax provisions of employee share schemes. For employee share schemes in Australia, the termination of employment is no longer considered a taxable point, which aims at increasing the attractiveness of employee share plans. Germany clarified the tax rules that apply to shares and options that workers receive as part of their remuneration as employees of start-ups and SMEs. Germany also increased the income tax exemption threshold for employee share plans from EUR 360 (USD 426) to EUR 1 440 (USD 1 703) from July 2021. Norway, on the other hand, abolished the tax-free benefit for employees buying shares at a discount in the company they work in. Thereby, the

benefit from the purchase of the shares (at a discount) is included in the tax base. At the same time, Norway also introduced a more favourable scheme for the taxation of options in start-ups, which is aimed at attracting talent and promoting entrepreneurship. Sweden reformed the eligibility criteria for the beneficial tax treatment of employee stock options (qualified employee stock options), which includes for instance a deferral of personal income taxes for the employee and social security contributions for the employer until the point of sale of the shares. From January 2022, these rules also apply to larger companies and board members (Baker McKenzie, 2022[11]).

Hungary introduced favourable tax provisions for young workers. From January 2022, Hungary exempts taxpayers below the age of 25 from PIT if their income falls below the average gross wage for a full-time employee in July of the preceding year. The reform is intended to increase employment of younger people and promote their financial independence (European Social Policy Network, 2021[12]).

Sweden introduced tax relief measures related to pensions, unemployment insurance and other work-related benefits. From July 2022, Sweden will increase the tax reduction for pension and social insurance benefits, including, for instance, sickness compensation. The tax reduction is greater for low incomes and falls as income increases up to a maximum of SEK 1 500 (USD 175). Sweden also introduced tax relief for unemployment insurance contributions, aimed at increasing insurance coverage.

PIT provisions encouraging environmental sustainability have become more common

Several countries have granted or expanded tax incentives for home renovations to support the environmental transition towards net zero greenhouse gas (GHG) emissions. Italy introduced and extended multiple tax credits for sustainable building renovations aimed at, for instance, increasing buildings' energy efficiency and seismic resilience. Finland temporarily increased the tax credit for household expenses to a maximum of EUR 3 500 (USD 4 140) (from EUR 2 250 (USD 2 661) for households moving from oil heating to more sustainable energy sources between 2022 and 2027.

PIT measures related to environmental sustainability also involved tax incentives for carbon-efficient transportation. Between 2021 and 2025, Belgium will grant a tax deduction of up to EUR 675 (USD 798) (this amount is reduced over the five-year period) for taxpayers installing an electric charging station in their homes. Malaysia announced that it will introduce a relief for expenses related to the purchase, rental, and related installation costs of electric vehicles of up to MYR 2 500 (USD 604) per tax year in 2022 and 2023. Finland granted tax provisions for hybrid vehicles and Sweden for low-emission vehicles and bicycles provided as an in-kind benefit by employers.

Several temporary PIT measures were introduced or extended in response to the COVID-19 pandemic

Some countries continued to provide temporary PIT tax relief to encourage employment. Sweden introduced a temporary in-work tax credit for 2021 and 2022, which intends to support middle-income households. For incomes between SEK 60 000 (USD 6 996) and SEK 240 000 (USD 27 983), the tax credit increases to a maximum amount of SEK 2 250 (USD 262). The credit is then phased out for incomes between SEK 300 000 (USD 34 979) and SEK 500 000 (USD 58 298) (Sveriges Riksdag, 2021[13]).

Countries also introduced a wide range of other measures aimed at supporting households and businesses. Germany introduced an exemption for bonuses of up to EUR 1 500 (USD 1 774) paid to employees during the COVID-19 pandemic (between March 2020 and March 2022). The government also prolonged tax deferrals and simplified procedures to reduce pre-payments for the self-employed. In Greece, private sector employees will be exempt from special solidarity surcharge for the tax year 2022. Latvia extended the deferral of personal income tax advance payments for the self-employed. Viet Nam exempted individuals and households located in areas affected by the COVID-19 pandemic from personal income tax and other taxes on income for the second and fourth quarter of 2021 (IBFD, 2021[14]). Australia

exempted individual assistance support payments from the PIT base. Chile and Cabo Verde extended the deadlines for income tax return filing in 2022. Malaysia extended and increased several tax credits, including for instance for fees of self-study courses, medical expenses, and costs for childcare services. The province of Ontario, Canada, introduced a temporary Staycation Tax Credit for the 2022 tax year, for eligible accommodation expenses paid for by Ontario residents, which would also help the tourism and hospitality sectors. Quebec introduced a one-time cost of living allowance of CAD 200 (USD 160) per adult for eligible households. Korea introduced a temporary five percentage point rise in tax credits for donations made during 2021 to promote charitable giving.

Several countries continue to provide PIT relief to support families, particularly for those on low incomes. Hungary refunded PIT payments for families with children for the tax year 2021, capped at tax payments for income at the average annual wage. Ontario introduced a one-off 20% increase in the refundable income-tested tax credit that provides families with childcare support. Bulgaria introduced a temporary child tax relief granting a deduction of BGN 4 500 (USD 2 721) per child (up from BGN 200 (USD 121)) for the tax years 2021 and 2022 to support the income of families.

3.1.5. A few countries introduced measures which broadened PIT bases

Both Italy and Norway decreased their tax band thresholds for higher income earners while the Netherlands will abolish the possibility to average taxable income. Norway reduced the lower thresholds for its third and fourth bracket and adjusted the first and second tax brackets in line with average wage growth. A new top tax band was also added for income above NOK 2 000 000 (USD 232 828). Italy also reduced the tax band threshold for the fourth tax bracket from EUR 55 000 (USD 65 051) to EUR 50 000 (USD 59 137). With effect in 2023, the Netherlands will abolish the averaging scheme, which allowed taxpayers with significant income fluctuations to average their income over three consecutive years. The reform aims at simplifying the tax system and increasing tax compliance.

Spain and Norway amended the tax treatment of pension and welfare contributions while the Netherlands reformed PIT tax support for families. Spain lowered the maximum amount of annual contributions to qualifying pension plans that taxpayers can deduct from their net taxable income from EUR 2 000 (USD 2 365) to EUR 1 500 (USD 1 774), taking effect in 2022. Similarly, Norway amended the tax treatment of pension accounts, reducing the maximum tax-favoured amount of savings in individual pension accounts from NOK 40 000 (USD 4 657) to NOK 15 000 (USD 1 746). The reform will come into effect in January 2022 and is aimed at raising revenue and efficiency in the tax system. The Netherlands reduced the maximum income dependent combination tax credit by EUR 395 (USD 467), with the aim to partially fund free childcare. The tax credit, which is provided at a rate of 11.45% of taxable income, is aimed at supporting working single parents or the partner in a family with the lower income, conditional on children being below the age of 12 and the taxable income from employment exceeding EUR 4 993 (USD 6 240) (OECD, 2020[15]).

Other tax base broadening measures affected the highly skilled labour force in Belgium and the self-employed in the Netherlands. Belgium reformed its legal framework on the tax treatment of foreign (non-Belgian national or citizen) executives and researchers working for Belgian companies or entities with the intention of providing more legal certainty to expatriates and limiting the maximum duration of the special tax treatment regime to five years (this was previously indefinite). The regime allows taxpayers, subject to several eligibility criteria, to be considered as non-resident for income tax purposes and therefore to only be taxed on Belgian income sources, while living in Belgium and maintaining the centre of economic and personal activities (e.g., contribution to pension plans, real estate ownership) in another country. In the Netherlands, the tax deduction for the unincorporated self-employed will be gradually phased-out until 2030, by EUR 650 (USD 769) per year, from EUR 6 310 (USD 7 463) in 2022.

The United Kingdom and Uruguay introduced temporary PIT measures, which broadened the tax base and sought to address the increased funding needs following the COVID-19 pandemic. The

United Kingdom has frozen the Income Tax Personal Allowance and the Basic Rate Limit (i.e., income tax band liable to a 20% tax rate) for a four-year period at 2021-22 levels. Uruguay introduced a temporary income tax to fund measures mitigating the economic impact of the COVID-19 pandemic (IBFD, 2021[16]). Between May and June 2020, a temporary income tax was implemented, similar to a measure passed in 2020 to finance an emergency COVID-19 solidarity fund, which applied a progressive tax to income derived from employment in the public sector (exempting employees working in the healthcare sector), and from pension income. The applicable tax rate was determined by a five-band income tax rate schedule, with rates between 0% (for income below UYU 120 000 (USD 2 755)) and 20% (for income over UYU 180 000 (USD 4 133)).

3.1.6. Changes to personal capital income taxation have been limited

There were two countries reporting changes to their capital income tax rates, while eight countries introduced changes to their capital income tax bases. Changes in tax rates involved rate increases, both of which were aimed at strengthening the neutrality between different economic and investment activities. Tax base broadening measures were predominantly introduced in the area of capital gains taxes while some countries also introduced changes to the taxation of interest income, pensions, and other types of capital income.

The Netherlands announced a reform of the capital income tax system. Following a ruling by the Dutch Supreme Court ("*Hoge Raad der Nederlanden*") in December 2021, which deemed the taxation of income from savings and investments based on presumptive returns incompatible with the European Convention on Human Rights, the government announced that it would revise the current tax method (IBFD, 2022[17]). In the Netherlands, income-producing assets are assigned an assumed yield, which increases with the size of the asset base, regardless of the actual gain or loss of the respective asset. The capital income is then taxed at a rate of 31%. With the implementation of the tax reform, capital income taxation will be based on actual returns from 2025, abolishing the current system. During the transition period, the exemption threshold (applied to the asset base) will be raised from EUR 50 650 (USD 59 906) in 2022 to EUR 80 000 (USD 94 619) in 2023. As part of the reform, the method to estimate the economic value of rental property will also be revised to broaden the tax base.

Brazil and Norway increased the tax rates on certain capital income, to promote neutrality in the tax system. As part of a comprehensive income tax reform, Brazil revised the taxation of income earned in financial markets – for example, gains from stock exchange transactions and income from investment funds – to simplify the tax system and strengthen the neutrality between different types of investments. A key component of the reform was the introduction of a 15% withholding tax on dividend distribution (which previously went untaxed) (IBFD, 2021[7]). Norway also increased the tax rate on dividends to reduce the difference in marginal tax rates between shareholder income and wages, and thereby reduce the incentives for income shifting. In Norway, the ordinary yield of dividends is taxed at the company level while gains above the ordinary yield are taxed at the shareholder level at a flat rate of 22% multiplied by the adjustment factor. The reform raised the adjustment factor from 1.44 to 1.6, increasing the effective dividend tax rate from 31.68% (100 x 22% x 1.44) to 35.2% (100 x 22% x 1.6) (IBFD, 2021[18]).

Table 3.4. Changes to tax rates on personal capital income

	Rate increase	Rate decrease
	2021 or later	2021 or later
Dividend or interest income/equity or bond investment	BRA, NOR	

Note: No tax rate changes were implemented in the area of capital gains, rental income, employee share acquisition deductions and the tax treatment of pensions and savings account.
Source: OECD Annual Tax Policy Reform Questionnaire.

Capital tax base broadening measures were introduced in Nigeria, New Zealand, and the United Kingdom. New Zealand introduced several base broadening reforms with the aim of reducing investors' demand for existing residential property and thereby improving housing market accessibility. The deductibility of mortgage interest on debt to purchase rental residential property will be phased out between October 2021 and March 2025. The government also extended the bright-line test, by which realised gains from the sale of residential property within ten years of its acquisition are subject to income tax. While New Zealand does not apply a tax on capital gains, the bright-line test effectively allows the taxation of gains on residential property (with certain exemptions for newly constructed buildings). Nigeria broadened its capital income tax base by removing certain tax exemptions on sales of shares. From January 2022, a 10% capital gains tax is applied to gains from the sale of shares above a threshold of NGN 100 million (USD 278 700)[8] generated in any 12 consecutive months. The capital gains tax does not apply if the proceeds of the sale are reinvested in shares in the same or another Nigerian company within the same tax year. In the United Kingdom, the maximum lifetime allowance for pension contributions (the limit at which the tax benefits of pensions can be maintained) will be kept at its nominal level of GBP 1 073 100 (USD 1 475 934) (its 2021-22 level) until the tax year 2025-2026. Given inflation expectations, an unchanged nominal limit amounts to a decline in real terms and hence a broadening of the capital tax base of pension income.

Austria and Hungary also broadened their tax bases by introducing taxes on income from crypto currencies. The taxation of income derived from crypto has become a growing area of policy focus (see Box 3.12), with current capital income tax reforms aiming predominantly at promoting neutrality between crypto and other asset classes while also raising tax revenue. Hungary introduced a 15% flat tax on income generated from some crypto currency transactions (equivalent to the 15% capital gains tax). A taxable event is triggered if the asset leaves the digital space when realised or if crypto assets are exchanged in a standard currency or for any other good. The costs related to the crypto transaction and acquisition are deductible from the tax base, while income from crypto mining or exchanges of crypto assets are not included in the tax base (IBFD, 2021[19]). Austria also introduced a tax on income from crypto transactions by which income derived from crypto currency sales is subject to a flat rate of 27.5% (equivalent to the capital gains tax rates). Income from crypto currencies includes the current income generated from crypto currencies as well as income derived from increases in realised values (IBFD, 2021[20]).The tax applies from March 2022 onwards for all sales of crypto currency after February 2021. Given the growing importance of crypto currency taxation, the OECD is also developing a global tax transparency framework, to facilitate the automatic exchange of tax information on transactions in crypto-assets in a standardised manner (see OECD (2022[21])).

Belgium, Bulgaria, and Malta introduced measures in 2021 that have narrowed their capital tax bases. Bulgaria abolished the taxation of interest income on bank deposits (and their branches), where banks are established in an EU Member State or in another State that is party to the Agreement within the European Economic Area. The reform responded to the continuing decline in interest rates on bank deposits in recent years, with corresponding declines in tax revenue. In this context, the administrative burden on banks and taxpayers was deemed disproportionate to the revenue potential of the tax. To promote the growth of start-ups, Belgium doubled the share capital eligible to the tax shelter regulation from EUR 250 000 (USD 295 685) to EUR 500 000 (USD 591 370) and from EUR 500 000 to EUR 1 million (USD 1.25 million) for companies carrying out activities in markets with growth potential. The tax shelter regulation for start-ups provides a tax reduction for private investors on a share of their investment in a start-up (between 25% and 45% of the invested amount). Malta introduced a capital gains tax exemption for the first EUR 750 000 (USD 937 500) of the property transfer value for certain properties subject to eligibility criteria.

Table 3.5. Changes to personal capital income tax bases

	Base broadening	Base narrowing
	2021 or later	2021 or later
Dividend or interest income/equity or bond investment	NZL	BGR, BEL
Capital gains	AUT, HUN, NGA, NZL	MLT
Rental income		
Tax treatment of pensions and savings account	GBR	
Employee share acquisition deductions		

Source: OECD Annual Tax Policy Reform Questionnaire.

3.1.7. SSC reforms introduced by countries continued to reduce contributions

Several countries have introduced SCC reforms, several of which involved temporary SCC reductions in response to the COVID-19 pandemic. To provide financial relief to households and companies, and to promote the economic recovery, several countries have reduced the SSCs paid by workers and employers for a discrete period, both through SCC rate reductions and base narrowing measures. Several countries have increased SSCs permanently to respond to demographic and fiscal challenges.

Permanent changes to SSC rates have been limited while several countries introduced temporary cuts in response to the COVID-19 pandemic

Three countries introduced permanent SSC rate reforms in 2021, including two rate increases and two rate reductions. Germany increased the additional contribution rate to statutory long-term care insurance by 0.1 p.p. to 0.35% for both employees and the self-employed without children, starting from January 2022. This increase reflects the continuation of a trend of rising contribution rates in response to an ageing population and a higher expected dependency ratio. Hungary's SSC measures moved in the opposite direction, as employer SSCs were reduced from 15.5% to 13% in January 2022, having already been cut by 2 p.p. in July 2020. The 1.5% training fund contribution levied on employers was also phased out in 2022. In Norway, SSCs for employees were reduced from 8.2% to 8.0% and for the self-employed from 11.4% to 11.2%.

Italy and Sweden introduced temporary SSC rate cuts to alleviate financial pressure on companies and private households and promote economic recovery amid the COVID-19 pandemic. Italy has temporarily reduced SSCs for incomes below EUR 35 000 (USD 41 396) from 9.19% to 8.39% for the tax year 2022, with the aim of promoting economic recovery and supporting lower-income households. Sweden further decreased SSCs paid by employers for employees aged between 19 and 23 years old. The temporary reduction was first introduced in January 2021 and the augmented reductions will apply between June 2022 and August 2022. The reform intends to promote the employment of young workers as well as to support companies in the sectors that were significantly affected by the pandemic.

Table 3.6. Changes to social security contribution rates

	Rate increase	Rate decrease
	2021 or later	2021 or later
Employers SSCs	JPN	HUN, SWE[1]
Employees SSCs	DEU, JPN	ITA[1], NOR
Self-employed	DEU	
Payroll taxes		

Note: 1. Denotes a temporary SSC reform.
Source: OECD Annual Tax Policy Reform Questionnaire.

Most countries have continued to narrow their SSC bases, often in response to the economic repercussions of the COVID-19 pandemic

Bulgaria and Norway increased the minimum threshold for SSCs, reducing their countries' SSC bases. Bulgaria increased its minimum income threshold for SSCs from BGN 7 800 (USD 4 716) to BGN 8 520 (USD 5 152). The new threshold also applies to self-employed workers and registered farmers and tobacco producers (previously minimum threshold of BGN 5 040 (USD 3 048)). Similarly, in Norway, the minimum income limit was raised from NOK 59 650 (USD 6 944) to NOK 64 650 (USD 7 526) for the tax year 2022.

Some countries introduced SSC measures to promote education and employment, which also narrowed SSC bases. Argentina introduced an employer SSC deduction for new hires participating in vocational training in knowledge-intensive sectors (IBFD, 2021[22]), to promote skills development in these areas. In Australia, to encourage employers to help workers transition to new employment opportunities, employers are exempted from the fringe benefits tax, if benefits are provided for retraining and reskilling to redundant, or soon to be redundant, employees. In Manitoba, Canada the exemption threshold for the Health and Post-Secondary Education Tax Levy on employers was raised from CAD 1.5 million (USD 1.2 million) to CAD 1.75 million (USD 1.4 million) of total annual remuneration paid to employees. The threshold below which employers pay a reduced rate was also increased from CAD 3 million (USD 2.4 million) to CAD 3.5 million (USD 2.8 million), effective from January 2022.

Several base narrowing measures were extended or introduced in response to the COVID-19 pandemic. Sweden continued the tax-exempt status of certain benefits-in-kind offered by employers for their employees, such as free parking and certain gifts to encourage consumption. Argentina extended the 95% reduction in SCCs for employers providing health care services, first introduced in March 2020 until June 2022 (IBFD, 2022[23]). Uruguay introduced a temporary exemption from SSCs for employers in the catering and hospitality sector between July 2021 and October 2021.

Three countries broadened their SSC bases. In Bulgaria, the maximum social security income base was increased from BGN 36 000 (USD 21 768) to BGN 40 800 (USD 24 671), applicable to both employer and employee contributions from April 2022. Latvia raised its SSCs income ceiling from EUR 62 800 (USD 74 276) to EUR 78 100 (USD 92 372), effective from January 2022. Romania introduced a health contribution for pensioners with pension income above RON 04 000 (USD 961).

Table 3.7. Changes to social security contribution and payroll tax bases

	Base broadening	Base narrowing
	2021 or later	2021 or later
Employers SSCs	BGR	ARG, AUS, CAN
Employees SSCs	BGR, LVA	BGR, NOR, SWE[1], URY[1]
Self-employed		BGR, BEL

Note: 1. Denotes a temporary reform. The narrowing of the payroll tax base in the United States was the result of changes to the employee retention credit and the deferral of social security taxes originally introduced as part of the CARES Act.
Source: OECD Annual Tax Policy Reform Questionnaire.

3.2. Corporate income taxes and other corporate taxes

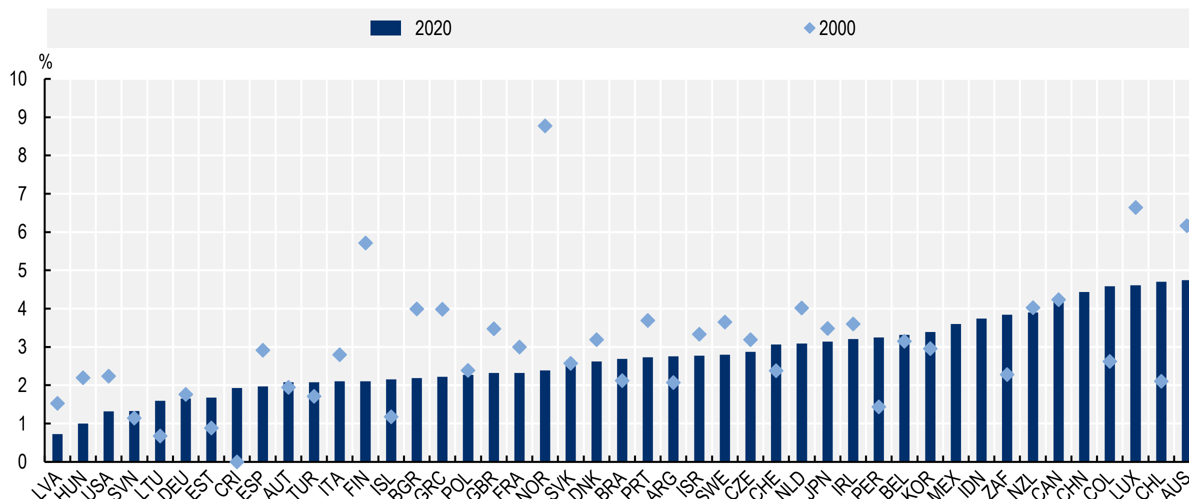
The declining trend in statutory corporate income tax (CIT) rates is widespread and continuing, leading to further convergence in CIT rates across countries. In addition, many countries have continued to increase the generosity of their corporate tax incentives to stimulate investment and innovation, particularly in the field of environmental sustainability. Regarding international taxation, efforts to protect CIT bases against corporate tax avoidance have continued with the adoption of measures in line with the OECD/G20 Base Erosion and Profit Shifting (BEPS) project. A major break-through has been reached with more than 135 jurisdictions worldwide having joined a new two-pillar plan to reform the international taxation rules and ensure that multinational enterprises (MNEs) pay a fair share of tax wherever they operate and generate their profits.

3.2.1. Trends in CIT revenues have varied across countries

The ratios of CIT to GDP and CIT revenues as a share of total tax revenues continue to vary substantially across Inclusive Framework jurisdictions. CIT revenues ranged from 0.7% of GDP in Latvia to 4.7% of GDP in Australia in 2020 (Figure 3.5). As a share of total tax revenues, CIT ranged from 2.3% of total taxation in Latvia to 32.3% of total tax revenues in Indonesia (Figure 3.6). Multiple factors can explain differences in revenues from CIT including statutory CIT rates, the breadth of the CIT base, the degree to which firms are incorporated, the phase in the economic cycle and the degree of cyclicality of the corporate tax system, as well as countries' reliance on other taxes. These factors likely contributed to the large variations in revenues observed between 2000 and 2020 in several countries, including Norway, Finland, and Luxembourg. Figure 3.6 shows that CIT tends to represent a larger share of revenue in countries with significant natural resources and in emerging economies. In the case of emerging economies, total tax revenues are generally lower as a percentage of GDP and personal income tax revenues tend to play a smaller role than the CIT.

Figure 3.5. Corporate income tax revenues as a share of GDP, 2000 and 2020

Share of GDP (%)

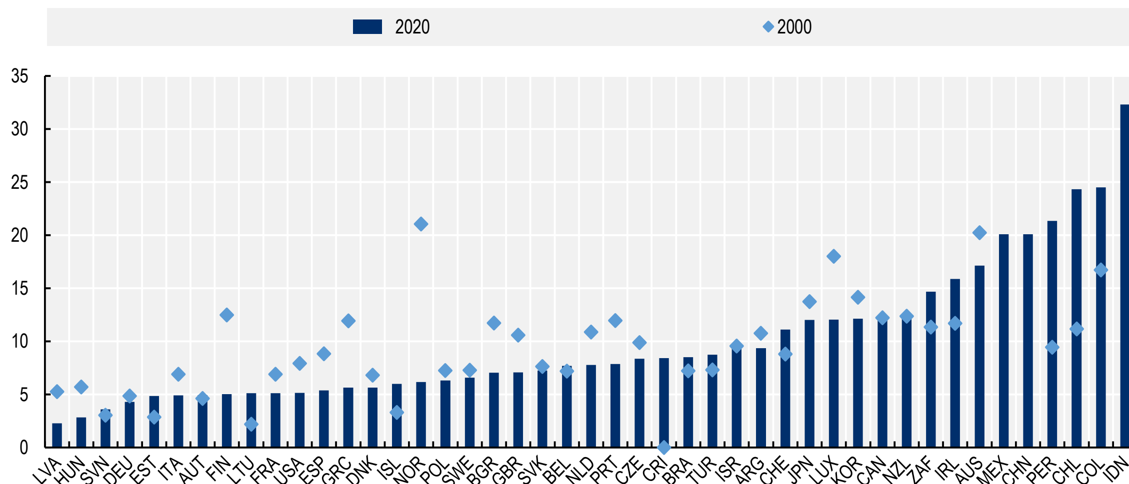


Note: Data for CIT revenues in 2000 were not available for China (People's Republic of), Indonesia and Mexico. 2019 data were used for Australia, China (People's Republic of), Greece, Indonesia, New Zealand, and South Africa where 2020 were not yet available.
Source: OECD Global Revenue Statistics Database.

StatLink https://stat.link/vsog69

Figure 3.6. Corporate income tax revenues as a share of total tax revenues, 2000 and 2020

Share of total tax revenues (%)

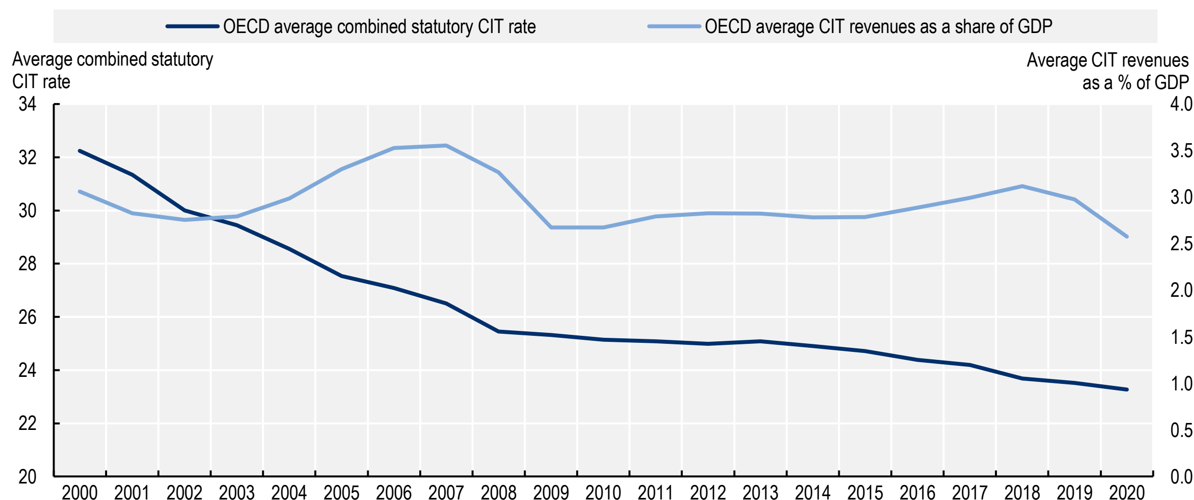


Note: Data for CIT revenues in 2000 were not available for China (People's Republic of), Indonesia and Mexico. 2019 data were used for Australia, China (People's Republic of), Greece, Indonesia, New Zealand, and South Africa where 2020 were not yet available.
Source: OECD Global Revenue Statistics Database.

StatLink https://stat.link/p52jn4

CIT revenues as a share of GDP and as a share of total tax revenues have fallen between 2019 and 2020 as a result of the COVID-19 pandemic. For the 35 OECD countries for which 2020 data are available,[9] the average value of corporate income tax revenues as a share of GDP fell from 3.0% in 2019 to 2.6% in 2020 (Figure 3.7). Similarly, the average value of corporate income tax revenues as a share of total tax revenues fell from 9.4% to 8.5%. This is the most significant reduction seen since the global financial crisis of 2008 and the average corporate income tax revenues as a share of GDP are now lower than the previous lows seen in 2009 and 2010 in the aftermath of that crisis.

Figure 3.7. Evolution of the average combined statutory CIT rate and average CIT revenues in OECD countries, 2000-2020



Note: Combined statutory CIT rates refer to central and sub-central statutory CIT rates.
Source: OECD Revenue Statistics Database and OECD Tax Database.

StatLink https://stat.link/ckqion

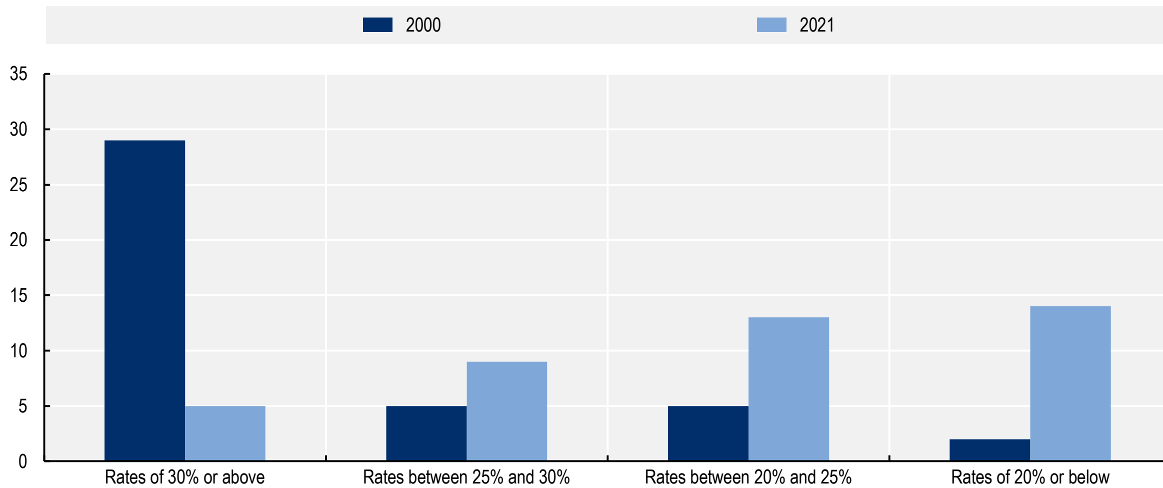
3.2.2. There has been a steady and widespread decline in corporate income tax rates

Standard corporate income tax rates

The decline in CIT rates has been a steady and widespread trend. Figure 3.8 shows the changes in the distribution of CIT rates between 2000 and 2021 across the 51 countries for which data are available[10] and highlights major shifts in the CIT landscape. In 2021, there were only three countries with CIT rates above 30%, compared to 28 in 2000. Meanwhile, the number of countries with CIT rates below 20% increased from three in 2000 to 20 in 2021. Overall, in the OECD, the average combined (central and sub-central) CIT rate has declined from 32.2% in 2000 to 23.3% in 2021.

Figure 3.8. The distribution of combined statutory CIT rates, 2000 and 2021

Number of countries



Note: Countries covered include OECD member jurisdictions plus Argentina, China (People's Republic of), Indonesia, and South Africa.
Source: OECD Corporate Tax Statistics Database, OECD Tax Database and OECD Annual Tax Policy Reform Questionnaire.

https://stat.link/1cpsed

CIT rates were cut in four countries in 2021. Notably, only one of these reductions was in response to the COVID-19 pandemic, suggesting that countries have in general identified other approaches to support recovery from the COVID-19 pandemic. Reductions in combined CIT rates were introduced in Colombia, France, Sweden, and Switzerland. In Colombia, the standard CIT rate was lowered to 31% as part of the government's 2019 legislation to progressively reduce CIT rates (from 33% in 2019 to 30% by 2022). France also lowered its standard CIT rate, to 27.5% for companies with an annual turnover exceeding EUR 250 million (USD 296 million) and to 26.5% for companies with an annual turnover lower than EUR 250 million. These cuts were part of a previously legislated CIT rate reduction, which is expected to progressively bring the CIT rate down to 25% by 2022. Sweden implemented a permanent cut in its standard CIT rate from 21.4% to 20.6% as a part of the government's response to the COVID-19 pandemic. In Switzerland, 11 of 26 cantons made small reductions to their corporate tax rates. The largest were made by those cantons with the highest rates, namely the Cantons of Valais (-1.6%), Zurich (-1.5%) and Bern (-0.6%). These cuts reduced the combined corporate income tax rate in Switzerland from 21.15% in 2020 to 19.7% in 2021.[11]

However, three countries – Colombia, Türkiye and the United Arab Emirates – announced increases in their headline CIT rates. At the end of Q3 of 2021, Colombia enacted a Law under its Social Investment Act to increase the corporate income tax rate to 35% from 1 January 2022 – a notable change of direction from the planned decreases described above. In addition, this Law imposed a 3% surtax on the taxable income of financial institutions earning more than 120 000 tax units (approximately USD 1.1 million) from 2022 to 2025 (their total income tax rate will therefore rise to 38% for these institutions). Following an increase to 22% for the fiscal years 2018-2020, Türkiye further raised its corporate tax rate to 25% in 2021.[12, 13]

The United Arab Emirates announced an historic change to their tax system, with the introduction of a generalised Corporate Income Tax from mid-2023. The tax will operate as a federal corporate tax on business profits and will enter into force from Q3 2023. The proposed CIT rate of 9% on taxable income above AED 375 000 (USD 100 000) is expected to apply to all business activities in the UAE, while a

different rate (yet to be confirmed) is envisaged to apply to large multinationals that generate consolidated global revenues above EUR 750 million (USD 887 million). Exceptions to this new CIT are planned for the extraction of natural resources, which is already subject to taxation at an Emirate-level.

Table 3.8. Changes in corporate income tax rates

	Rate increase		Rate decrease	
	2020	2021 or later	2020	2021 or later
Standard CIT rate		(ARE), (COL), TUR	BEL, CAN, FRA, GRC, IDN	CAN[1], CHE, COL, FRA, SWE, (TUR)
SME CIT rate			CAN, HUN, NLD, SVK	BRN, CAN[1], CPV, HUN
Patent box/IP regime rate			CHE	ITA

Note: Countries in brackets have only announced reforms.
1. The CIT rate decrease in Canada for 2021 applies to zero-emission technology manufacturing profits. The CIT rate decrease will reduce the general corporate income tax rate and small business income tax rate on eligible profits to 7.5% (from 15%) and to 4.5% (from 9%), respectively, for taxation years beginning after 2021 and before 2029.
Source: OECD Annual Tax Policy Reform Questionnaire.

CIT rates for Small and Medium-Sized Enterprises

Reduced CIT rates for small and medium-sized enterprises (SMEs) are common across the Inclusive Framework jurisdictions that responded to the Tax Policy Reforms questionnaire. Several countries provide reduced CIT rates for SMEs, although the design of these reduced tax rates varies significantly. Some countries apply lower tax rates on the first tranche(s) of profits, regardless of total income levels; some have reduced CIT rates for corporations with income below a certain level; and others determine eligibility for small business tax rates based on non-income criteria (e.g., turnover or assets) instead of, or in addition to, income criteria.

Several countries changed the CIT rates for SMEs between 2020 and 2021 (and beyond). To reduce the tax burden for SMEs, Hungary decreased its small business tax from 12% to 11% in 2021 and by another percentage point to 10% in January 2022. In addition, the maximum local business tax for SMEs with income of less than HUF 4 billion (USD 12.99 million) has been set to 1% for 2021 and 2022. Canada introduced a 50% reduction to business income taxes for companies that manufacture zero-emission technologies from the start of 2022. This reduction in the general corporate income tax rate and small business income tax rate on eligible profits to 7.5% (from 15%) and to 4.5% (from 9%), respectively, will be gradually phased out from 2029 with elimination envisaged by 2032. Moreover, reductions to SME CIT rates at the provincial and territorial level (Northwest Territories, Prince Edward Island, Quebec, Yukon) took effect in early 2021.

A small number of developing countries also temporarily reduced the effective SME CIT rate that businesses need to pay due to the COVID-19 impact on economic activity. Brunei Darussalam, for instance, will provide a 50% CIT discount for the tax year 2022, targeting sectors that were particularly affected by the pandemic such as tourism, hospitality (including hotels and lodging houses), restaurants and cafes, and air and water transportation. In Cabo Verde, SMEs whose sales were particularly impacted by the pandemic were exempt from paying the islands' Unified Special Tax of 4% in 2021.

Other business taxes

Germany and Mexico reformed their tax frameworks for some individuals and unincorporated businesses. Germany modernised its corporate income tax law affecting unincorporated businesses. With the introduction of the reform in January 2022, partnerships have the option to be treated as corporate entities for tax purposes, in which case their income is liable to corporate income tax (15.825%) and local

trade tax (7% to 17% varying by municipality) instead of being taxed under the federal personal income tax regime (up to 45% plus solidarity surcharge, church tax and SSCs) as a pass-through entity. The tax reform, thereby, reduces the discrepancy in tax treatments and aims to improve the tax framework especially for small and medium-sized partnerships and family businesses. In introducing the comprehensive 2022 tax reform (Box 3.4), Mexico established a new tax regime ("Simplified Reliance Regime") which aims to facilitate the tax payment process and simplify the taxation of small and medium-sized companies and individuals carrying out business activities with an income below MNX 35 million (USD 1.7 million). The new regime applies a progressive rate structure taxing gross income (without allowing for any deduction) below MNX 300 000 (USD 14 798) at a tax rate of 1% and income exceeding this threshold at a rate 2.5%, with effect in 2022.

Box 3.4. The 2022 Mexican Tax Reform

Both chambers of the Mexican Congress approved the 2022 Tax Bill in November 2021. Its provisions entered into effect on 1 January 2022. The comprehensive reform aims to promote competitiveness and economic growth, facilitate voluntary compliance, broaden the tax base, and prevent tax base eroding activities. It concentrates on measures adopted within the OECD/G20 BEPS Project and on activities in relation to the digital economy.

Changes to the Federal tax code

Implemented changes to the federal tax code attempt to address tax evasion and avoidance behaviour and improve compliance by individuals and corporates. For instance, a change in tax residency to a low tax jurisdiction will no longer result in the automatic loss of Mexican tax residency. Voluntary compliance will be strengthened by implementing specific voluntary disclosure programmes following international best practices. Assessments by the tax authority of the effective control of entities and the transfer of business assets have been reinforced. Tax inspectors will also be allowed to question business reasons in relation to the tax-free treatment of mergers and spin-offs within five years prior and subsequent to the transaction. Additional measures combat criminal tax offences such as tax fraud or activities related to hydrocarbon black markets.

Income tax law changes

To support economic recovery and encourage investment, a preferential tax regime has been established for individuals and companies. Apart from eliminating formalities, annual incomes of individuals below USD 173 000 are subject to a maximum tax rate of 2.5%, which is levied on gross income without allowing for any deduction. Companies incorporated by individuals with incomes below USD 1.7 million profit from preferential depreciation rates. Other amendments include new reporting requirements for the transfer of shares among residents abroad, the limitation of corporate restructurings at tax cost for companies residing in Mexico, and alternative range-adjustment methodologies in transfer pricing.

Mexico City tax reform

Digital events whose transmissions are made live in the territory of Mexico City and require payments to access the event broadcasts are charged with an 8% tax on public shows. Moreover, individuals or legal entities that facilitate activities related to the delivery or reception of food, grocery, or other types of merchandise through online platforms (e.g., promotion, intermediation, administration) are subject to a 2% exploitation tax ("*aprovechamiento*") on gross commissions or fees charged. The Mexico City Tax Code has also been amended to now include a 5% tax on lodging services.

Taxation of the digital economy and technology-driven tax audits

Mexico joined the OECD Two-Pillar framework in July 2021 together with more than 120 other jurisdictions and together with more 135 other jurisdictions agreed to the *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* in October 2021. Further work is ongoing in line with the international agreements reached regarding the global tax reform around Pillars One and Two, which comprise the reallocation of taxing rights with respect to business profits and the establishment of a minimum global income tax for MNEs.

Source: OECD Tax Policy Reforms Questionnaire; Baker McKenzie (2022[24]).

Taxes on the financial sector

A relatively small number of countries that responded to the tax policy reforms questionnaire impose taxes on their financial sector. Financial sector taxes gained attention in the aftermath of the global financial crisis – they are generally collected on top of ordinary corporate taxes and can be applied on different bases including bank deposits, capital assets and risk-weighted assets. As described earlier in this section, Colombia will introduce a 3% surcharge on the taxable income of financial institutions that earn more than 120 000 tax units (approximately USD 1.1 million) for the period of 2022-2025. The Swedish government also announced an additional tax on the financial sector, which is scheduled to take effect in 2023.

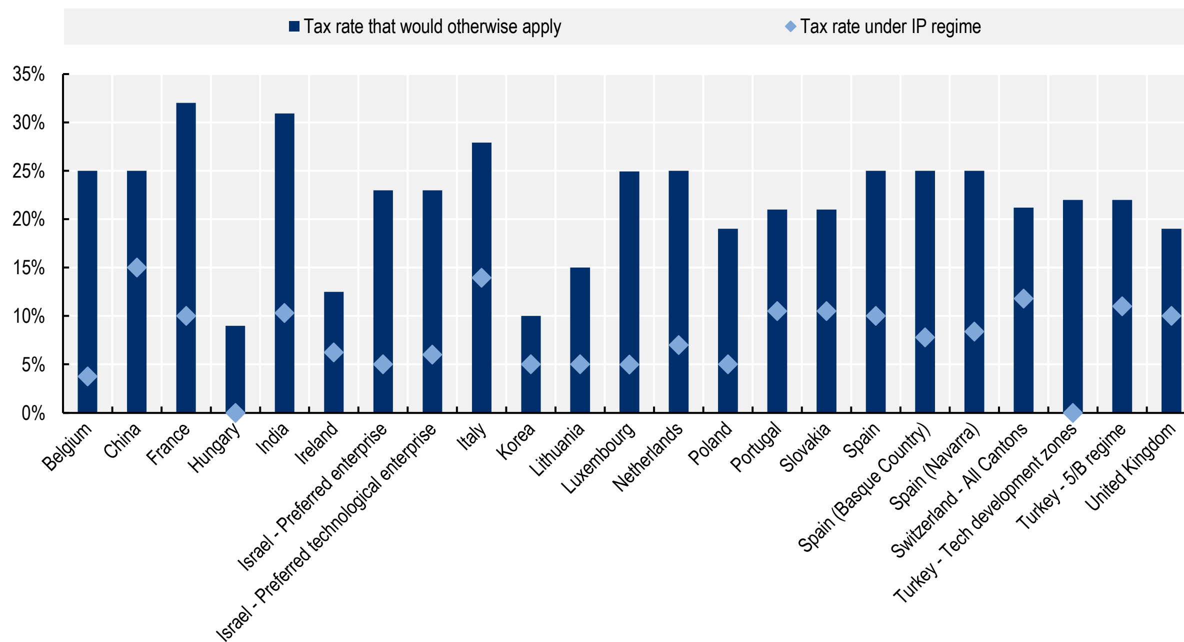
Intellectual property regimes

Intellectual property (IP) regimes allow income that results from the exploitation of IP to be taxed at a lower rate than income that is derived from other sources. IP regimes have been introduced in an increasing number of countries, and these usually involve a significant reduction in the tax rate applicable to IP-related income compared to the tax rate that would otherwise apply (Figure 3.9). While reduced tax rates provide an indication of the generosity of the tax instrument, they do not allow a direct comparison of the generosity of IP regimes, as they do not incorporate differences in the tax base.

There were a limited number of changes to IP regimes in 2021. In its 2021-2022 budget, the Australian government announced that it would introduce a patent box that would tax corporate income derived from eligible Australian patents in the medical and biotechnology sectors, at a concessional rate of 17%, effective from 1 July 2022. Australia generally taxes profits generated by patents at the headline corporate rate – 30% for large businesses and 25% for SMEs. As of 2022, Italy will change its IP regime into an expenditure-based tax provision whereby research and development (R&D) expenditures related to qualifying IP assets will benefit from a 110% increase in their deductible value. Qualifying IP assets will include software protected by copyright; patents, business and technical industrial know how; and other legally protected IP, such as designs and models. This new tax incentive can be used alongside Italy's existing R&D tax credit. The province of Quebec in Canada introduced an IP regime that allows corporations commercialising a qualified intellectual property asset developed in Quebec to benefit from an effective tax rate of 2% on the qualified portion of its taxable income attributable to that qualified intellectual property asset – the general provincial corporate income tax rate being 11.5%. This regime has replaced the previously established deduction for Innovative Manufacturing firms.

Figure 3.9. Reduced CIT rates under selected non-harmful intellectual property regimes, 2020

Tax rate



Note: This chart refers to reduced tax rates applicable in 2020. The status of the regimes covered refer to the results of the Forum of Harmful Tax Practices peer review as of November 2020. For Switzerland, the rates displayed represent the combined effective tax rate applicable in case of maximum relief at the cantonal level accounting for all tax liabilities for an investment in the city of Zurich in 2020 and include the effect of the patent box and the general limitation rules of tax relief that cap the amount of relief firms can obtain from the use of tax instruments at the cantonal level. Depending on the canton, the applicable rates under the schemes in 2020 vary between 9.1% and 13.9% while the rates that would otherwise apply vary between 11.9% and 21.6%.
Source: Corporate Tax Statistics Database.

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Several IP regimes were reviewed in 2021 as part of the BEPS Action 5 peer review processes. BEPS Action 5 of the OECD/G20 BEPS project aims to address harmful tax practices, including IP regimes where certain substance requirements are not met. In the past, IP regimes could be designed in a way that allowed taxpayers to access preferential tax treatment by strategically locating the IP asset. The modified nexus approach under Action 5 requires that substantial economic activity be undertaken by the taxpayer to benefit from relief. Substantial activity is proxied through the nexus ratio that makes the amount of income eligible for benefits under the IP regime proportional to the amount of expenditures undertaken by the taxpayer to develop the IP. Since Action 5 is a minimum standard, all members of the Inclusive Framework are committed to its implementation and are subject to the peer review process. This has led to countries aligning their regimes to be compliant with the minimum standard (OECD, 2015[25]). The Forum on Harmful Tax Practices (FHTP) conducts peer reviews of preferential tax regimes (IP and non-IP regimes). Among the nine regimes reviewed in November 2021, five were found to be non-harmful or non-harmful in their amended version, one is in the process of being amended, two have been abolished and one is still under review.

Marginal effective tax rates

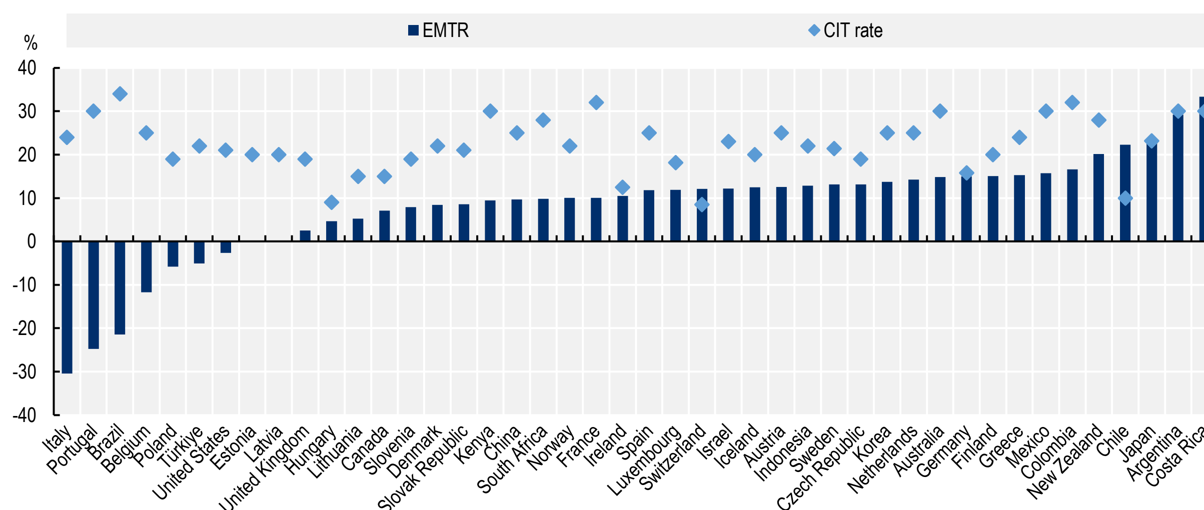
Most countries have CIT base narrowing provisions that lower companies' effective tax burdens. Corporate tax systems differ across jurisdictions regarding the provisions that affect their tax base. Forward

looking effective tax rates (ETRs), as calculated by the OECD (OECD, 2021[26]) capture information on corporate tax rates and bases as well as other relevant provisions within a single framework, providing a basis to compare corporate tax systems across jurisdictions. In particular, effective marginal tax rates (EMTRs) measure the extent to which taxation increases the pre-tax rate of return required by investors to break even. This indicator is used to analyse how taxes affect the incentive to expand existing investments given a fixed location.

EMTRs can diverge considerably from statutory tax rates. EMTRs will be lower than the statutory corporate income tax rate when fiscal depreciation is generous compared with the true cost of economic depreciation or if there are other significant base narrowing provisions. On the other hand, if tax depreciation does not cover the full cost of economic depreciation, effective taxation will be higher. The EMTRs reported in Figure 3.10 show the effects of fiscal depreciation and other allowances and deductions, such as allowances for corporate equity, half-year conventions and inventory valuation methods. These CIT base narrowing provisions lower corporate EMTRs compared to statutory CIT rates in most countries, reflecting their positive effects on businesses' incentives to expand investment. Certain CIT base narrowing provisions, in particular accelerated depreciation rules (e.g., Austria, Chile, Germany, New Zealand, United Kingdom) can reduce EMTRs considerably, which may mean that EMTRs end up reaching negative values. In addition to the impacts of these changes in the tax base, in 2020, EMTRs also fell in Colombia, India and Indonesia, among others, due to decreases in the statutory CIT rate.

Figure 3.10. Composite marginal effective tax rates, 2020

Tax rate



Note: The results are based on the macroeconomic scenario with constant 3% interest and 1% inflation rates. The composite Effective Marginal Tax Rate (EMTR) is constructed as a weighted average across finance- and asset-specific EMTRs. It is a synthetic tax policy indicator measuring the extent to which taxation increases the pre-tax rate of return required by investors to break even on their investment. This indicator is used to analyse how taxes affect the incentive to expand existing investments given a fixed location (along the intensive margin).
Source: OECD Corporate Tax Statistics Database.

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Countries have generally increased the generosity of their tax incentives through tax reforms affecting CIT bases. Several countries have increased the generosity of their CIT incentives to stimulate investment, innovation, and environmental sustainability (Table 3.9). These measures will contribute to

further reducing corporate EMTRs. Tax incentives to stimulate investments are a widely used instrument and show notable differences across OECD countries as shown in Box 3.5.

Table 3.9. Changes to corporate tax bases

	Base broadening		Base narrowing	
	2020	2021 or later	2020	2021 or later
Capital allowances and general incentives		NGA	AUS, CHL, DEU, FIN, ITA	CAN, GBR, MUS, POL
Environmentally related tax incentives	ITA		CAN, ISL, ITA, SVK, USA	CAN, IRL, MYS
R&D tax incentives and patent box regimes			IRL, ITA, SVK	AUS, ESP, FIN, ISL, ITA, JPN, MUS, NLD, NZL, POL, SWE
SME-related tax base changes			HUN, POL, SVK	CAN, DEU, JPN
Other business tax incentives				
Loss carryforward and carryback provisions			FRA, SVK	FRA, HUN
Notional interest deductions			ITA	ITA

Note: Countries in brackets have only announced reforms. Italy appears in both the base narrowing and broadening categories for the impact of environmentally related tax incentives for 2020 as a result of measures such as its tax on plastics (broadening) and incentives implemented to encourage the green transition (narrowing). See Chapter 2 of OECD (2021[27]) for more detail.
Source: OECD Annual Tax Policy Reform Questionnaire.

Capital allowances and general incentives

Several countries introduced measures to increase the generosity of their capital allowances, many of which were temporary. A legacy from the COVID-19 pandemic, Canada implemented a 25% tax credit for SMEs on eligible expenses incurred between 1 September 2021 and 31 December 2022 to improve indoor air quality. Canadian-controlled businesses with taxable capital of less than CAD 15 million (USD 12 million) are to receive the tax credit on purchases for ventilation or air conditioning (if employed in Canada) up to a maximum of CAD 10 000 (USD 8 000) per location and CAD 50 000 (USD 40 000) in total. On a provincial level, Quebec temporarily doubled tax credits until the end of 2022 for investments in new technology, such as electronic data processing equipment or management software. Ontario temporarily raised tax credits from 10% to 20% for domestically controlled private businesses making qualifying investments in eligible geographic areas and for eligible expenditures between CAD 50 000 (USD 40 000) and CAD 500 000 (USD 400 000) during the period from 24 March 2021 to 1 January 2023.[14] Poland aims to enhance its industrial transformation by introducing a supplementary tax deduction of up to 50% for businesses investing in robotics. Tax relief is available to all businesses and related to costs incurred from purchasing, for example, robots, peripheral devices, remote management devices and training services. To support investment, the United Kingdom implemented an upfront super-deduction of 130% for investments in plant and machinery that are taxed at the standard rate and a 50% first-year allowance for investments that qualify for a special tax rate, running for two years as of Q2 of 2021.

A limited number of jurisdictions introduced more generous capital allowance schemes to foster investments in green technology and the digital transition. To promote environmental sustainability and energy efficiency, Ireland extended the existing Accelerated Capital Allowance Scheme for Gas Vehicles and Refuelling Equipment to 31 December 2024, which allows taxpayers to deduct the full cost of expenditure from taxable profits in the year of purchase and to include hydrogen-powered vehicles and

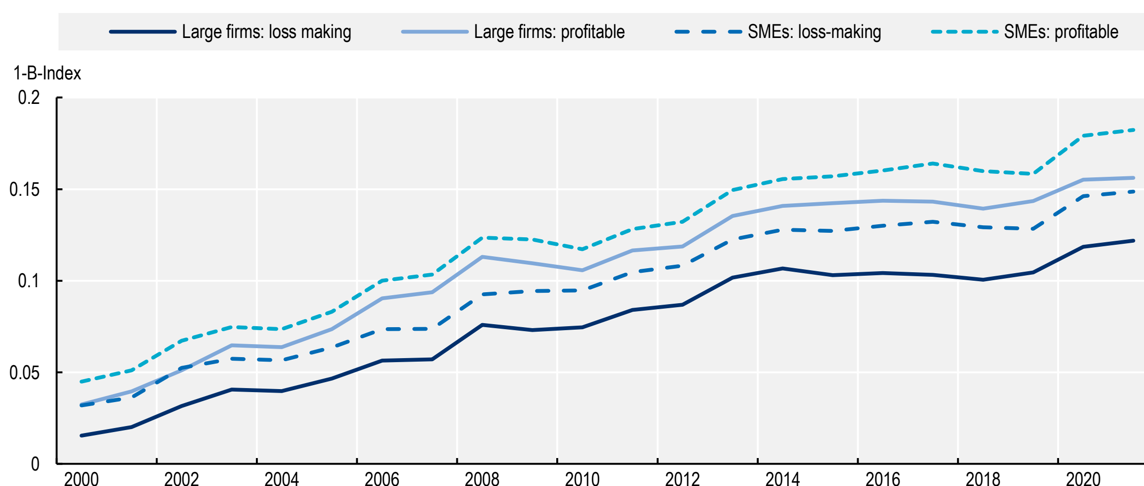
refuelling equipment. At the same time, fossil fuel equipment was disqualified for eligibility to the Accelerated Capital Allowances Scheme for Energy Efficient Equipment. In 2020 and 2021, Canada expanded its immediate expensing measures to include more types of clean energy equipment and zero-emission vehicles. Effective in 2021, Quebec introduced a synergy capital tax credit, which provides a 30% tax credit for investments by SMEs in green technology, information technology, life sciences, innovation manufacturing, and artificial intelligence. In October 2021, Malaysia introduced an investment tax allowance of up to 100% for a maximum period of 10 years on qualifying capital expenditures that promote environmental sustainability or support R&D investments. Malaysia also expanded its green investment and income tax exemption schemes to include rainwater-harvesting projects. In July 2021, Mauritius introduced the possibility of deducting from corporate income twice the expenses incurred for specialised software and operating systems during the respective income year. As of 2022, in contrast, Nigeria started to limit capital allowances that can be claimed by companies on qualifying expenditure used in generating tax-exempt income with the aim to make the tax system more equitable.

R&D and innovation tax incentives

Many countries incentivise business investment in R&D through tax incentives. The number of OECD countries offering tax relief for R&D expenditures increased from 20 OECD countries in 2000 to 34 of 38 OECD countries in 2021. As shown in Figure 3.11, the average implied marginal rate of R&D tax subsidy has markedly increased across OECD countries since the year 2000, with implied subsidies being typically larger on average for SMEs due to targeted preferential tax treatment towards these smaller businesses. Rising R&D tax subsidy rates reflect the introduction of new R&D tax incentives and the increasing generosity of existing R&D tax relief provisions over time. Since 2013, the level of implied subsidies has tended to stabilise, but it increased in 2020 through the expansion or enhancement of tax relief measures in certain cases in response to the COVID-19 pandemic (see below).

Figure 3.11. Aggregate trends of implied marginal tax subsidy rates on R&D expenditure, 2000-2021

Unweighted averages, 1-B-Index, OECD countries, all firms



Note: The B-Index focuses on marginal investments, i.e., those investments that break even after tax. This is a helpful indicator in analysing intensive margin responses, e.g., incentives to increase R&D investment. The 1-B-Index provides an indication of the implied subsidy on a one unit of additional investment. More information on the B-Index methodology can be found at http://www.oecd.org/sti/b-index.pdf.
Source: OECD R&D Tax Incentive Database.

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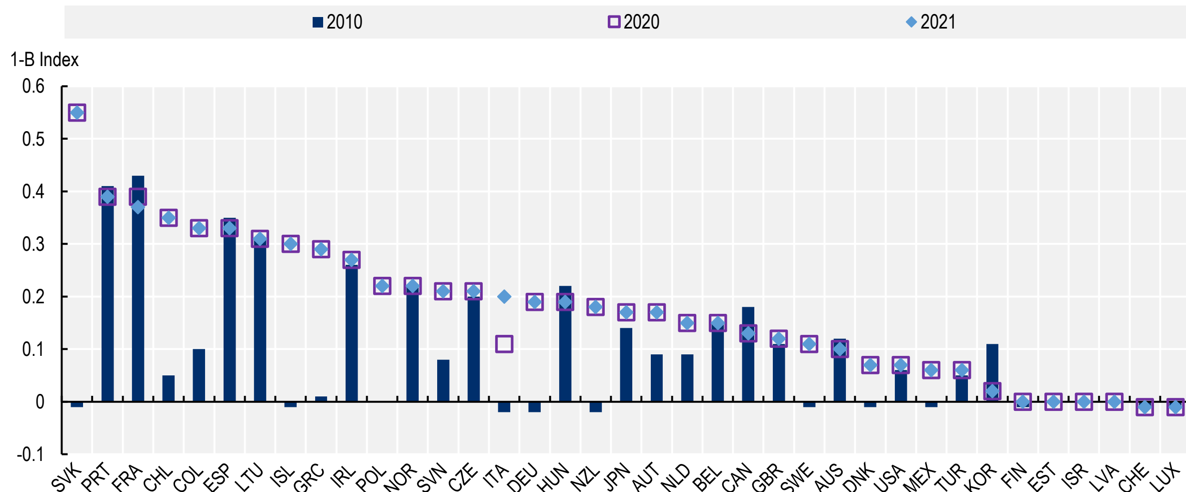
There are notable differences in the implied tax subsidy rates on R&D expenditures for large, profitable firms across countries and years (Figure 3.12). In 2021, R&D tax incentives for marginal investments were particularly generous for large, profitable firms in Chile, France, and the Slovak Republic, with the largest increases in generosity compared to 2010 (among countries offering tax support) observed in Chile, Colombia, and Greece. The ranking changes for other firm types, e.g., for SMEs, whereby Colombia, Iceland and the Slovak Republic offered the greatest support to profitable SMEs in 2021.

Figure 3.12. Implied marginal tax subsidy rates on R&D expenditures, 2010, 2020 and 2021

1-B-Index, large profitable firms, OECD countries



Note: The B-Index focuses on marginal investments, i.e., those investments that break even after tax and is a helpful indicator in analysing intensive margin responses, e.g., incentives to increase R&D investment. 1-B-Index provides an indication of the implied subsidy on a one unit of additional investment. To analyse discrete choices, e.g., where to locate R&D investment, effective average tax rates for R&D can be accessed in OECD Corporate Tax Statistics (González Cabral, Appelt and Hanappi, 2021). Tax incentives captured in this chart only refer to national R&D tax incentives on expenditure and therefore does not include R&D tax incentives provided by sub-national jurisdictions.
Source: OECD R&D Tax Incentive Database.

https://stat.link/saz836

Governments have stepped up efforts to support R&D and innovation through the tax system by introducing new measures, increasing their generosity, or extending their validity period.[15] In 2021, one OECD country (Finland) and one IF member country (Mauritius) introduced new tax provisions. Eight OECD countries and one IF member jurisdiction increased the generosity of their tax incentives, either via an increase in the incentive rate (e.g., Italy and Spain) or lifting the cap that limits tax benefits (e.g., Australia and Sweden). In Finland, the R&D tax allowance for R&D cooperation costs with research organisations was extended to 2027 and its rate of relief increased from 50% to 150% as of 2022. In Italy, the tax credit for R&D introduced in 2020 that aims to encourage the green transition and investment in innovative technology was extended to 2022. The credit rates and ceiling that bounded the amount of qualifying R&D expenditure for activities related to R&D, green transition, or industry 4.0 have also been increased. Mauritius has introduced a 100% tax allowance for the R&D expenditures of manufacturing firms related to market research and product development for the African market.

Poland introduced a tax reform that significantly expanded tax relief for R&D and innovation. This reform includes a number of different measures aimed at encouraging greater investment in R&D. One of these measures is an increase in the R&D tax allowance for R&D centres to 200% of qualifying costs

(except for patent-related costs), and an increase in the allowance on labour costs of employees conducting R&D to 200% for all companies eligible for the R&D tax relief. Provisions also include the possibility to simultaneously use the patent box and the R&D tax allowance. Another relief measure, dedicated to taxpayers who incur losses or whose income in a tax year is lower than the qualified R&D costs, reduces the advance payment of personal income taxes for innovative employees.

Some countries have taken steps to expand support to SMEs and young firms, and to foster collaboration amongst different-sized firms. Germany has introduced a provision that defers taxation of employee stock options until their sale, the termination of contract or 12 years after assignment to boost their attractiveness and retain and incentivise a skilled workforce. To incentivise collaboration between large enterprises and start-ups, Japan has extended its Open Innovation Tax Incentive that provides a tax deduction equal to 25% of the amount invested in start-up companies for two additional years and eased the criteria to benefit for relief. The minimum period firms are required to hold shares in a start-up to claim relief was reduced from five to three years, while the length of time start-ups need to have been established has been extended from 10 to 15 years.

Beyond R&D, some countries have sought to promote the acquisition or commercialisation of intellectual property. As discussed, beforehand, Italy has changed its intellectual property regime into an expenditure-based tax provision linked to the expenses of qualifying IP assets. Poland has also introduced tax relief for prototypes for expenditures connected with the trial production or placing of products in the market as a way of promoting commercialisation in innovative sectors. Mauritius has implemented a 100% tax allowance for expenditures incurred from the acquisition of patents for firms in the biotechnology, medical, and pharmaceutical sector.

Loss carryforward and carryback provisions

Loss carryforward and carryback tax provisions were introduced in a few countries to support businesses throughout the COVID-19 pandemic and in the recovery. France allowed loss carrybacks up to a limit equal to first-time deficits incurred from the start of Q3 of 2020 to the end of Q2 of 2021. If eligible, these losses could be applied to profits from the previous three tax years. Hungary introduced a loss carryforward scheme on the income tax of energy suppliers, with 2021 as the first year of eligibility.

Notional interest deductions

The Italian allowance for corporate equity (ACE) was extended and increased in 2021 to support investment and increase firm resilience following the COVID-19 pandemic. The allowance had previously been reintroduced in 2019. The Italian ACE, which allows for a notional interest deduction to be applied to the CIT base up to EUR 5 million (USD 5.9 million), was exceptionally set at 15% (formerly at 1.3%) where it is related to capital injections introduced during 2021. The available tax deductions can also be granted as a tax credit.

Box 3.5. Investment Tax Incentives

Building an Investment Tax Incentives Database

The OECD has constructed an Investment Tax Incentives database, which compiles granular details on CIT incentives for investment. The database, which currently covers 36 developing and emerging economies, presents quantitative and qualitative information collected on investment tax incentives is classified according to three dimensions: design features, eligibility conditions and their legal basis.

Preliminary results

The data reveal that tax exemptions are the most widely used CIT instrument across the 36 countries and identifies notable differences between the incentives used within and outside of Special Economic Zones (SEZs). In 80% of countries covered, at least one tax incentive supports an area related to the Sustainable Development Goals.

Around two-thirds of the countries studied have at least one incentive allowing investors to fully exempt their income from corporate tax temporarily, while one-quarter of countries grant at least one permanent tax exemption on some types of income. In these countries, most full tax exemptions are clustered in SEZs, where their median application length is ten years, versus the six-year median application period outside the zones.

Another common type of investment tax incentive that countries offer is tax allowance schemes, which usually target capital expenditures like machinery and equipment but may also relate to current expenditures. Around two thirds of the countries in the database have at least one tax allowance scheme for investors, and those schemes tend to operate outside SEZs.

Although sector and eligibility conditions vary widely among countries, nearly any sector can benefit from tax incentives. Few countries specify sector conditions narrowly, i.e., limiting tax relief to a small set of sub-sectors. In these cases, they often target sub-sectors of high economic importance to the country as measured in terms of their exposure to exports.

Countries also use tax incentives to target sustainable development goal objectives laid out by the United Nations, such as boosting exports and employment creation. Over half the countries in the database use tax incentives designed to increase exports, and over one-third use incentives to create employment and improve job quality.

Typically, investment tax incentives are introduced by many different laws and governed by several departments. They might be found in income tax laws, investment laws, or SEZ laws and be administered and monitored through the ministries of finance and economy, the investment promotion agency, and SEZ authorities.

The paper cautioned that "such complexities and overlapping responsibilities can result in limited transparency and accountability [and] may reduce the effectiveness of investment tax incentives and can increase discretionary and profit-shifting behaviours."

Source: Celani, Dressler and Wermelinger (2022[28]).

3.2.3. Historic multilateral agreement reached to address the tax challenges arising from the digitalisation of the economy

Efforts to address the tax challenges arising from digitalisation reached an historical moment in 2021 after 137 Inclusive Framework members agreed to a two-pillar solution to address the tax challenges of the digitalisation of the economy. Digitalisation has led to the emergence of new business

models and these changes have put pressure on some of the key principles underlying the international tax system. The OECD/G20 Inclusive Framework, which has more than 140 members, all participating on an equal footing, was mandated to provide a solution to these challenges. The Two Pillar solution, which has been agreed by 137 jurisdictions representing more than 95% of global GDP, is the outcome of negotiations co-ordinated by the OECD over the last decade. Under the agreement, more than USD 125 billion of profits from around 100 of the world's largest and most profitable MNEs will be reallocated to countries worldwide, and will introduce a global minimum tax set at an effective rate of 15%.

Pillar One would offer market jurisdictions new taxing rights over MNEs, whether or not they have a physical presence in their jurisdiction. Pillar One will ensure a fairer distribution of profits and taxing rights among countries with respect to the largest and most profitable multinational enterprises. It will re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. Specifically, multinational enterprises with global sales above EUR 20 billion and profitability above 10% – that can be considered as the winners of globalisation - will be covered by the new rules, with 25% of profit above the 10% threshold to be reallocated to market jurisdictions. The agreement to re-allocate profit under Pillar One includes a commitment to the removal and standstill of unilateral measures, including Digital Services Taxes (DSTs). Pillar One also includes features to ensure dispute prevention and dispute resolution to address any risk of double taxation, but with an elective mechanism for some low-capacity countries.

Pillar Two provides a minimum 15% tax on corporate profits, and puts multilaterally agreed limits on tax competition. Pillar Two introduces a global minimum corporate tax rate set at an effective rate of 15%. The new minimum tax rate will apply to companies with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually. Tax incentives provided to spur substantial economic activity will be accommodated through a carve-out. Pillar Two also protects the right of developing countries to tax certain base-eroding payments (like interest and royalties) when they are not taxed up to the minimum rate of 9%, through a "Subject to tax rule" (STTR).

Since the agreement in October 2021, further progress has been made towards implementing the Two Pillar solution. In December 2021, the Pillar Two Model GloBE rules were released and detailed technical guidelines on the application and operation of the rules was agreed and released in March 2022. Ongoing public consultations are also taking place on the Pillar One building blocks.

In addition, progress has been made on the issue of the repeal and standstill of unilateral measures. Following the Agreement on the two-pillar solution in October 2021, a joint statement from the United States and Austria, France, Italy, Spain, and the United Kingdom, laid out a plan for the roll back of DSTs in those countries and threatened retaliatory tariff once the Pillar One rules are implemented. On 22 November 2021, a joint statement by the US Treasury and Türkiye announced that Türkiye had agreed to the same terms.

3.2.4. The challenge of reducing tax avoidance continues through the wider OECD/G20 BEPS programme

Further progress on the implementation of the OECD/G20 BEPS package was made in 2021. The OECD/G20 BEPS package, which includes 15 Actions aimed at addressing tax planning strategies that artificially shift profits to low or no-tax jurisdictions, was delivered in October 2015. The BEPS package sets out a variety of measures, including four minimum standards (Actions 5, 6, 13 and 14), common approaches that will facilitate the convergence of national practices, and guidance drawing on best practices. Countries are carrying out the implementation of the BEPS package through the Inclusive Framework (IF) on BEPS, which currently brings together 141 jurisdictions.

As of March 2022, the provisions of the Multilateral Instrument to Implement Tax Treaty Related Measures to Prevent BEPS (MLI) had taken effect for approximately 880 tax agreements. The MLI,

concluded by over 100 jurisdictions in November 2016, allows jurisdictions to implement measures to strengthen existing tax treaties and protect governments against tax avoidance strategies that inappropriately use tax treaties to artificially shift profits to low or no-tax jurisdictions. The MLI includes measures against hybrid mismatch arrangements (Action 2), treaty abuse (Action 6), a strengthened definition of permanent establishment (Action 7) and measures to make mutual agreement procedures (MAP) more effective (Action 14). The MLI entered into force on 1 July 2018 and its provisions started to take effect from 1 January 2019. As of March 2022, the MLI covered 99 jurisdictions and 71 jurisdictions had deposited their instrument of ratification, acceptance, or approval. Overall, it covers more than 1 800 bilateral tax agreements, which will be modified by the MLI once its provisions take effect for each of these agreements. More jurisdictions are expected to deposit their instrument of ratification, acceptance, or approval of the MLI in the remainder of 2022.

As one of the four minimum standards, BEPS Action 6 identified treaty abuse, and in particular treaty shopping, as one of the principal sources of BEPS concerns. Treaty shopping typically involves the attempt by a person to access indirectly the benefits of a tax agreement between two jurisdictions without being a resident of one of those jurisdictions. To address this issue, all members of the IF have committed to implementing the BEPS Action 6 minimum standard and participate in annual peer reviews to monitor its accurate implementation. The fourth peer review report, which was released in March 2022, shows that members of the Inclusive Framework are respecting their commitment to implement the minimum standard on treaty shopping. It further demonstrates that the MLI has been the tool used by most jurisdictions that have begun implementing the BEPS Action 6 minimum standard, and that the MLI has continued to significantly expand the implementation of the minimum standard for the jurisdictions that have ratified it. The impact and coverage of the MLI are expected to rapidly increase as jurisdictions continue their ratifications and as other jurisdictions with large tax treaty networks consider joining it.

In line with Action 13, automatic exchanges of country-by-country (CbC) reports have increased notably. Action 13 requires the ultimate parent entity of an MNE group to file a CbC report in its jurisdiction, providing information (on turnover, profits, employees, taxes paid, etc.) for each of the jurisdictions in which it operates. The tax administration of the country where the ultimate parent entity is a tax resident will then exchange this data with the tax authorities of other countries. As of March 2022, there were over 3 000 bilateral exchange relationships activated with respect to jurisdictions committed to exchanging CbC reports (for more information see Box 3.6).

Action 14, which deals with mutual agreement procedures (MAP), has also seen significant progress. Action 14 aims to improve mechanisms to resolve tax treaty-related disputes to make them more effective. The MAP peer review process is conducted in two stages. Under Stage 1, the implementation of the Action 14 minimum standard is evaluated by Inclusive Framework members. Stage 2 monitors the implementation of any recommendations resulting from the Stage 1 peer reviews. The Stage 2 peer review monitoring reports of the BEPS Action 14 minimum standard evaluate the progress made by Brunei Darussalam, Curaçao, Guernsey, Isle of Man, Jersey, Monaco, San Marino, and Serbia in implementing recommendations resulting from their Stage 1 peer review. They consider any developments in the period 1 April 2019 – 31 December 2020 and build on the MAP statistics for 2016-2020. The Multilateral Instrument was signed by Curaçao, Guernsey, Isle of Man, Jersey, Monaco, San Marino, and Serbia. It has already been ratified by all these countries, which brings a substantial number of their treaties in line with the Action 14 minimum standard. Brunei Darussalam, Curaçao, Guernsey, Isle of Man, Jersey, Monaco, and San Marino now have a documented bilateral notification/consultation process that they apply in cases where an objection is considered as being not justified by their competent authority. Curaçao, Guernsey, Isle of Man, Jersey, and Serbia closed MAP cases within the pursued average time of 24 months, whereas the remaining jurisdictions had no MAP experience. Brunei Darussalam, Curaçao, Guernsey, Isle of Man, Monaco, and San Marino ensure that MAP agreements can always be implemented notwithstanding domestic time limits. All the concerned jurisdictions have issued or updated their MAP guidance. The OECD will continue to publish Stage 2 peer

review reports in batches in accordance with the Action 14 peer review assessment schedule. To date, 82 Stage 1 peer review reports and 69 follow-up Stage 2 peer monitoring reports have been published.

Box 3.6. BEPS Action 13: Automatic exchanges of country-by-country (CbC) reporting

The lack of high-quality data on MNEs' global activities has been a significant weakness in assessing BEPS risks, making it difficult for tax administrations, for instance, to carry out audits and assess transfer pricing activities within company groups. Action 13 of the OECD/G20 BEPS package, one of the four BEPS minimum standards, addresses this limitation by providing for an annual automatic exchange of CbC reports, which contain information of MNEs in scope (>EUR 750 million of consolidated group revenue) on their allocation of income, taxes and business activities on a jurisdiction level (OECD, 2015[29]).

CbC Mechanism

The automatic exchange of CbC reporting between jurisdictions is based on the multilateral Convention on Mutual Administrative Assistance in Tax Matters, which requires Competent Authorities to mutually agree on the scope of the exchange and the procedures to comply with. Subsequently, separate competent authority agreements set forth procedures necessary for exchanging CbC reports. These reports are prepared by the reporting entity of an MNE group in scope and exchanged annually between the tax authorities of the jurisdiction of tax residence of that entity and the tax authorities of all jurisdictions in which the MNE group operates. To facilitate the exchange of CbC reports between jurisdictions, the OECD provides a standardised electronic format, the CbCR XML Schema.

Outcomes

The first automatic exchanges of CbC reports took place in June 2018. As of March 2022, over 3 000 bilateral exchange relationships have been activated. These include exchanges between 92 signatories to the CbC Multilateral Competent Authority Agreement, between EU member states under EU Council Directive 2016/881/EU and between signatories to bilateral competent authority agreements under Double Tax Conventions or Tax Information Exchange Agreements, including 41 bilateral agreements with the United States. Anonymised statistics, which are aggregated at the level of the tax jurisdictions where MNEs operate, are shared by tax authorities with the OECD and regularly published within OECD Corporate Tax Statistics (OECD, 2021[26]). The publications support the analysis of corporate income tax policy in general, and of BEPS. The CbC reports also assist tax administrations in assessing their exposure to tax avoidance risks.

Next steps

The implementation of the standard continues across the world and regular guidance has been issued to aid that process. Since 2017, CbC implementation by jurisdictions has also been subject to annual peer reviews by the OECD. Including more jurisdictions every year, the peer review process assesses the domestic legal framework, the exchange of information framework, and confidentiality and appropriate use of CbC reports. This will help to further increase the usefulness of CbC reporting for tax authorities.

Beyond BEPS minimum standards

Beyond the BEPS minimum standards, BEPS Actions 2, 3 and 4 have been adopted by a growing number of countries. These actions include common approaches to neutralising hybrid mismatches (Action 2) and to limiting excessive interest deductions (Action 4) as well as best practices in the design of effective controlled foreign company (CFC) rules (Action 3).

Following the EU Council's adoption of BEPS Actions 2, 3, and 4, several EU countries completed the implementation of the Anti-Tax-Avoidance Directive (ATAD) in national legislation. Germany implemented and adjusted the rules on exit taxation and hybrid mismatch prevention retroactively as of 1 January 2020. Both tax provisions together with a reform of CFC rules in compliance with ATAD Articles 7 and 8 entered into force on 1 January 2022. In a separate Act, Germany also enacted stricter rules related to the deduction of work-related expenses connected to low-tax jurisdictions, tighter withholding tax measures and restricting measures in relation to profit distributions and sales of shares.[16] Effective as of 1 January 2022, Ireland completed the transposition of the ATAD by introducing anti-reverse hybrid rules and an interest limitation rule in its Finance Act 2021. Poland introduced additional measures to counteract aggressive tax planning in relation to CFC rules by extending the definition of a controlled foreign entity. Changes to Poland's CFC rules also cover the modification of current CFC premises (i.e., value of assets such as shares, real estate, intangible assets) by extending the catalogue of passive revenues or by adding new premises to prove the existence of a CFC.

Further progress has also been made outside the EU. Ukraine implemented Action 3 of the OECD/G20 BEPS Action Plan by levying corporate income tax on the adjusted profit of a CFC owned by a controlling legal entity who is a tax resident in the Ukraine, with the tax due to come into effect on 1 January 2022.

Actions 8 to 10 contain transfer pricing guidance to ensure that transfer pricing outcomes are in line with value creation in relation to intangibles and other high-risk transactions. Through this work, the OECD Transfer Pricing Guidelines (Guidelines) have been modernised, and a new edition was published in July 2017. In June 2018, guidance on the application of the transactional profit split method and additional guidance addressed to tax administrations on the application of the approach on hard-to-value intangibles were approved and incorporated into the Guidelines. The recently published 2022 edition builds on the revised guidance from 2018 and includes the new transfer pricing guidance on financial transactions approved in 2020.

As recommended by BEPS Action 11, significant progress continues to be made in improving the quality of available corporate tax statistics, which is a critical step towards strengthening the Inclusive Framework's ongoing efforts to measure and monitor BEPS and the impact of the BEPS package. The third edition of Corporate Tax Statistics, released in July 2021, expanded the number of jurisdictions that provided aggregated and anonymised CbCR statistics to the OECD from 26 to 38, covering around 6 000 CbC reports from the 2017 fiscal year. The third edition of Corporate Tax Statistics also continued to cover corporate tax revenues and rates and includes new indicators on R&D tax incentives related to innovation. The fourth edition of Corporate Tax Statistics, planned for release in the second half of 2022, will build on the previous edition with an expansion in the coverage of existing data series.

Finally, a growing number of countries have announced plans to introduce or have already introduced or expanded their mandatory disclosure rules, in line with BEPS Action 12. BEPS Action 12 contains recommendations regarding the design of mandatory disclosure rules for aggressive tax planning schemes, taking into consideration the need to avoid disproportionate administrative and compliance costs and drawing on the experiences of the increasing number of countries that have such rules. With the adoption of the EU Directive on mandatory disclosure rules by EU Member States, there has been a significant increase in jurisdictions that now have mandatory disclosure rules. Non-EU countries that have recently adopted mandatory disclosure rules include Canada, Israel, Mexico, Norway, South Africa, the United Kingdom, and the United States.

3.3. Taxes on goods and services

This Section shows that the base of Value Added Taxes (VAT) was subject to a large number of changes in 2021, while standard and reduced VAT rates were largely maintained. The stabilisation of standard VAT rates observed across countries is a continuation of the trend observed over the last six

years, with both countries who reduced standard rates in 2020 (Germany and Ireland) returning these to pre-pandemic levels.

The vast majority of temporary VAT changes made in 2020 were reversed in 2021. As pandemic-related restrictions were eased in 2021 relative to the previous year, reduced VAT rates that had temporarily been applied to hard-hit sectors to encourage consumption and reduce costs were largely returned to the standard rate. However, most countries prolonged VAT exemptions on COVID-19-related medical supplies to reduce their cost and a small number of countries extended the time-period applicable for reduced VAT rates on sectors that continued to require short-term support, such as tourism.

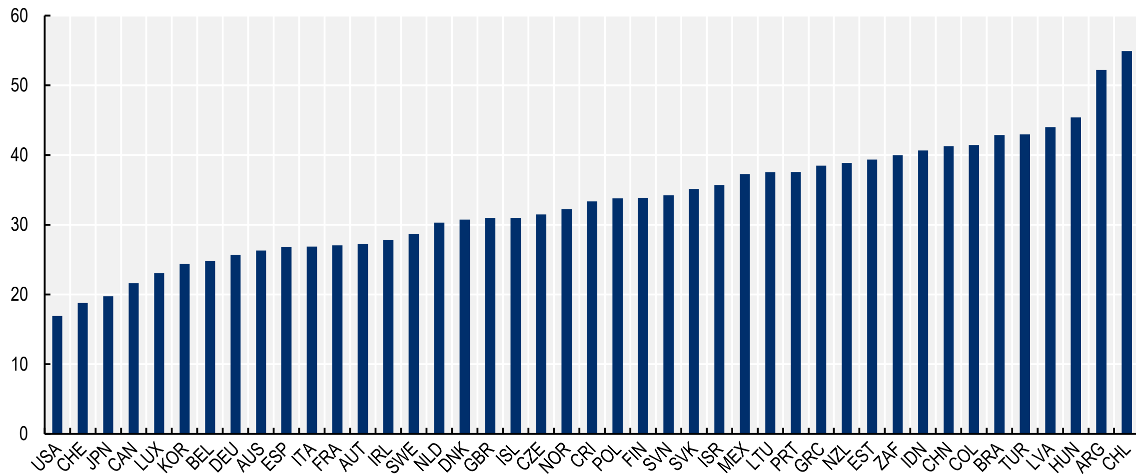
Some countries applied reduced VAT rates to a wider range of goods and services on a permanent basis in 2021, while several countries also temporarily applied reduced VAT rates to electricity and natural gas during Q4 of 2021. Both types of measures narrowed these countries' VAT base. Examples of permanent changes to the VAT base included the adoption of reduced VAT rates on certain basic items to address perceived inequalities in the tax system. Reduced VAT rates were applied to electricity and natural gas in several countries as energy prices rose substantially from the end of Q3 of 2021. Excise duties were once again increased in many the countries surveyed. Increased excise duty rates were applied to tobacco and tobacco-substitute products (in some countries to harmonise their taxation), as well as on alcohol and sugar-sweetened beverages.

3.3.1. Consumption taxes, in particular VAT, remain a major source of revenue in most countries

Taxes on goods and services remain a major source of revenue for most countries covered in the report. On average, taxes on goods and services, which includes VAT, sales taxes and excise duties (also referred to in this Section as 'consumption taxes') account for 33.3% of the total tax mix in the OECD and non-OECD Inclusive Framework jurisdictions for which data were selected.[17] They ranged from 54.9% and 52.2% of total tax revenues in Chile and Argentina, respectively, to 18.7% and 16.9% of total tax revenues in Switzerland and the United States[18] in 2020 (Figure 3.13). As illustrated in Chapter 2 and discussed in previous editions of this report (OECD, 2020[30]), revenues from taxes on goods and services tend to account for higher shares of total tax revenues in emerging economies relative to developed countries. OECD statistics show that in Africa, Asia and the Pacific, and Latin America and the Caribbean, consumption taxes were by far the largest source of revenue as a share of total taxation, accounting for between 49.8% and 51.9% of total tax revenues, respectively, on average (OECD/AUC/ATAF, 2021[31]; OECD et al., 2022[32]; OECD, 2021[33]).

Figure 3.13. Tax revenues from taxes on goods and services, 2020

Share of total tax revenues (%)



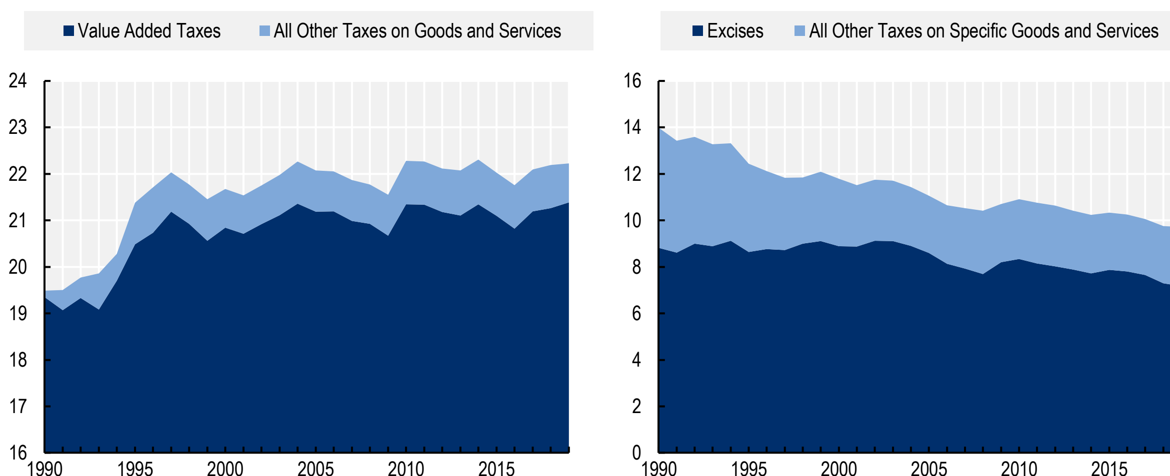
Note: Taxes on goods and services refer to Tax Revenue Statistics category 5000. Data for Argentina, Australia, Brazil, China, Indonesia, Japan, and South Africa are from 2019 as data from 2020 were not available at the time of writing.
Source: OECD Revenue Statistics Comparative Tables and OECD Global Revenue Statistics Database.

StatLink https://stat.link/qykxwu

VAT is the largest source of revenues from taxes on goods and services. VAT accounted for more than 60% of total tax revenues from goods and services taxes in 28 of the 43 OECD countries and selected non-OECD Inclusive Framework jurisdictions (see endnote 17). The share of consumption tax revenues within total taxation has remained stable over the last 30 years, varying between 32.5% and 35.6%, but as illustrated by Figure 3.14 the composition of these revenues has changed. Excise duties and other specific consumption taxes, which made up 14% of total tax revenues in 1990 across OECD countries and selected non-OECD Inclusive Framework jurisdictions, accounted for just 9.7% in 2019 - this figure is notably lower for OECD countries (at 9.5% of total taxation on average) than for the non-OECD countries for which data has been selected (11.3%). One of the explanations behind this overall decrease is that import duties were reduced across countries over the period covered, reflecting the continuation of global trends towards removing trade barriers, as well as the replacement of other general consumption taxes with VAT in several countries. Over the same period, the share of VAT in total tax revenues has grown, from 19.4%% in 1990 to 21.4% in 2019 on average for OECD countries and selected non-OECD Inclusive Framework jurisdictions.

Figure 3.14. Revenues from general and specific taxes on goods and services (left and right panel, respectively), 1990-2019

Share of total tax revenues (%)

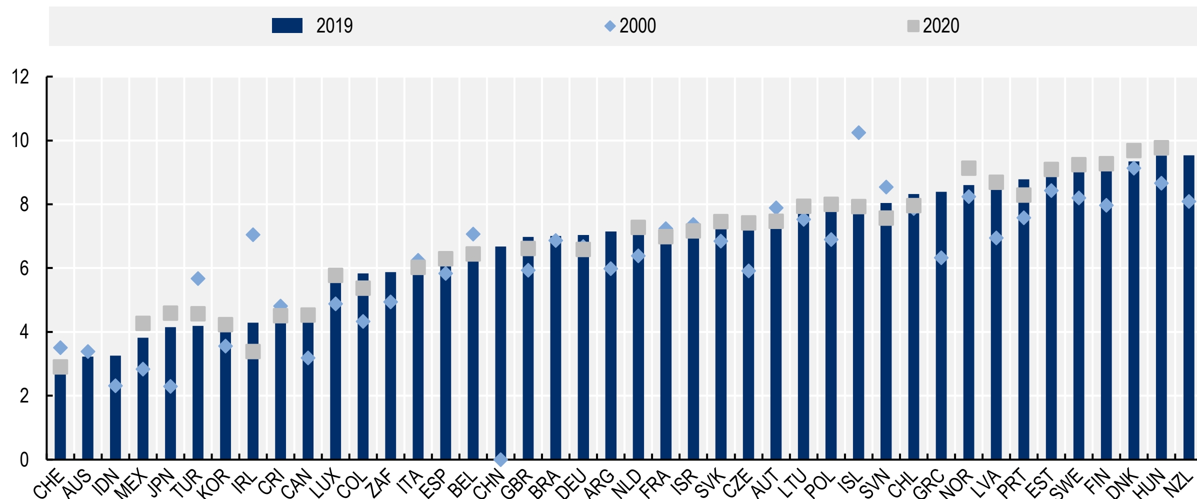


Note: The above categories of taxes on goods and services refer to the following Tax Revenue Statistics categories: Value Added Taxes – 5111; All Other Taxes on Goods and Services – General Taxes on Goods and Services (5110) minus Value Added Taxes (5111); Excises – 5121; All Other Taxes on Specific Goods and Services – Taxes on specific goods and services (5120) minus Excises (5121). The unweighted average for each year includes all OECD countries, as well as Argentina, Brazil, China (People's Republic of), Indonesia, and South Africa. The averages for 2016 include the one-off revenues from stability contributions in Iceland.
Source: Authors calculations based on OECD Revenue Statistics Comparative Tables and OECD Global Revenue Statistics Database.

Nevertheless, the amount and evolution of revenues collected from VAT have varied across countries. Across the OECD countries and non-OECD Inclusive Framework jurisdictions for which data were selected (see endnote 17), VAT revenues ranged from 9.8% of GDP in Hungary to 2.9% of GDP in Switzerland in 2020 (Figure 3.15). Over two-thirds of the countries covered experienced increases in their VAT revenues as a share of GDP between 2000 and 2019, with the most significant increases recorded in Canada, Colombia, and Japan. However, there were some notable exceptions to this general trend. For example, Ireland (-39%) experienced the largest decrease in VAT revenues as a share of GDP between 2000 and 2019 – this was not due to a fall in nominal or real VAT revenues, but rather was because Ireland's GDP grew at a significantly faster rate than its VAT revenues and other taxes took on a more prominent role in the country's overall tax structure. Indeed, all 42 Inclusive Framework jurisdictions for which data were selected recorded an increase in nominal revenues from VAT between 2000 and 2019.[19]

Figure 3.15. VAT revenues by country, 2000, 2019 and 2020

Share of GDP (%)



Note: Value Added Taxes refer to category 5111 within Tax Revenue Statistics. The United States is not included, as it does not operate a federal VAT. Instead, State governments have their own sales or use taxes.
Source: OECD Global Revenue Statistics Database.

Nominal revenues from VAT decreased slightly on average across OECD countries between 2019 and 2020. Of the 34 OECD countries where data were available[20], reductions in nominal VAT revenues were recorded in 18 countries (falling by -0.27 p.p. on average), whereas increases were recorded in 16 (increasing by 0.22 p.p. on average). In most of the OECD countries covered, VAT revenues were relatively closely correlated to changes in GDP, which is reflected in their relative stability as a share of GDP on average. As such, no significant change was observed in the average share of VAT to GDP in 2020 – a very small decrease of -0.04 p.p. was recorded by countries overall. VAT revenues decreased as a share of GDP in 18 countries and increased in the other 16 countries that apply VAT, with half of these changes situated between -0.2 p.p. and +0.1 p.p. of GDP. The largest fall was seen in Ireland (-0.9 p.p.) due to the temporary VAT rate cut during the COVID-19 pandemic (from 23% to 21% from September 2021 to February 2022, inclusive) as well as the decrease in economic activity. Germany also temporarily cut its standard VAT rate (from 19% to 16% for the second half of 2020) and experienced a -0.45 p.p. decrease in VAT revenues as a share of GDP – the fifth largest decrease. Of the 34 OECD countries for which data were available, the largest increase was seen in Norway, at 0.5 p.p.

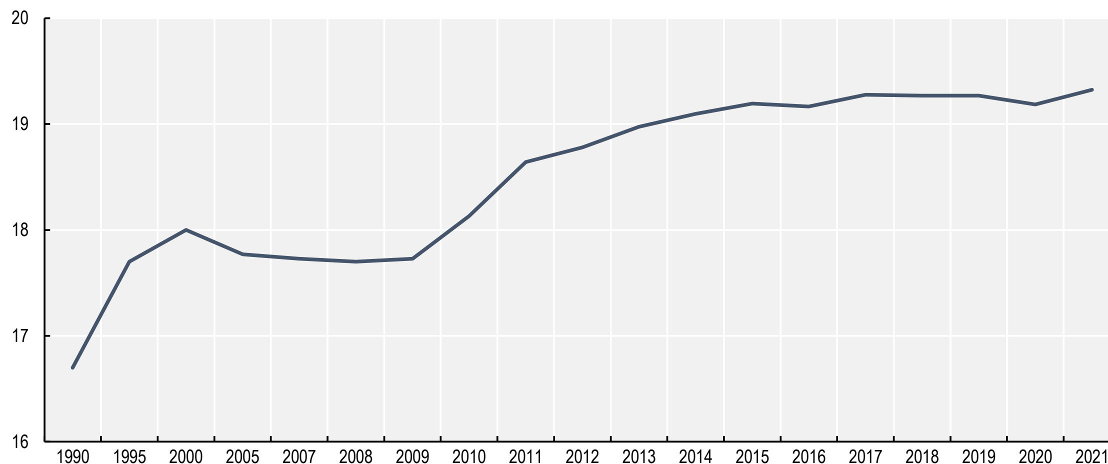
3.3.2. Standard VAT rates continue to stabilise

Standard VAT rates remained at the same level in 2020 and 2021 in all but three countries for which data were selected.[21] The average standard VAT rate across OECD countries rose marginally, from 19.2% in 2020 to 19.3% in 2021 (Figure 3.16), as Germany and Ireland returned their standard rates to 19% and 23%, respectively, following six-month temporary decreases (up from 16% and 21%). Outside of the OECD, Saudi Arabia tripled its standard VAT rate from 5% in 2019 to 15% in 2020, having first introduced the tax in 2018. Among OECD countries, 12 had a standard VAT rate equal to or above 22% in 2021 and 24 below 22% (Figure 3.17); this ratio has remained the same since 2014. The limited changes recorded in OECD countries are an indication that VAT rates may have stabilised. In some of these OECD countries, high standard VAT rates reflect, in part, changes made in the aftermath of the global financial

crisis when a common strategy for governments seeking to undertake fiscal consolidation was to raise VAT rates to provide immediate revenues without directly affecting competitiveness.

Figure 3.16. Evolution of the OECD average standard VAT rate, 1990-2021

Tax rate (%)



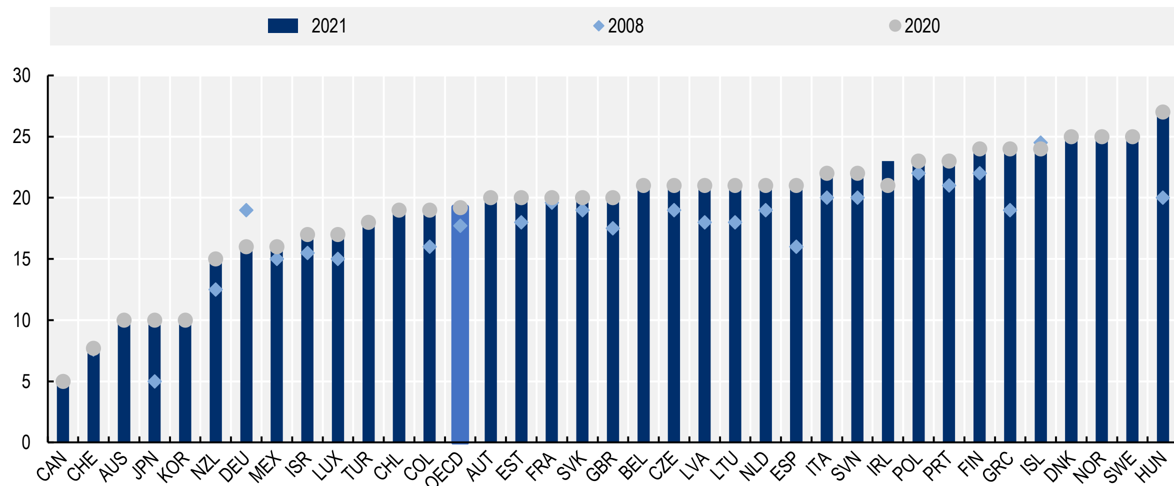
Note: The average standard VAT rate reflects the unweighted average of 36 OECD countries, not including Costa Rica or the USA. Comparable data was not available for Costa Rica or for the Inclusive Framework jurisdictions of Argentina, Brazil, China, Indonesia, and South Africa at the time of writing. The USA does not operate a federal VAT. In Germany, the standard VAT rate was reduced from 19% to 16% between 1 July 2020 and 31 December 2020. In Ireland, the standard VAT rate was cut from 23% to 21% for the period of 1 September 2020 until 28 February 2021. The lower rates for Germany and Ireland were included as their respective rates for the full year in 2020.
Source: OECD Tax Database 2021.

https://stat.link/89bigv

Substantial differences in the rates imposed by individual countries remain. As Figure 3.17 shows, five OECD countries had VAT rates of 10% or below in 2021 while a further seven had rates of 24% or higher. Excluding the temporary cuts in the standard VAT rate implemented in Germany and Ireland, Iceland is the only country to have recorded a small reduction in its standard rate, from 24.5% in 2008 to 24% in 2021. Standard VAT rates remained at the same level in ten OECD countries between 2008 and 2021 and rose in all others.

Figure 3.17. Standard VAT rates by country, 2008, 2020 and 2021

Tax rate (%)



Note: See note for Figure 3.16 for an explanation of the standard VAT rates applied for Germany and Ireland in 2020. Comparable data were not available for Costa Rica or for the selected non-OECD Inclusive Framework jurisdictions (Argentina, Brazil, China, Indonesia, and South Africa) at the time of writing.
Source: OECD Tax Database 2021.

3.3.3. Several countries reversed the temporary expansions in the scope of reduced VAT rates that were introduced in 2020

Many countries apply reduced VAT rates to a wide range of goods and services. Many of these reduced rates – such as those for basic goods – are intended to enhance equity. In some countries, other reduced VAT rates are in place to achieve non-distributional goals, such as supporting labour-intensive industries or promoting access to cultural activities. However, empirical evidence has shown that reduced VAT rates may not be the most effective way of attaining equity goals (OECD, 2020[34]). For example, reduced rates for necessities that aim to lower the tax burden on low-income households have been shown to provide greater benefits, in absolute terms, to richer households, even if they might benefit low-income households more in relative terms. Where reduced VAT rates apply to non-essential items such as hotel, restaurant services and cultural activities, the overall distributional effect tends to be regressive, benefiting the rich more both in aggregate terms and as a proportion of expenditure (Thomas, 2020[35]).

Almost all countries covered in *Tax Policy Reforms 2021* temporarily expanded the scope of their reduced VAT rates in 2020 (i.e., bringing more goods and services within the reach of the reduced VAT rates that are in place) and added exemptions or zero rates for certain goods and services. Meanwhile, just three countries (China, Germany, and Ireland) temporarily cut their standard or reduced VAT rate. Measures taken to reduce the cost of VAT or provide relief from import duties were central to countries' efforts to ease access to essential medical supplies and services in response to the global pandemic. After the early waves of the pandemic, several countries extended the scope of reduced VAT rates, opening these up to specific sectors in severely affected areas of the economy to encourage demand and support businesses. In most instances, the duration of these measures was initially three to six months, but the measures were subsequently extended in many cases while restrictions on mobility and closures of public places, including restaurants, bars, shopping malls, remained in place.

There was only one substantial change to reduced VAT rates in 2021. Germany reinstalled its reduced VAT rate of 7%, having temporarily cut the rate to 5% in 2020 to encourage consumption during the COVID-19 pandemic.

Countries across the world made a large number of changes to VAT bases in 2021. As pandemic-related restrictions were eased in 2021 relative to the previous year, sectors that had temporarily been subject to reduced VAT rates to encourage consumption were largely returned to the standard rate. Of the 46 temporary VAT rate reduction measures that were recorded by countries in their responses to the previous year's questionnaire (not including those related to medical products), 43 of these were removed by 2021. However, most countries prolonged VAT exemptions on COVID-19-related medical supplies to reduce their cost.

A small number of countries extended temporary expansions in the scope of their reduced VAT rates from 2020 into 2021 to encourage greater consumption in struggling sectors. For example, Colombia made three changes to the sectors to whom reduced VAT rates apply in the calendar year 2021. It added hotels, restaurants, and tourism services to the zero-rate VAT and added airline tickets and related services to the goods and services to which its lower 5% reduced rate is applied.[22] In the United Kingdom, the 5% reduced VAT rate that had been applied to hospitality, holiday accommodation and admission to certain attractions in 2020 was extended for a further eight months until the end of September 2021. The UK government also announced in advance a gradual return to the standard VAT rate of 20% by the start of Q2 of 2022, with an interim 12.5% rate applying from October 2021 until the end of March 2022.

Some other countries also introduced new temporary VAT reduction measures in 2021 that were targeted at certain hard-hit sectors. Lithuania temporarily added catering services (for the second half of 2021), and artistic and cultural services (from Q3 to 2021 to the end of 2022) to its 9% reduced VAT rate. In Uruguay, tourism services were subject to the 9% reduced VAT rate from October 2021 until the end of April 2022 when paid for through electronic payment methods. In Viet Nam, businesses, and self-employed workers in the accommodation, cultural, hospitality and tourism sectors were able to benefit from 30% discounts on VAT rates for the last two months of 2021, where they were able to prove a year-on-year decline in activity caused by the pandemic. To support the domestic construction and housing market, Iceland announced an expansion and prolonging of its measures to reimburse the VAT costs related to the labour share of certain services involved in the construction and maintenance of residential housing. Reimbursement was increased from 60% to 100%, the scope of the companies covered was expanded and the measures were prolonged by a further six months to the end of August 2022.

Several countries also temporarily expanded the scope of their reduced VAT rates and VAT-exempt items in the second half of 2021 to support households and businesses facing rising prices. A more detailed description of countries' tax responses to the rise in energy and food prices during 2021 and up to the end of May 2022 is provided in the Special Feature in Chapter 4, while this paragraph refers only to the VAT measures introduced in 2021**.** Costa Rica, the Czech Republic, Estonia, Italy, Poland, and Spain all made temporary changes to VAT bases subject to the standard rate in response to rising global energy prices in the second half of 2021, while in Senegal measures were taken to limit price rises of staple food items. Costa Rica exempted fuel transportation and distribution services from VAT from September 2021, while in the Czech Republic electricity and gas were subject to a 0% VAT for the last two months of 2021.[23] In Estonia, the VAT rate applicable to gas, electricity and heating was lowered from the 20% standard VAT rate to its 9% reduced rate from December 2021.[24] As part of its initial response to rising energy prices, Italy temporarily added natural gas supplies for "civil and industrial uses" to the scope of its super-reduced VAT rate of 5%, from the start of Q4 of 2021, while the VAT on gas bills for households was cut to the 10% reduced VAT rate.[25] Poland announced in November of 2021 that it would temporarily reduce the VAT rate applicable to natural gas and district heating from the 23% standard rate to the 8% reduced rate. The measure came into force as of January 2022.[26] In June 2021, Spain's government reduced the VAT rate it applied to energy bills from the standard 21% VAT rate to its 10% reduced rate for a period of six-

months.[27] Senegal applied a 0% VAT rate to flour from September 2021 in response to the rise in global food prices.

A small number of countries have also made permanent additions to the scope of reduced rate VAT regimes, citing equity concerns. Both Kenya and Uruguay reduced the VAT rate on staple food items, but the most common change recorded by countries was for female sanitary products. Austria, Italy, and Slovenia changed the VAT rate applied to feminine hygiene items, adding these products to their 10% reduced rate category (9.5% in Slovenia); while Mexico and the United Kingdom lowered the VAT rate they apply to these products to zero. Lowering the VAT rate on female sanitary products has become increasingly widespread over the last decade, with the aforementioned countries following in the footsteps of Australia, Belgium, Canada, Germany, Iceland, Kenya, and South Africa who all made changes from as early as 2011. The equity implications of reducing the rates applied to female sanitary products is more complex than might first appear. Whilst reduced rates on female sanitary products can be seen as an example of how the tax system can be used to mitigate gender inequality, recent research suggests that the distributional consequences of reductions in VAT on these products can be regressive and more costly than other potential policy responses (de la Feria and Walpole, 2020[36]).

Following trends from previous years, common permanent additions to the scope of reduced VAT rates were recorded for goods and services related to the media. Latvia and Romania added books, press and other mass media issued in the form of printed or electronic publications to the goods to which they apply their 5% reduced VAT rate, in line with EU VAT Directives. Elsewhere, Austria and Sweden added repair services to the items that are taxed at a reduced VAT rate, Türkiye lowered the VAT rate on used mobile phones from 18% to 1%, and Albania reduced the VAT rates applied to both the supply of agricultural inputs and the compensation rate for agricultural producers to 0%.

Table 3.10. Changes to reduced VAT rates introduced in 2021

	General	Food and basic items	Hotels, restaurants, and tourism	Newspapers and e-books	Culture	Other
Rate increase or scope narrowing	DEU					PER
Rate decrease or scope broadening		AUT, COL[e t], GBR[0], ITA, KEN[0], MEX[0], ROU, SVN, URY	COL[0 t], GBR[t], LTU[t]	LVA, ROU	LTU[t]	ALB[0] AUT, COL, ISL, ITA, MEX, POL[t], ROU, SWE, TUR

Note: E = tax-exemption.;
T = temporary.
0 = zero-rate.
Chapter 4 discusses changes to VAT rates on energy supplies in detail and such measures have thus not been included in Table 3.10.
Source: OECD Annual Tax Policy Reform Questionnaire.

3.3.4. VAT registration thresholds have been increased in several countries

The OECD countries and Inclusive Framework jurisdictions that responded to the Tax Policy Reforms questionnaire have very different VAT registration thresholds (Figure 3.18). The level of the threshold is generally the result of a trade-off between, on the one hand, minimising compliance and administration costs for small businesses and tax administrations, and on the other hand, the need to protect revenue and avoid competitive distortions. In a large majority of countries, smaller businesses are not required to register for VAT and/or to collect the tax on their outputs while the VAT on their inputs is not deductible (exemption without credit) as it is deemed that: (i) the accompanying compliance costs for businesses may be disproportionately large relative to their turnover; and (ii) for tax administrations, the costs of having these businesses account for VAT may be disproportionately high relative to the potential

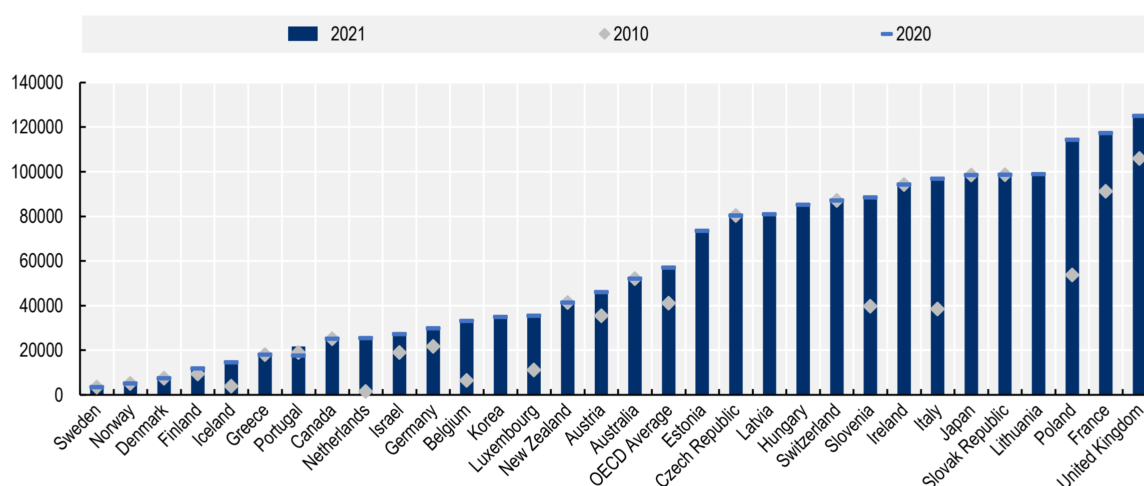
VAT revenues they could provide. An additional consideration for tax authorities is that VAT registration thresholds can introduce competitive distortions between small businesses under and above the threshold. Each jurisdiction should therefore decide the most appropriate balance of these factors when setting these thresholds.

A very small number of countries altered their VAT registration thresholds in 2021. Across the OECD, just two countries reported a change in their VAT registration threshold. Upward revisions to thresholds were more common in previous years – from 2016 to 2018, nine countries increased their VAT collection/registration thresholds, while between 2018 and 2020, seven countries increased thresholds. As of 1 January 2021, Portugal increased its VAT registration threshold by 25% from EUR 10 000 (USD 17 640) to EUR 12 500 (USD 21 800), which remains significantly below the OECD average VAT registration threshold (Figure 3.18). The only other change was made in Colombia, where the turnover value at which certain individuals must be registered for VAT rose from COL 122.8 million (USD 91 060) to COL 127.1 million (USD 94 000) to account for inflation adjustments.

Some countries announced changes or qualifications in the application of VAT thresholds to ease administrative burdens and improve compliance. In Saudi Arabia, for instance, guidelines were released that clarify that the domestic VAT registration threshold (ZAR 375 000; USD 98 680) also applies to all (i.e., both domestic and foreign) e-commerce sellers to boost VAT compliance.

Figure 3.18. General VAT registration and collection thresholds in OECD countries, 2021

Annual turnover thresholds expressed in USD purchasing power parity



Note: Thresholds validated by delegates of OECD Working Party 9.
Source: OECD Tax Database 2021.

3.3.5. Governments continue to reduce VAT compliance burdens in the aftermath of the pandemic

Several countries have continued to modernise their input VAT refund procedures to enhance business cash flow and support investment, as well as to improve compliance. Many of these measures build upon those put in place during the pandemic, which highlighted the importance of flexible input VAT refund mechanisms in supporting businesses with liquidity challenges. Among the measures taken – and in some instances, continued from the pandemic – were reductions in the response times for tax administrations to treat refund requests, simplification of procedures and administrative requirements

for obtaining refunds, and more flexibility in the late payment of VAT obligations for firms operating in sectors that had been particularly hard hit by the economic effects of COVID-19.

A small number of countries sought to modernise their VAT refund mechanisms. As part of Poland's wider reforms to the functioning of its VAT system, it has introduced a statutory guarantee that VAT refunds will automatically be made within 15 days. Alongside other specific qualifying criteria, access to this rapid refund system will only be available to retailers who use online or virtual cash registers. Georgia has also made a significant upgrade to its VAT refund system, where a fully automatic VAT refund system has been introduced, with excess VAT amounts being automatically credited to taxpayers' accounts without them needing to request payment. Slovenia has also sought to improve digitalisation of its VAT and excise systems, with beneficiaries able to receive refunds quicker when claims are made through upgraded electronic systems.

Some countries extended administrative measures implemented during the pandemic to support companies with continued liquidity challenges. In Germany, tax payment deferrals have been permitted until the end of Q2 of 2022, reduced pre-payments were enhanced, and enforcement rules have been eased until the end of Q3 of 2022. In Chile, VAT payments for companies whose sales in Q1 of 2021 were down by at least 20% relative to 2019 were able to be deferred to the start of Q4 of 2021 and paid in equal instalments over the following year. Saudi Arabia extended its relief from fines in case of late tax filing and payment for a period of six months until the end of June 2021. Viet Nam continued to extend repayment periods for VAT in 2021: allowing Q1 VAT payments to be delayed by five months, Q2 VAT payments by four months and Q3 VAT payments by three months. In Cabo Verde, the government prioritised accelerated tax refunds for companies to support firms facing liquidity difficulties, while the Finnish government sought to achieve the same objective by continuing the eased terms of repayment arrangements. In Albania, the VAT exemption threshold for imported machinery and equipment was raised ten-fold from ALL 50 million (USD 483 000) to ALL 500 million (USD 4.83 million).

3.3.6. Reducing VAT non-compliance and fraud remains a priority for tax authorities

Countries have continued to introduce measures to reduce VAT non-compliance and fraud. Prior to the pandemic, several technical and administrative measures had been introduced as part of efforts to improve tax collection and combat fraud (OECD, 2019[37]). These measures included enhanced reporting obligations, such as the use of Standard Audit Files for Tax (SAF-T) and real-time data transfers to tax administrations through VAT invoice reporting. Other measures were implemented to modify tax collection mechanisms and thus combat certain types of VAT fraud, including split payments and the expansion of the domestic reverse charge mechanism to high fraud-risk sectors, while some reforms also sought to extend VAT accountability to other entities in the value chain, such as online marketplaces (OECD, 2020[30]).

Previous editions of this report have emphasised the expanding use of the domestic reverse charge mechanism to address fraud. The domestic reverse charge mechanism can be used to combat missing trader fraud. A key feature of this type of fraud is that taxpayers charge and collect VAT from their customers and disappear without remitting the VAT to the tax authorities. The domestic reverse charge mechanism – which applies in principle to supplies of specific goods and/or services between VAT registered businesses established in the same country – aims at addressing this type of fraud by making the customer liable to collect the tax on supplies (instead of the supplier), thus preventing the supplier from collecting VAT and disappearing with it (OECD, 2017[38]). This mechanism has been increasingly applied by EU Member States to goods that are vulnerable to such fraud; often popular high-value goods that can easily be moved around such as mobile phones, laptops, and gold. Trade in certain intangibles, such as carbon credits, gas and electricity and green energy certificates, has also become particularly vulnerable to this type of fraud. Some developing countries have sought to introduce similar measures, including

Nigeria, where a reverse charge mechanism applies in circumstances where the supplier fails to collect the tax.

3.3.7. Reforms of VAT group rules were rare

Poland introduced significant reforms to its VAT system as part of a wide-ranging tax reform package. Among these changes was the introduction of VAT groups, whereby two or more VAT-eligible persons or businesses can be treated as a single taxable unit. This practice is commonplace in some OECD countries. The general purpose of the VAT grouping is to simplify VAT settlements between group members and increase the group's financial efficiency in dealings with third parties. In addition, VAT grouping can positively affect the financial liquidity of a group. It may also significantly limit the VAT compliance burden of a group's members. Poland has introduced the right for taxpayers to opt for the taxation of supplies of financial services (previously mandatorily exempt from VAT without credit) when such services are supplied to customers themselves subject to VAT (B2B supplies).

3.3.8. Countries are continuing to make progress in ensuring the effective taxation of online sales of goods, services, and intangibles

Countries continue to implement the rules and mechanisms recommended by the OECD's *International VAT/GST Guidelines* and its accompanying guidance to ensure the effective taxation of cross-border supplies of services and intangibles, in response to increasing digitalisation of the economy. The Guidelines provide specific recommendations to ensure the consistent allocation of taxing rights over internationally traded services and intangibles and to ensure the effective collection of VAT on these supplies (OECD, 2017[39]). For digital B2C supplies, the Guidelines recommend place of taxation rules mainly based on the customer's usual residence and a customer location rule for B2B supplies. The Guidelines also provide guidance on the VAT collection mechanisms for these supplies i.e., a "reverse charge" mechanism for B2B supplies (which imposes the VAT collection and remittance obligation upon the customer), and the implementation of a requirement for non-resident suppliers to register in the taxing jurisdiction to collect and remit the VAT on B2C supplies.

To support the implementation of these OECD standards and guidance for the application of VAT to digital trade in developing regions of the world, the OECD is producing several regional VAT Digital Toolkits in partnership with the World Bank Group (WBG) and with key regional organisations. As described in Box 3.7, the OECD has produced VAT Digital Toolkits for the Asia-Pacific region (with WBG and the Asian Development Bank) and for the Latin America and Caribbean region[28] (with WBG, Inter-American Center of Tax Administrations and the Inter-American Development Bank) to assist national tax authorities in the effective collection of VAT revenues by providing detailed guidance for the successful implementation of a comprehensive VAT strategy directed at e-commerce activities. The VAT Digital Toolkit for Africa will be released in 2022 (in partnership with WBG and African Tax Administration Forum).

Box 3.7. VAT Digital Toolkit for Latin America and the Caribbean

VAT is the largest source of tax revenue on average in the Latin America and Caribbean (LAC) region, at 27.7% of total tax revenues in 2019. Revenue from VAT as a percentage of GDP more than doubled for LAC countries on average between 1990 and 2019, from 2.2% of GDP in 1990 to 6.0% in 2019 (OECD et al., 2021[40]).

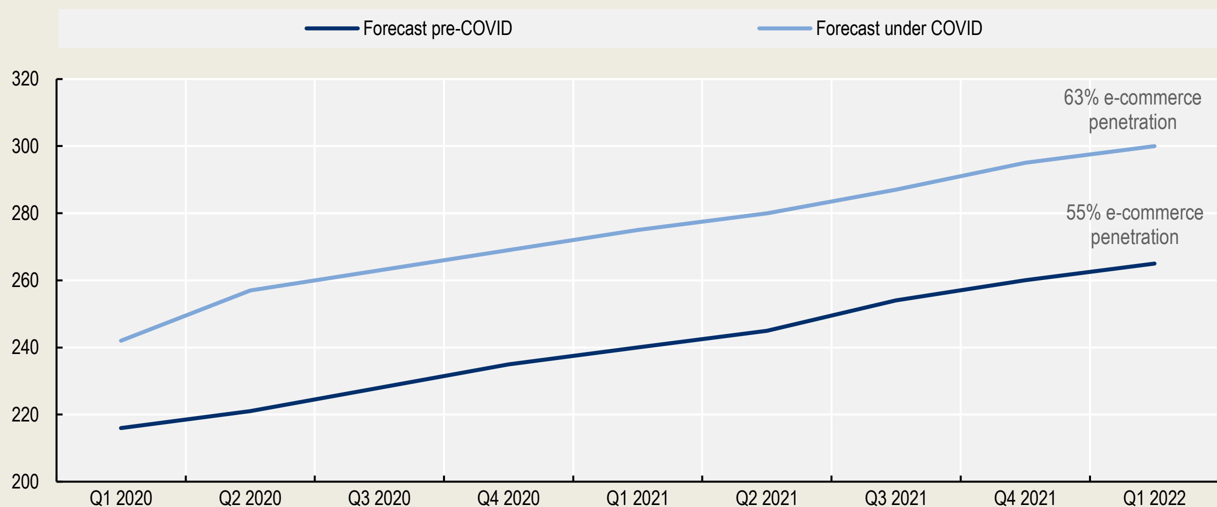
Safeguarding these crucially important VAT revenues in an economy that is being transformed by digitalisation and globalisation is a priority for many governments in the LAC region. Most jurisdictions that employ a VAT in other regions around the world confront similar challenges. The need for reform, however, may be more urgent in the LAC region, as it is one of the fastest growing e-commerce regions in the world and VAT reform in response to this new economic reality has remained relatively limited.

The LAC region is one of the fastest-growing regions for e-commerce worldwide. E-commerce has been estimated to reach 63% penetration of the total population in Latin America in 2022, compared to the 45% penetration rate observed at the beginning of 2020. Online trade in goods and in digital products and services are estimated to have grown in the LAC region at the respective rates of 21% and 20%-to-30% year-on-year in 2020 (OECD et al., 2021[40]).

The need for action to ensure that VAT is collected efficiently and effectively on the fast-growing volumes of e-commerce sales is therefore strong. Action is required not only to generate the revenues necessary to finance sustainable development and to strengthen the redistributive power of tax policy in the LAC region post-crisis, but also to avoid competitive distortions between online sellers and local “bricks-and-mortar” stores.

Figure 3.19. LAC region digital trade newcomers

Millions of consumers



Notes: The original source does not provide specific data points. For illustrative purposes, the OECD has reproduced the graph with approximate estimates.
Source: EBANX/AMI data from EBANX (2021[41]).

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In response, the OECD has delivered a comprehensive internationally agreed policy framework for addressing the VAT challenges of the digital economy, reflecting broad consensus on effective and efficient solutions among tax authorities worldwide. It results from an intense and inclusive policy dialogue among tax authorities from OECD member countries and non-member economies and key international and regional organisations over the course of several years. The core standards and principles are included in the *International VAT/GST Guidelines* and in the 2015 *Final Report on BEPS Action 1 Addressing the Tax Challenges of the Digital Economy* (OECD, 2015[42]). These standards have been complemented with detailed technical guidance on the design and implementation of mechanisms for the collection of VAT from non-resident online vendors; the VAT treatment of online marketplaces and other digital platforms; the collection of VAT on imports of low-value goods from online sales; and the VAT treatment of the sharing and gig economy.

The OECD policy framework for addressing the VAT challenges of digital trade has four main pillars:

1. Creating the legal basis for jurisdictions to assert the right to impose VAT on international digital trade. This includes internationally agreed standards for determining the "place of taxation" of online sales of services and digital products by reference to the location of the customer.
2. Ensuring the efficient collection of VAT on online sales of goods, services, and digital products from foreign vendors through simplified VAT registration and collection.
3. Boosting the efficiency of VAT collection by requiring digital platform operators, which dominate global digital trade, to collect and remit the VAT on sales carried out through their platform(s).
4. Enhancing VAT compliance by foreign online vendors through a modern risk-based compliance strategy and robust administrative co-operation.

The *VAT Digital Toolkit for Latin America and the Caribbean* provides comprehensive and detailed guidance for the policy design, implementation and operation of a comprehensive VAT strategy targeted at digital trade in the LAC region (OECD et al., 2021[43]). It is based on the internationally agreed OECD policy framework and draws on expertise and best practices from jurisdictions that have already successfully implemented these standards:

- ***Section 3*** of the Toolkit provides detailed analysis of the various components of the recommended policy framework for the application of VAT to digital trade and the available options for implementing them into a jurisdiction's VAT system, taking account of the specific LAC context. It focuses respectively on internationally traded services and intangibles (including digital services and products); on imports of low-value goods from online sales; and on the sharing and gig economy.
- ***Section 4*** presents detailed guidance on the key issues associated with the administrative and operational implementation of the OECD policy framework for the collection of VAT on digital trade. This includes the implementation of a simplified compliance regime for foreign online suppliers, the development of an online portal for registration and payment of the VAT and their integration into a tax authority's existing administrative and IT framework.
- ***Section 5*** of the Toolkit advises policymakers and administrators on the development of audit and risk management strategies for the application of VAT to digital trade.

To support policy makers and tax administrators with the application of the toolkit, the OECD and partner organisations have developed VAT e-learning modules that can be accessed through the *Knowledge Sharing Platform for Tax Administrations*.

Nine countries reported the adoption or announced the forthcoming adoption of the OECD standards for the collection of VAT on digital supplies by non-resident vendors in 2021. These countries included Cambodia, Canada, Kazakhstan, Kenya, Nigeria, Tajikistan, Thailand, the Ukraine and

Viet Nam. The scope of transactions covered by these new rules and the applicable VAT rate varies across these countries, but all now apply the same rate for wholly domestic and non-digital supplies. Egypt and Peru are continuing to adjust their VAT systems to collect VAT on inbound digital supplies.

A growing number of countries have now removed or are considering the elimination of VAT relief regimes for imports of low-value goods, as volumes of low-value imported goods from online sales grow. The imports of low-value goods were often exempt from VAT due to collection challenges for tax administrations and customs officials that had to verify that VAT was paid on a large amount of low-value imports. Countries have removed or are considering the elimination of VAT relief for imports of low-value goods because of the increasing revenue cost to governments and the competitive distortions that domestic retailers face. In these countries, the VAT on imports of low-value goods is collected via a simplified registration and compliance regime for online vendors and digital platforms, which are similar to those implemented for the collection of VAT on inbound supplies of services and intangibles. Countries having implemented such a regime so far are Australia, New Zealand, Norway, the United Kingdom, and the Member States of the European Union. Singapore has also announced the introduction of a vendor collection regime for low value imported goods.

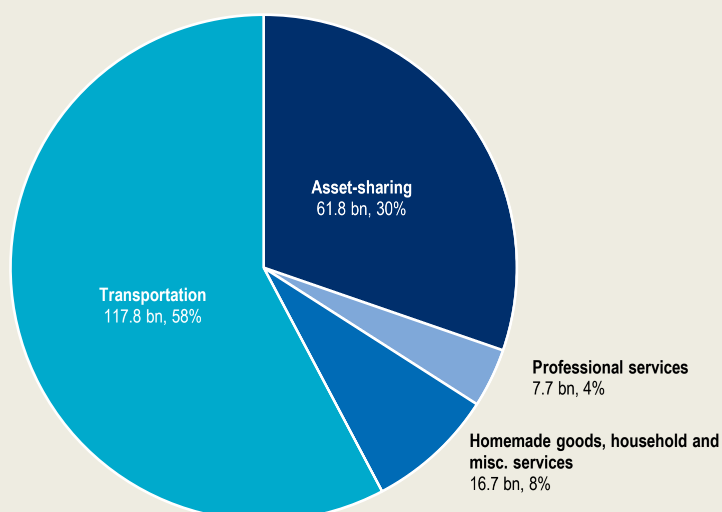
Box 3.8. The Impact of the Growth of the Sharing and Gig Economy on VAT Policy and Administration

The emergence and rapid expansion of the sharing/gig economy in recent years has been remarkable. Digital platforms, acting as intermediaries for millions of new economic actors and consumers worldwide, have powered the rise of the sharing/gig economy. Subsequently, a wide range of previously non-monetised human or physical resources and/or assets has been made accessible for temporary ("shared") use by consumers.

The value of the sharing/gig economy in eight major global economies is projected to rise to USD 455 billion by 2023 as digitalisation accelerates and consumers become more receptive to the idea of the sharing economy (Mastercard and Kaiser Associates, 2019[44]). This growth has already created new commercial opportunities in several industries, such as transportation (e.g., "ride-sourcing") and accommodation (e.g., short-term rentals), and is expanding to a wider array of sectors, including professional services and finance.

Figure 3.20. Sharing/gig economy volume by sector, 2018

Billions USD



Note: The markets covered include Australia, Brazil, France, India, Indonesia, United Arab Emirates, United Kingdom, and the United States.
Source: Mastercard and Kaiser Associates (2019[44]).

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Given the huge economic volume and the unique characteristics of the gig/sharing economy, questions have been raised as to whether existing VAT frameworks are effective in protecting VAT revenues and minimising economic distortions. Concurrently, these "new ways of doing business", not least the role of sharing/gig economy platforms, may also create new opportunities to enhance tax compliance and administration. The OECD's report *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration* examines exactly these questions, building upon a series of previous OECD research on the design of VAT/GST policy to address the challenges of the digitalisation of the economy (OECD, 2021[45]).

The report sets out the core components of a comprehensive strategy for tax authorities to consider in designing and implementing their VAT policy and administration response to sharing/gig economy growth. Key considerations for these strategies include:

- **Jurisdictions' main objective may not necessarily be to bring all sharing/gig economy activities within the VAT net**. A jurisdiction may for instance wish to first monitor evolutions across sharing/gig economy sectors so as to allow fast and targeted policy action when needed;
- **Jurisdictions may opt for a sequenced strategy**, focusing their policy action first on the dominant sharing/gig economy sectors that may create the most immediate risks to VAT revenue and/or competitive neutrality;
- **The preferred policy response is one that is consistent with the general rules and principles of the jurisdiction's existing VAT system** and limits the introduction of new exceptions or special regimes. This notably reflects the desire of jurisdictions to ensuring an equal treatment of various distribution channels in a given market, whether traditional or digital;
- **Tax authorities will often face difficult trade-offs** between the need to protect revenue and minimise competitive distortion by bringing new actors within VAT systems, and the need to safeguard the efficiency of tax administration and to avoid undue compliance burden by limiting the entry of high numbers of new sharing/gig economy actors into the VAT/GST system;
- **A number of measures can be used to support a balanced response to this challenge**, including: considerations for the determination of a VAT registration and/or collection threshold; presumptive schemes for determining the VAT liability; accounting and reporting simplifications; split payment/withholding mechanisms for VAT collection; the use of technology to facilitate VAT administration and compliance; third-party reporting obligations; taxpayer education and other awareness raising activities

The report also highlights the significant opportunities that digital platforms in the sharing/gig economy – fuelled by advanced data analytics – offer for facilitating VAT administration and compliance. These could help in educating sharing/gig economy providers on their VAT obligations, implementing data reporting obligations, and the collection of VAT from participants in the sharing/gig economy. Furthermore, greater volumes of data, including from third parties, could help improve the visibility and traceability of economic activity, which may be of particular help for formalisation efforts in developing countries, and to assist with compliance monitoring, analysis, and enforcement.

Source: OECD (2021[45]).

3.3.9. Excise duties have continued to be raised

Excise taxes continue to offer a powerful tool in raising revenues and encouraging behavioural change. Excise taxes can cover a wide range of products, but those that are common in most countries and raise significant revenues for governments are excise duties on alcohol, tobacco, and hydrocarbon oils. In recent decades, governments have increasingly used these taxes not only to raise revenues, but also to influence behaviours and deter harmful consumption (see Box 3.9). This sub-Section covers non-energy excise duties (for environmentally related excise duties, see Section 3.4).

Taxes on tobacco products are particularly high. The relatively low-price elasticity of demand, the small number of producers and high consumption levels initially made tobacco products particularly attractive targets for excise taxation to raise revenue. Considering the negative health consequences of tobacco use and the effectiveness of tobacco taxation in reducing tobacco use, excise taxes on tobacco have increasingly been used as a tool to reduce tobacco use (World Health Organisation, 2017[46]). As a result,

in 2018, the average share of total taxes in the price of cigarettes paid by consumers in OECD countries was 74.8% (OECD, 2020[34]).

Excise duty increases, especially on tobacco products, continued in 2021. Increases in excise duty rates on tobacco products were reported in Albania, Armenia, Belgium, Canada (both federally and in the provinces of British Columbia, Newfoundland and Labrador, and Saskatchewan), Germany, Lithuania, Kenya, the Netherlands, Poland, Slovenia, South Africa, and Sweden.[29] Armenia also noted that excise duties on tobacco products would be indexed to inflation from 2022 onwards. Tobacco products, such as vaping and associated materials have also been subject to increased taxation rates – in most countries to better align them with taxes on tobacco products. Denmark and Lithuania introduced a new tax on nicotine and on tobacco substitutes, respectively; while in Germany and Peru, plans were announced to tax tobacco substitutes from mid-2022, with further rate increases scheduled for the following three years. Contrary to this general trend, Togo reduced the excise duty on tobacco products in 2021 to better align its rates with other countries in the region, following several years of progressive increases. The lower price differentials should limit arbitrage opportunities and the potential for smuggling and contraband fabrication of cigarettes.

As in previous years, increases in tobacco excise duties have been more widespread than increases on excise duties on alcohol. Increases in excise duties on alcohol were reported in Armenia, Lithuania, South Africa, and Sweden. In the United Kingdom, reforms were announced in 2021 to harmonise and rationalise the structure of excise duties on alcohol from the beginning of 2023. Once the legislation has been implemented, excise duties on alcohol will be charged based on alcoholic strength (alcohol by volume) as opposed to the volume of the finished product, as is currently the case.

However, some countries reduced excise tax burdens on alcohol manufacturers, particularly of beer and wine products, to support industries that had struggled during the pandemic. In Australia, the Government increased the support available to brewers and distillers. From mid-2021, eligible brewers and distillers could receive a full remission (up from 60% previously) of any excise they pay, up to a limit of AUD 350 000 (USD 262 960) – this limit was also increased from the 2020 threshold of AUD 100 000 (USD 68 820). In Germany, the Government temporarily reintroduced reduced tax rates for small and medium-sized breweries, which had previously been in place until 2003. Elsewhere in Europe, Lithuania and Poland both introduced excise duty exemptions providing up to 50% relief for small and independent breweries (Lithuania) and alcoholic beverages (Poland).

Taxes on soft drinks continue to be an area of interest for countries, with new taxes being introduced and existing taxes being raised. The Canadian province of Newfoundland and Labrador implemented a new CAD 0.2 (USD 0.16) per litre sugar-sweetened beverage tax, which will become effective as of 1 April 2022. Israel also implemented a new tax on high-sugar drinks, to be charged at ILS 1 (USD 0.31) per litre, while diet soft drinks and those with less added sugar, such as flavoured waters, are to be taxed at a rate of ILS 0.7 per litre (USD 0.22). Nigeria also introduced excise duties of NGN 10 (USD 0.03) per litre on non-alcoholic, carbonated, and sweetened beverages, while the Netherlands increased its existing consumer tax on non-alcoholic beverages (excluding water).

Kenya changed excise taxes on several products and services in 2021. Kenya has introduced a significant reform of its excise duties; rates were increased for imported sugar confectionary, commission on loans, services related to betting and lotteries, furniture products and several food items; rates were decreased for telephone and internet data services; and a new excise duty was introduced for jewellery and plastic items. To encourage regional trade, excise duties are not imposed on most goods from countries belonging to the East African Community.

A small number of countries extended measures to ease the administrative requirements of paying excise taxes from the pandemic into 2021. Viet Nam temporarily extended the deadline for paying excise tax on domestically manufactured and assembled cars to support the struggling sector. Saudi Arabia allows importers to defer the payment of customs and import duties for a period of up to 21 days.

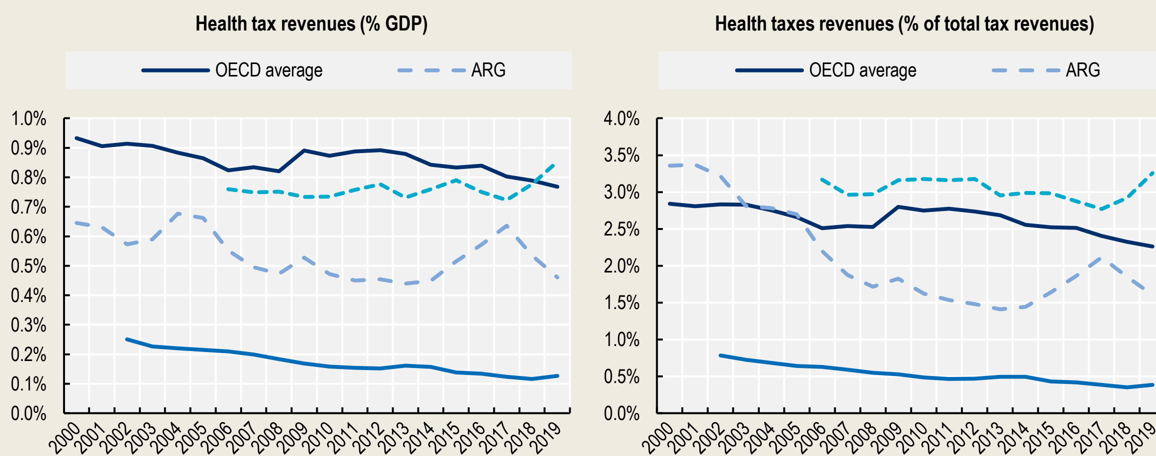
Box 3.9. Health Tax Design

Health taxes are imposed on products whose consumption is deemed harmful to health

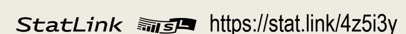
Excise duties on tobacco and alcohol have a long history across the world, and taxes on sugar-sweetened beverages (SSBs) have become increasingly common in recent years. As of Q3 of 2021, 14 OECD countries and three non-OECD G20 countries had implemented such taxes (University of North Carolina, 2021[13]), and a growing number of countries are considering similar measures as evidence of the negative health effects of unhealthy diets has become more prevalent and recent evaluations highlight how their introduction can be a success (Saudi Arabia and South Africa, for example). Adoption of taxes on foods high in sugar, salt and fat has also increased in the past decade but remains very limited.

Across the OECD countries where data is available, health tax revenues accounted for 2.3% of total tax revenues and 0.8% of GDP on average in 2019. As indicated in Figure 3.21, revenue from health taxes has been relatively stable over the past two decades, declining somewhat since the global financial crisis. Notable differences in health tax revenues can be observed across countries, with the share of health tax revenues in total tax revenues relatively high in some Eastern and Northern European countries in particular, such as Latvia (5.3%), Estonia (4.9%) and Lithuania (4.5%), but very low in other countries such as Israel and the United States (below 1%). There is also divergence in the importance of health taxes within the overall tax composition of the three G20 non-OECD countries for whom publicly detailed breakdowns of information on health tax revenues are available – health tax revenues have been declining in Argentina (1.6% of total tax revenues) and Brazil (0.4%), while South Africa (3.3%) has experienced a growth in health tax revenue since 2017.

Figure 3.21. Revenues from health taxes



Note: Detailed information is not available for all countries, and for those countries who are able to provide complete information, it is likely that health tax revenues are underestimated due to insufficient decomposition of components. See Brys, Colin and De Melo (2022, forthcoming) for an in-depth discussion. There is no data available in OECD revenue statics for Australia, Iceland, Mexico, New Zealand and Türkiye.
Source: OECD Global Revenue Statistics Database.



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Scope exists to strengthen the role of health taxes

Many countries could increase the rates and broaden the base of the health taxes they currently levy on unhealthy consumption. There is also scope to enlarge the base by taxing other goods that are unhealthy when consumed excessively (such as foods high in sugar, salt, and fat) and/or the inputs that are used in the production of these unhealthy consumption goods. Since the beginning of the COVID-19 crisis, several countries have (or are) considering increasing the role of health taxes to help restore public finances and/or finance healthcare systems. As described in the section on taxes on goods and services, the United Kingdom has simplified its excise duties on alcohol to discourage excessive consumption of high alcohol volume products, while India has increased alcohol taxation in some states, sometimes with a specific COVID-fee. Indonesia has also expressed interest in broadening the tax base for taxes on SSBs. Some countries have also bolstered VAT on certain products to discourage harmful consumption. Spain, for example, increased the VAT on SSBs from its reduced rate of 10% to the standard rate of 21% (with exceptions for baby milk and special dietary beverages) – national estimations suggest this measure will provide an additional EUR 340 million (USD 402 000) in 2021 and EUR 60 million (USD 71 000) in 2022.

Health taxes can also be part of countries' health protection and promotion policies

Some countries have a long history of earmarking a proportion of the revenues from health tax revenues to specific health programmes or general governmental health spending, such as Mexico and Indonesia. More recently, some countries decided to levy a COVID-specific fee on certain products deemed harmful to health and earmarked the spending of these revenues on goods and services related to the pandemic.

3.3.10. A small number of other taxes on specific goods and services have been introduced

Very few countries introduced or made changes to consumption taxes on specific products. In Canada, a new sales tax was introduced on the purchase of luxury cars and aircraft that have a retail sales price over CAD 100 000 (USD 79 740), and boats worth over CAD 250 000 (USD 199 360). The tax is calculated as the lesser of either 20% of the threshold values described above or 10% of the full value of the item. In Türkiye, the special consumption tax rates on certain vehicles were also revised upwards. Elsewhere, Sweden abolished its tax on advertising and decided not to introduce a tax on hazardous chemicals, which had previously been considered.

3.4. Environmentally related taxes

Promoting environmental sustainability has become increasingly central to the policy goals of taxing energy and vehicle use. Explicit carbon taxes on fuel were expanded in 2021. Several countries either adopted new legislation, increased the price of carbon (its rate per tonne of CO_2), or removed tax exemptions. Traditional motor vehicle taxes continued to evolve to better reflect greenhouse gas emissions and pollution profiles, and a range of existing incentives for alternative fuel or electric vehicles were extended in several countries. A selection of EU countries have introduced, or have announced plans to introduce, a tax on plastic in response to an EU initiative, the *new Own Resources Decision,* whereby member countries will pay a national contribution to the EU proportional to the quantity of plastic packaging waste that is not recycled (European Commission, 2021[47]).

However, countries differ in the degree to which they deploy environmentally related taxes. Environmentally related taxes are defined as any compulsory, unrequited payment to general government levied on tax bases deemed to be of particular environmental relevance. They encompass all taxes that are likely to have a strong environmental impact, regardless of the reason for their introduction, and cover

a broad range of areas, including agrochemicals, energy, road use, vehicles, waste, water abstraction and water pollution. Among these, energy taxes, in particular fuel excise and carbon taxes, are particularly effective tools to reduce emissions of greenhouse gases. Austria and Indonesia are two countries that are stepping up the use of taxes in the context of their climate efforts (see Box 3.10).

Overall, effective carbon prices remain low. Moreover, rising energy prices led to lower energy taxes in several countries towards the end of 2021. While few energy tax and carbon pricing measures were implemented during the height of the COVID-19 pandemic in 2020, almost all countries implemented tax measures in response to rising energy prices in 2021. Given the huge scale of government responses, the report contains a special feature as its fourth chapter to discuss the tax and non-tax measures implemented, their fiscal cost and how governments can improve the effectiveness of their interventions to balance budgetary costs with longer-term climate change and energy security objectives.

Box 3.10. New carbon pricing systems

Austria

As part of its "Ecological Social Tax Reform Act 2022", Austria enacted a new carbon taxation scheme in 2021 named "*Nationales Emissionszertifikatehandelsgesetz*" (NEHG), which will enter in force on 1 July 2022 (Bundesministerium für Finanzen, 2022[48]).

The scheme will cover emissions from petrol, diesel, heating oil, coal and natural gas consumed in sectors not covered by the European Union emission trading system (transport, buildings, agriculture, waste management and non-ETS industries), similar to the German emission trading system from which it has taken inspiration. During a first phase, the logic will be like a carbon tax as prices will be fixed (with gradual increase from EUR 30 per ton of CO_2 equivalent in 2022 to EUR 55 by 2025) and the supply of allowances will be unlimited (for the sectors that qualify) (Damberger, 2022[49]). Motivated by a desire to avoid carbon leakage, relief will be granted for consumption of diesel in agriculture and forestry, fuels used in the industrial sector (from 65% to 95% discharge) and in cases of hardship for companies. The second phase, starting from 2026, will introduce a market mechanism.

The implementation of this reform should translate into higher fuel prices, e.g., by 6 cents per litre in the case of petrol. However, the true impact of the reform will depend on the pass-through of the tax from the energy providers to final consumer prices (Angela Köppl, 2021[50]).

Compensation measures for private households will be introduced under the form of a climate bonus depending on the place of residence and its connection to the public transport network, which will range from EUR 100 to EUR 200 per year. Furthermore, the reform act also includes measures to reduce other taxes including social security contributions, which will outweigh the revenues raised from the carbon tax reform (Austrian Parlament, 2021[51]). Health insurance contribution of low- and middle-income earners and of pensioners will be reduced, the personal income tax rate in the second and third tax bracket will be lowered, and the family bonus will be increased. Individuals will also benefit from additional environmental reforms; in particular, from an energy tax exemption for electricity self-generated from renewables, as well as from an income tax deduction based on expenditures that increase energy efficiency. Corporations will benefit from a gradual two percentage point cut in the corporate income tax rate and the withholding tax on profit distribution; these rates will be reduced incrementally to 23% by 2024.

Indonesia

Indonesia passed the Law on the Harmonization of Taxation Regulations in October 2021, within which it introduced a carbon tax. The tax will be payable on the purchase of "goods containing carbon" and on activities that produce greenhouse gas emissions. The revenue generated from the carbon tax may

be used to finance the country's climate change mitigation and adaptation activities through the national budget. The carbon tax was initially due to enter into force from 1 April 2022, but this date was postponed until 1 July 2022 to facilitate the implementation of the tax.

The minimum carbon tax rate is set at IDR 30 per kilogram of CO_2 equivalent (approximately EUR 1.9 per tonne), less than half of the originally proposed rate of IDR 75 (Ministry of Finance, 2021[52]). While low, according to the law, the tax rate will be set to be "higher than or equal to the carbon market price per kilogram of carbon dioxide or its equivalent", when the cap-and-trade carbon emissions trading system will be operational. For the initial phase beginning in 2022, the carbon tax will apply to coal power plants only. The carbon tax will be levied on the amount of emissions that exceeds a given cap, based on intensity criteria depending on the power plant size. Starting from 2025 onwards, the full implementation of the carbon trading system and an expansion in the number of sectors that are subject to the carbon tax will be considered depending on a number of factors, including economic conditions, the readiness of actors and impact assessments.

Indonesia is the fourth Asian country to implement a carbon-pricing mechanism, after China, Japan, and Korea. Other countries in the region, such as Thailand and Viet Nam, are also considering implementing an emission trading system.

3.4.1. Environmentally related tax revenues vary widely across countries and continue to be dominated by taxes on energy use

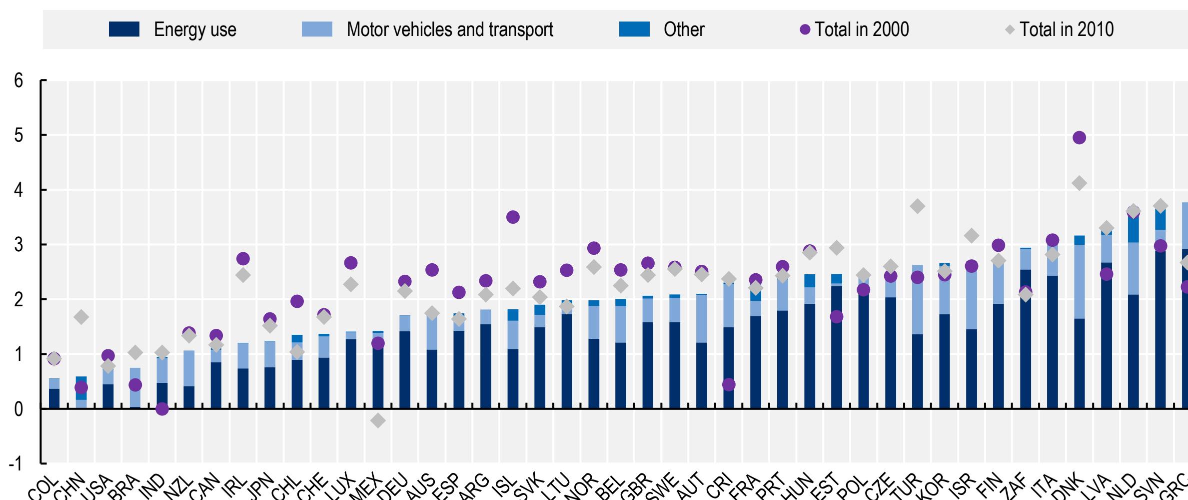
Across the Inclusive Framework jurisdictions for which data are available,[30] environmentally related taxes raised revenue amounting to 2% of GDP in 2020, on average, slightly below the revenues in 2010 (2.2% of GDP). These revenues varied significantly across countries, ranging from 0.6% of GDP in Colombia to 3.8% of GDP in Greece in 2020 (Figure 3.22). Between 2010 and 2020, environmentally related tax revenues, measured as a share of GDP, fell in almost three quarters of the countries where data is available (see endnote 30). Denmark, Ireland, Luxembourg, Norway and Türkiye experienced the largest decreases in revenues as a share of GDP (over -0.5 percentage points of GDP). Revenues increased in eleven countries, with particularly sharp increases in Greece, Mexico, and South Africa. In nominal terms, revenues declined in 2020 compared to 2019 in almost three quarters of the countries for which 2020 data are available.[31] Nevertheless, when comparing revenues since 2010, environmentally related nominal tax revenues declined only in Japan, Luxembourg, Mexico, Switzerland, and to a lesser extent, in Denmark.

Taxes on energy use accounted for more than 50% of total environmentally related tax revenues in all but two countries in 2020. On average, taxes on energy use yielded 71% of environmentally related tax revenues. Taxes on energy use are principally fuel excise duties and carbon taxes, where applicable. Brazil (5%) and New Zealand (39%) are the exceptions, partly because of lower fuel excise duties and because they levy other environmentally related taxes that raise a significant amount of revenue. New Zealand, for example, raises notable revenues from road user charges based on the distance travelled by diesel-fuelled cars and diesel-powered heavy vehicles.

Motor vehicle taxes and other taxes on transport are the second largest component of environmentally related tax revenues. Mainly consisting of one-time registration taxes on motor vehicles and annual taxes on users or owners of vehicles, they account on average for 23% of environmentally related tax revenues across the countries covered in the report and range from 2% of environmentally related tax revenues in Estonia to 95% in Brazil.

Figure 3.22. Revenues from environmentally related taxes by country, 2020

Share of GDP (%)



Note: Data for Brazil, Costa Rica, Argentina, China and South Africa are from 2019, data for Australia, Israel and the United Sates are from 2015, while data for Canada, Korea and India are from 2014. Data for the category “other” uses group revenues from pollution and resources tax plus eventually other taxes not specified resulting from adjustments to match the total.
Source: OECD Database on instruments used for environmental policy.

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3.4.2. Despite growing coverage and higher values, carbon prices remain low

Almost half of all carbon emissions from energy use are now priced in OECD countries and selected non-OECD Inclusive Framework jurisdictions (49% in 2021 up from 37% in 2018).[32] The OECD calculates effective carbon rates (ECRs), which is a comprehensive indicator measuring positive carbon prices considering fuel excise duties, carbon taxes and prices of tradable emission permits. Relevant exemptions, rate reductions and refunds are also accounted for within the indicator. ECRs are expressed in euros per tonne of CO_2 for all carbon emissions from energy use. The share of carbon that is priced has increased from 37% in 2018 to 49% in 2021, although ECRs remain low for a significant share of carbon emissions (OECD, 2021[53]; OECD, 2021[54]).

On average, countries increased carbon prices between 2018 and 2021. Across G20 countries (not including Saudi Arabia), the average effective carbon rate (the sum of explicit carbon prices and fuel excise taxes) was EUR 19 per tonne of CO_2 equivalent in 2021 (USD 23.75), a modest EUR 2 (USD 2.5) increase from 2018. This increase is mainly the result of higher explicit carbon prices, which have increased to an average of EUR 4 per tonne of CO_2 (USD 5), mainly as a result of the increase in the price from emissions trading systems (up to EUR 3 from EUR 1 in 2018), while the level of carbon taxes continues to be low at less than EUR 1 (USD 1.25) on average (Figure 3.25). Despite recent progress with explicit carbon prices, effective carbon rates continue to be dominated by fuel excise duties of EUR 15 (USD 18.75) on average, which is a slight decrease relative to 2018.

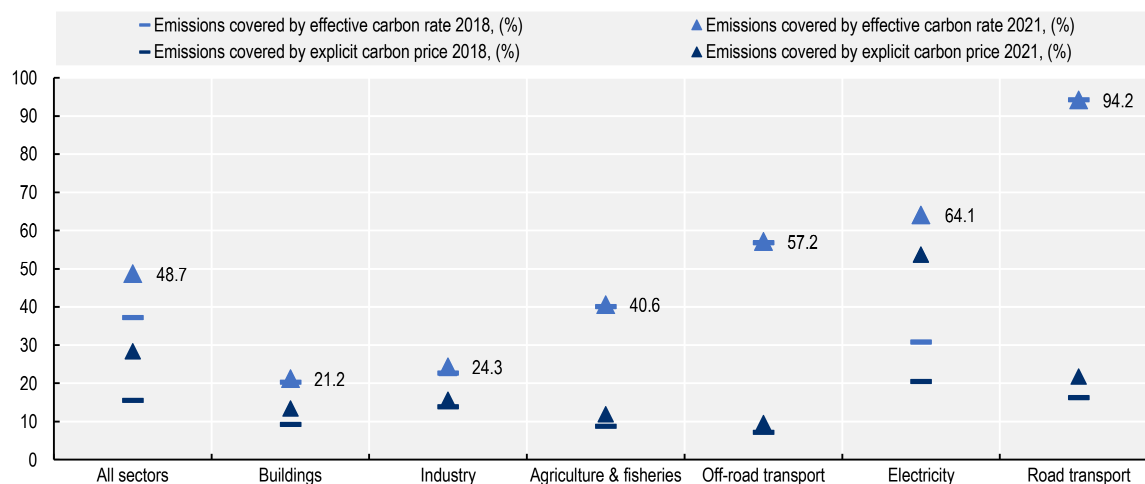
The share of emissions covered by effective carbon rates differs strongly across countries. Moreover, changes are concentrated in specific countries, especially where new explicit forms of carbon pricing have been introduced, which has been the case in Canada (federal carbon pricing backstop system since 2019 and provincial/territorial carbon pricing systems since 2019 or earlier), China (emission trading system for the power sector since 2021), Germany (emission trading system complementary to the EU’s

since 2021) and South Africa (carbon tax since 2019). As a result, carbon prices have increasingly diverged across the G20 (not including Saudi Arabia), with little change in carbon prices in countries where rates were relatively low in 2018.

Large differences in effective carbon rates continue to exist across sectors. Taxation of carbon emissions from energy use is the highest in road transport, both in terms of coverage (94%) and in terms of effective rates (EUR 88.3 per tonne of CO_2 equivalent; USD 110). The comparatively high effective tax rate on road transport is driven by fuel excises, which represent 96% of the effective carbon rate, whereas carbon taxes, while adopted by a growing number of countries, cover only a very small share of CO_2 (about 1%).

Figure 3.23. Emissions coverage by fossil fuel and sector across G20 countries, 2018-2021

Emissions coverage (%)



Note: G20 includes all the OECD countries and non-OECD Inclusive Framework jurisdictions that are members of the G20, except Saudi Arabia. Priced means that a positive price applies after correcting for tax reductions and refunds. Taxes are those applicable on 1 April 2021. ETS coverage estimates are based on the OECD's (2021[54]), Effective Carbon Rates 2021, with ad hoc adjustments to account for recent coverage changes. Emissions refer to energy-related CO_2 only and are calculated based on energy use data for 2018 from IEA (2020[55]), World Energy Statistics and Balances. The figure includes CO_2 emissions from the combustion of biomass and other biofuels. Percentages are rounded to the first decimal place.
Source: OECD (2022[56]), Taxing Energy Use 2022 (forthcoming).

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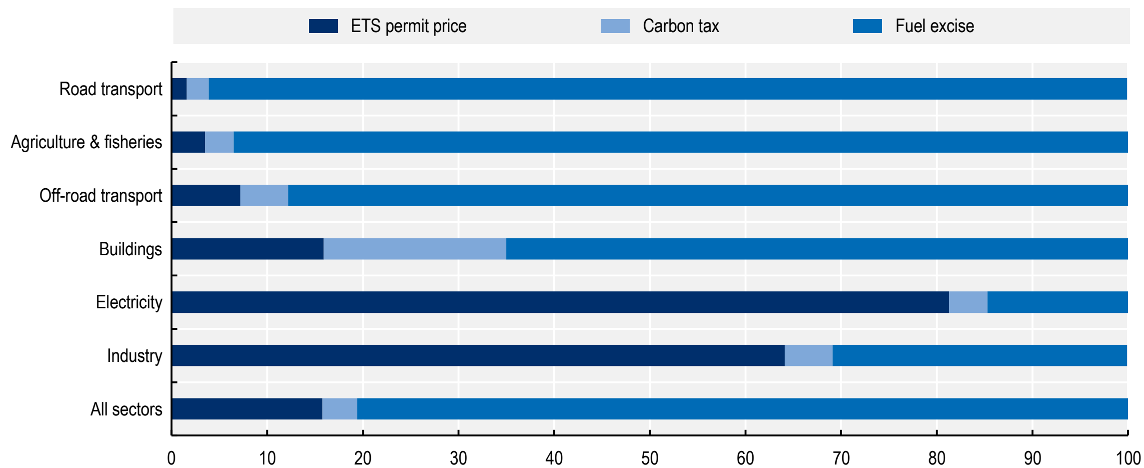
Outside of the road sector, carbon emissions from the use of fossil fuels are increasingly priced, but price signals remain weak. As a recent change, electricity is now the second sector with the highest coverage with 64% of emissions priced in 2021, up from 30% in 2018 (Figure 3.23), because of wider coverage of emissions trading systems. Other sectors experienced little change – off-road transport having more than half of its emissions covered, whereas the fossil fuels used in agriculture and fisheries are covered at 41% and industry and buildings are covered at below one quarter.

Figure 3.24. The composition of effective carbon rates by sector in G20 economies, 2021

Percentage of total (%)



Note: G20 includes all the OECD countries and non-OECD Inclusive Framework jurisdictions that are members of the G20, except Saudi Arabia. Taxes are those applicable on 1 April 2021. The ETS price is the average ETS auction price for the first semester of 2021, except for China and the United Kingdom where it is based on information for the period in which they were operational (China: 16/07/2021, United Kingdom: 19/05/2021-30/06/2021) and the U.S. RGGI and Massachusetts and Tokyo subnational systems where, due to data limitations, the 2020 average was used. ETS coverage estimates are based on the OECD's (2021[54]), Effective Carbon Rates 2021, with ad hoc adjustments to account for recent coverage changes. Emissions refer to energy-related CO_2 only and are calculated based on energy use data for 2018 from IEA (2020[55]), World Energy Statistics and Balances. The figure includes CO_2 emissions from the combustion of biomass and other biofuels. Carbon prices are averaged across all energy-related emissions, including those that are not covered by any carbon pricing instrument.
Source: OECD (2022[56]),Taxing Energy Use 2022 (forthcoming).

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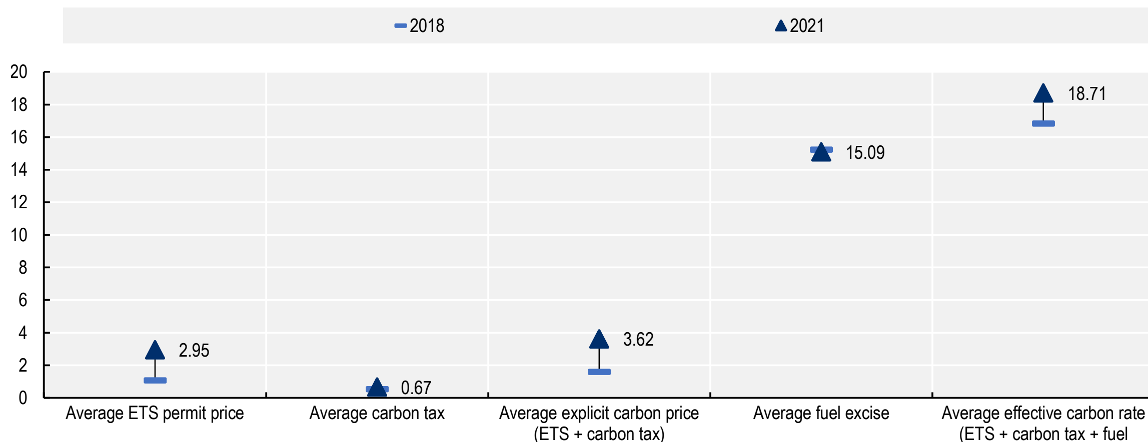
Figure 3.25. Average carbon prices and rates in G20 economies, 2018 and 2021

EUR per tonne of CO2



Note: G20 includes all the OECD countries and non-OECD Inclusive Framework jurisdictions that are members of the G20, except Saudi Arabia. Taxes are those applicable on 1 April 2021. The ETS price is the average ETS auction price for the first semester of 2021, except for China and the UK where it is based on information for the period in which they were operational (China: 16/07/2021, UK: 19/05/2021-30/06/2021) and the U.S. RGGI and Massachusetts and Tokyo subnational systems where due to data limitations the 2020 average was used. ETS coverage estimates are based on the OECD's (2021[54]), Effective Carbon Rates 2021 with ad hoc adjustments to account for recent coverage changes. Emissions refer to energy-related CO_2 only and are calculated based on energy use data for 2018 from IEA (2020[55]), World Energy Statistics and Balances. Carbon prices are averaged across all energy-related emissions from G20 countries, including those that are not covered by any carbon pricing instrument. All rates are expressed in real 2021 EUR using the latest available OECD exchange rate and inflation data; change can thus be affected by inflation and exchange rate fluctuations. Prices are rounded to the nearest eurocent.
Source: OECD (2022[56]), Taxing Energy Use 2022 (forthcoming).

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3.4.3. Phasing-out of preferential sectoral taxes in several countries and the expansion of carbon pricing mechanisms has encouraged transition towards low-carbon economies

Countries have introduced new carbon taxes and carbon pricing mechanisms, increased carbon tax rates, and phased out carbon tax exemptions. First, five countries enacted new carbon pricing mechanisms in 2021 and 2022. The Netherlands introduced a national CO_2 tax for industrial ETS companies on top of the ETS price in 2021, with a price floor at EUR 30 (USD 37.50) per tonne of CO_2 equivalent. Luxembourg introduced a carbon tax in 2021 at a rate of EUR 20 (USD 25) per tonne of CO_2. In 2022, Andorra, Austria and Indonesia will introduce carbon pricing mechanisms, at a rate of EUR 30 (USD 37.50) in Andorra and Austria and a minimum carbon price of EUR 1.9 in Indonesia (see Box 3.10). Second, CO_2 rates were increased in countries where carbon prices were already in place. Ireland increased its carbon tax rate by EUR 7.5 (USD 9.37) per tonne of CO_2 as part of its planned annual rate rises – Ireland has planned for its carbon tax to reach EUR 100 per tonne of CO_2 by 2030. Luxembourg announced that it would increase its carbon tax rate to EUR 25 in 2022 and EUR 30 in 2023. In South Africa, carbon tax rates were increased as part of pre-defined annual revisions, by inflation plus 2%. Denmark also set higher taxes on greenhouse gas emissions in 2021. Canada also announced an updated benchmark, under which the explicit carbon price is set to rise to CAD 170 (USD 136) in 2030. Finally, sectoral carbon tax exemptions declined in 2021. Latvia abolished the exemption for peat in stationary technological equipment, while Norway increased its carbon tax rates and broadened its base by including waste incineration, and LPG and natural gas consumption from its greenhouse industry.

Preferential energy excise treatment is being phased out, mainly in northern Europe. Preferential tax rates for specific sectors can weaken incentives for polluters to reduce their emissions, and their phasing out is a positive step to strengthen carbon taxation. Denmark, Finland, and Sweden all increased their energy taxes rates on heating fuels. In addition, Sweden increased its energy tax by abolishing energy tax reductions for agriculture and increasing rates for certain electricity uses. In 2025, the Netherlands will remove the exemption for mineralogical and metallurgical processes, the reduced rate for greenhouse horticulture, and limit the input exemption for combined heat and power. Latvia abolished the reduced rates for biofuels and Finland introduced an energy tax on biogas used in transportation in 2022. The United Kingdom will remove the entitlement to use red diesel for most business sectors from April 2022, and Belgium will gradually reduce the refund for professional diesel from EUR 248 per 1 000 litres in 2021 to EUR 202 by 2026. Electricity production taxation increased in the Czech Republic in 2021 with the introduction of a solar levy.

A small number of countries announced general increases in their fuel and electricity excise duties in the first half of 2021, before energy prices began to rise significantly. Albania announced that it would equalise the excise duty on LPG by mid-2022, while Israel stated plans to gradually increase excises on coal, fuel oil, LPG and natural gas starting from 2023. South Africa implemented an indexation of fuel excise duties to inflation, while Sweden and Estonia increased their electricity excise duties. Poland raised excise duty rates on certain fuels to align these with minimum taxation levels stipulated by European Commission directives.

Permanent tax reductions and new exemptions are scarcer than in previous years. Denmark and Finland reduced their taxes on electricity to encourage electrification and the Netherlands announced its intention to do so in 2023, in line with OECD recommendations (OECD, 2019[57]). Some sectoral exemptions were also introduced, regarding heating bio-propane in Sweden and for natural gas used for transport in Slovenia until 2025. France again postponed the removal of a tax expenditure on the excise duty on non-road diesel, which is expected to largely impact the building sector (agriculture continues to benefit from a reduced rate under these plans). Finland temporarily increased the exempted volume of peat used for heating due to larger than expected falls in peat use as a result of an increased ETS price.

Few countries have taken measures to align diesel excise with petrol excise. Relative to gasoline, diesel results in higher emissions of harmful air pollutants and CO_2 per litre of fuel (although equipment and technology can reduce non-CO_2 emissions). Nevertheless, the diesel discount is growing in the Czech Republic and Estonia, which reduced the diesel excise duties in 2020 and 2021.

Table 3.11. Changes to taxes on energy use

	Rate increase/Base broadening		Rate decrease/Base narrowing	
	2020	2021 or later	2020	2021 or later
Fuels, sector specific:				
Agriculture	LTU	SWE		
Building		GBR, FRA [4]		
Electricity production		CZE		
Heating	LVA	DNK, FIN, SWE		FIN [1]
Transport	FIN	BEL, FIN [2]		SVN [2]
Fuels, all sectors:	LTU, NLD	ALB, ISR, LVA [2], NDL, POL,	CZE [4], EST [4], GBR [4]	ITA [1]
Carbon tax	CAN, DNK, ISL, IRL	AND, AUT, CAN, DNK, FIN, IDN, IRL, LUX, LVA, NDL, NOR, UKR, ZAF [3]		
Electricity consumption	IRL	SWE	EST[4]	DNK, NLD, FIN
VAT/GST			PRT	CZE, ESP, ITA [1], POL

1. Denotes a temporary measure.
2. Tax related to biofuels
3. Taxes indexed to inflation.
4. A postponed measure.
Source: OECD Annual Tax Policy Reform Questionnaire.

3.4.4. Transport and vehicle tax reforms resumed in 2021, following a slowdown during the height of the pandemic in 2020

Several countries introduced reforms to recurrent vehicle and registration taxes in 2021 to increase the burden on polluting vehicles. Slovenia altered its taxation of vehicles in 2021, introducing a new tax scheme depending on CO_2 emissions, fuel consumption, and European pollution standards, rather than being solely based on the purchase price of vehicles as had previously been the case. Four countries with CO_2 or pollution-based taxes enacted increases in the cost of emissions intensity. Germany raised the CO_2 component of its registration tax in 2021. Norway announced it would implement the same reform as Germany from the beginning of 2022. Sweden raised its vehicle tax for the first three years following the purchase of new cars, light-duty buses and lorries fuelled by petrol and diesel petrol in 2021 and announced that it would raise the tax again by mid-2022. France strengthened its “car malus” for 2021 and 2022 by increasing the price of its vehicle registration tax for the most polluting cars and by introducing a penalty of EUR 10 (USD 12.5) per kilogram on vehicles weighing over 1 800 kg for those vehicles – whether new or imported – that are registered for the first time. Ireland adjusted its graduated vehicle registration tax so that older and more-polluting diesel cars are taxed more heavily. The Netherlands announced that it would reduce its vehicle tax (*Belasting van Personenauto's en Motorrijwielen*) exemption for vans to 0% in three steps over the period 2024-2026.

Several countries have continued to introduce fiscal incentives to encourage investment in, and the purchase of, alternative fuel vehicles. Belgium announced that it would increase corporate income tax deductions for investments in zero-carbon trucks and charging infrastructure from 2022. Allowance rates will then gradually be lowered until 2026. Sweden enhanced the bonus provided for new electric vehicles as part of a plan to simplify its *bonus-malus* system.[33] The Netherlands extended the registration

tax and vehicle tax full exemption for electric vehicles until 2024, as did Germany for its registration tax, until 2025. The province of British Columbia in Canada exempted electric bicycles and tricycles from its provincial sales tax.

Some countries that have provided tax incentives for the purchase of electric vehicles for a relatively long period, decided to curtail the provision of these benefits in 2021. Norway, for example, announced that it would reduce the tax registration advantages available for plugin hybrid vehicles for 2022, largely to guard against tax base erosion concerns. Norway has significant experience in providing electric car incentives and has already reached a very low level of fossil-fuel vehicles sales – 35% in 2021, including hybrid vehicles. It has now set a target of 100% zero-emission vehicles sales from 2025. Similarly, Ireland tapered the tax relief it provides for high-value electric vehicles.

There were also several reforms made to other tax bases, such as air travel and road use. Both the Netherlands and Portugal introduced a fee per passenger for air travel in 2021, of EUR 7.45[34] (USD 9.31) and EUR 2 (USD 2.5), respectively, while Belgium changed the tax rate on airline tickets so that rates vary depending on the distance travelled (the highest rate has been imposed on flights of less than 500 km). Norway suspended their air passenger and aviation tax for 2020 and 2021 in response to the COVID-19 crisis. As part of yearly adjustments, the tax on air travel in Germany will decrease in 2022. Relatively fewer changes were made to road taxes, with Sweden announcing plans to introduce a congestion tax in 2022 for the Marieholm Tunnel (in Gothenburg) and the Netherlands planning to introduce a road user charge based on mileage under the form of a motor vehicle tax for both electric and fossil-fuel vehicles.

Several countries temporarily altered excise taxes on vehicles sales in 2021 in relation to the COVID-19 pandemic. The Seychelles introduced a 25% increase in its excise tax rates to discourage the importation of vehicles, while Japan temporarily reduced environmental performance excise taxes to encourage vehicle sales. Canada introduced a tax on the sales of luxury cars (for personal use) and Türkiye increased its special consumption tax on electric vehicles.

Table 3.12. Changes to taxes on motor vehicles and other transport taxes

	Rate increase/Base broadening		Rate decrease/Base narrowing	
	2020	2021 or later	2020	2021 or later
Excise and VAT / GST		CAN, ICE, SYC [1], TUR	KOR [1], MRT [t]	JPN [1], TUR
Vehicle tax		NLD, SWE		PRT, SVN
Registration tax	IRL, LTU	DEU, IRL NOR		
Vehicles running on alternative fuels		SWE	ISR, IRL,	BEL, NDL
Road use		NDL, SWE		
Air travel	AUT	BEL, NLD, PRT	USA	DEU [2]
Other (e.g., company cars, road accidents)				

Note: 1. Denotes a pre-planned annual change. 2. Temporary measures.
Source: OECD Annual Tax Policy Reform Questionnaire.

3.4.5. Recent trends suggest growing interest in taxes on plastic

The taxation of plastics is becoming more common. In 2021, the European Union introduced a “plastics contribution”. This new “own resource” aims to raise revenues to finance the EU recovery package implemented following COVID-19 (NextGenerationEU). The tax rate is EUR 0.80 per kilogram of non-recycled plastic packaging starting from 2021. As a contribution from Member States to the EU budget, it does not oblige EU member countries to tax plastic to reduce waste. Nevertheless, the new levy may

induce some EU members to introduce their own plastic taxes. As from 2022 onwards, Greece will tax single plastic cups and lids. Italy postponed the entry into force of the plastic tax on single-use plastic items to 2023. Spain will introduce a tax on non-reusable plastic packaging in 2023. In the United Kingdom, the "Plastic Packaging Tax" will take effect from April 2022, at a rate of approximately GBP 200 (USD 286) per tonne of plastic packaging with less than 30% of recycled content. This type of tax has proven to be efficient in other forms – the introduction of a five pence charge on use carrier bags in 2015 led to a 95% reduction in the number of bags used in England (UK Government, 2020[58]). Starting from 2021, this charge was increased by 10 pence and was extended to all retailers. Outside Europe, Israel will tax disposable plastic utensils starting from 2022.

No rate decreases nor base narrowing measures were observed in 2021 for other environmentally related tax bases, including taxes on waste, plastic, and chemicals. Despite their adoption remaining limited, countries appear to have greater interest in exploiting these tax bases, both for the positive environmental impact induced by their greater taxation and for their revenue mobilisation potential.

Table 3.13. Changes to other environmentally related taxes

	Rate increase/Base broadening		Rate decrease/Base narrowing	
	2020	2021 or later	2020	2021 or later
Pollution	LVA	LTU		
Plastic	ITA, SWE	GBR, GRC, ISR, ITA [2]		
Waste	LVA, SWE	SWE [1]		

Note: [1] denotes taxes indexed to GDP, [2] postponed measures.
Source: OECD Annual Tax Policy Reform Questionnaire.

3.5. Property Taxes

While there have been fewer property tax reforms compared to previous years, existing reforms put a clear focus on promoting progressivity and fairness in property taxation. Property tax reforms predominantly involved tax increases, through either increases in tax rates or tax base broadening measures. Tax increases were mostly targeted at individuals or entities who use properties predominantly as an investment vehicle as well as higher net worth individuals, who were affected by wealth tax and estate duty, inheritance, and gift tax reforms. Compared to previous years, reforms increasingly focused on promoting the efficient use of the existing housing stock as well as the fairness of property taxation more generally. Only two countries implemented reforms in the area of recurrent immovable property taxes while seven countries made changes to their transaction taxes. Two countries introduced reforms to their wealth tax and estate duties, and inheritance and gift taxes. (Table 3.14).

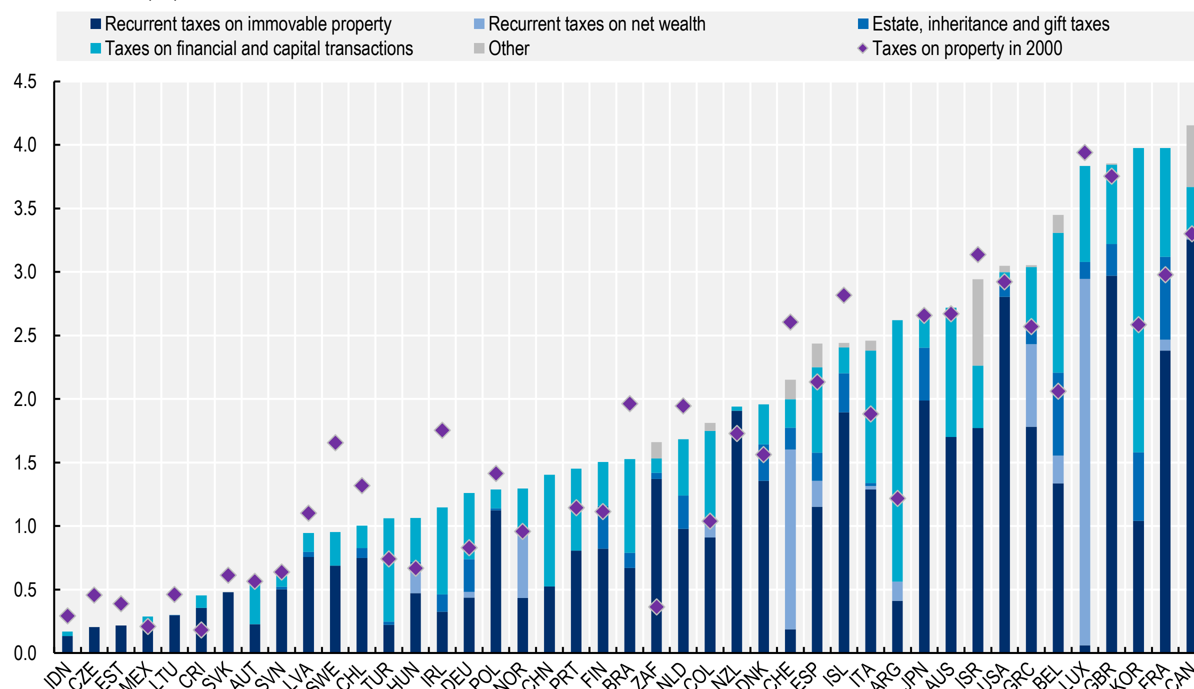
3.5.1. Property taxes continue to provide a limited source of total tax revenues

Countries impose a variety of taxes on the acquisition, holding and disposal of property. The most prominent property taxes across the countries covered in the report are recurrent taxes on immovable property, which are typically a key source of revenue for local governments. On average across OECD countries and the five selected non-OECD Inclusive Framework jurisdictions (Argentina, Brazil, China, Indonesia, and South Africa), recurrent taxes on immovable property account for 55.8% of total property tax revenue, though governments in developed countries generally show a greater reliance on recurrent taxes on immovable property due to the challenges involved in administering a fiscal cadastre, valuing property, as well as collecting property tax revenue. Transaction taxes are also common across OECD countries and non-OECD Inclusive Framework jurisdictions and account for 27.8% of total property tax revenue. Notably, taxes on financial and capital transactions make up more than half of total property tax

revenue in the five-selected non-OECD Inclusive Framework jurisdictions (50.6%) compared to 24.3% across OECD countries. Inheritance, estate, and gift taxes account for a smaller share of total property tax revenue at 5.8% of total property tax revenue. A few countries impose a tax on some measure of total net wealth, which makes up nearly a quarter of total property tax revenue (23.1%), in countries in which they apply.[35] Over time, the share of recurrent taxes on immovable property within total property tax revenue has slightly increased while revenue from net wealth taxes and taxes on financial and capital transactions decreased, though to a lesser extent in non-OECD Inclusive Framework jurisdictions.

Despite growth in property tax revenues in recent years, generally they remain a limited source of total tax revenues across OECD countries and the five selected non-OECD Inclusive Framework jurisdictions. In most countries covered within the Global Revenue Statistics dataset, property taxes remain a comparatively small source of revenue, amounting to 1.8% of GDP across OECD countries and the five selected non-OECD Inclusive Framework jurisdictions (Argentina, Brazil, China, Indonesia, and South Africa). The revenue collected from property taxes varies widely across countries, ranging from 0.2% of GDP in Indonesia to 4.2% of GDP in Canada. Trends in property tax revenues over time also differ across countries, with a majority having seen their property tax revenues rise since 2000. Between 2000 and 2020, 25 countries recorded increases in property tax revenues as a share of GDP, while 18 countries recorded decreases. On average across OECD and the five selected non-OECD Inclusive Framework jurisdictions, absolute property tax revenue as a share of GDP increased by 0.2 percentage points, which marks a 12.5% increase over the past two decades. The largest absolute property tax revenue increases as a share of GDP over the period 2000-2020 were seen in Argentina (1.4 p.p.) and Korea (1.4 p.p.) while Sweden (0.7 p.p.) and Ireland (0.6 p.p.) recorded decreases (Figure 3.26).

Figure 3.26. Property tax revenues as a share of GDP in OECD and partner countries, 2000 and 2020



Note: 2019 data were used for Argentina, Australia, Brazil, China, Greece, Indonesia, New Zealand, and South Africa, as preliminary 2020 data were not available at the time of writing.
Source: Global Revenue Statistics Database.

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3.5.2. The number of property tax reforms has declined compared to previous years, while the focus of reforms has shifted towards increasing fairness within property taxation

The latest property tax reforms have generally raised tax burdens on wealthier taxpayers and property investors, with the aim of promoting fairness in property tax systems. Generally, property tax reforms legislated in 2021 have involved increases in tax rates, introduced by six countries, or base broadening measures, implemented by seven countries (Table 3.14). Property tax increases have commonly been targeted at individuals or entities who use properties predominantly as an investment vehicle for rental purposes, with empirical evidence showing that secondary housing is heavily concentrated among high-income and high-wealth households (Millar-Powell et al., 2022[59]). Two countries also introduced measures, which lower property tax burdens, particularly for lower-wealth households. Several property tax reforms implemented in 2022 aimed at promoting the productive use of the existing housing stock, by, for instance, providing disincentives for investors who use property to store wealth. Where governments aimed at increasing property tax revenue, they tried to do so in a progressive manner.

Several countries continued to provide or introduced new property tax relief measures in response to the COVID-19 pandemic and to promote the economic recovery. To promote housing transactions and economic activity more broadly, the United Kingdom introduced a two-stage transaction tax cut in 2021. The tax-free limit was first increased from GBP 125 000 (USD 171 924) of the housing transfer value to GBP 500 000 (USD 687 696) in March 2021 and cut back to GBP 250 000 (USD 343 848) in June 2021. From September 2021, the normal tax rate schedule applied. Chile introduced a property tax deferral for individuals and companies, which allows for the payment of immovable property tax liabilities due in the 2021 tax year to be paid in 2022, subject to certain eligibility criteria. Chile also implemented a 90-day waiver for fines and interest associated with overdue payments of immovable property taxes in March 2021 (until July 2021).

Table 3.14. Changes to property tax rates and bases

	Increase		Decrease	
	2021 or later		2021 or later	
	Base	Rate	Base	Rate
Recurrent taxes on immovable property	CAN [1,2], IRL			
Transaction taxes on movable and immovable property	ARG, DEU	GBR[2,1], IRL, NLD, ISR [2,1]	MLT	
Recurrent taxes on (net) wealth	NOR	ARG, NOR	ARG	
Estate duties, inheritance and gift taxes	GBR, NLD			

1. Denotes a temporary property tax measure.
2. Denotes a new tax.
Source: OECD Annual Tax Policy Reform Questionnaire.

The tax treatment of housing is a key component of housing policy and has wider implications for countries' tax systems and their economies. Housing tax policy affects macroeconomic developments through its effect on housing investments, property prices, housing financing as well as financial stability. Housing tax policies also have important equity implications, as they affect house price developments, investment and savings incentives in the housing market and housing market accessibility more broadly. A recent study by Millar-Powell et al. (2022[59]) examines the tax treatment of housing across 40 OECD

countries and non-OECD Inclusive Framework jurisdictions and discusses the implications of housing taxation for efficiency and equity goals (Box 3.11).The study finds that the effective taxation of housing is highly dependent on the investment scenario including the holding period and type of finance (debt or equity), but does not vary much with income or wealth.

Box 3.11. Measuring effective taxation of housing

Measuring and interpreting effective tax rates

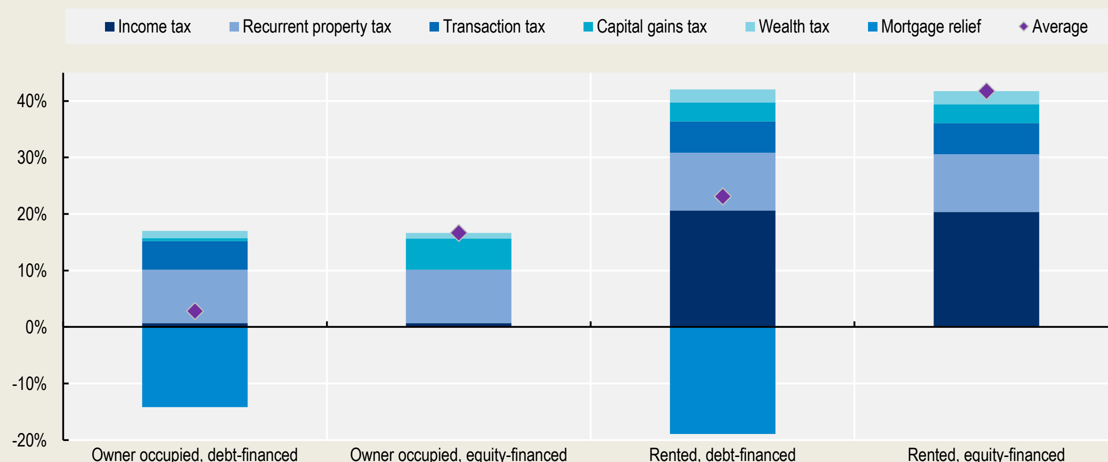
Effective Tax Rates (ETRs) are an important tool for measuring the overall impact of the tax system on housing investments. ETRs combine in one indicator the impact of a wide range of taxes and tax design features under different scenarios as well as non-tax factors including for instance inflation. They thereby provide a more complete picture of how the tax system affects prospective housing investments. Marginal Effective Tax Rates (METRs) measure tax incentives to invest in different asset classes. The margin considered is one additional unit of investment (e.g., an additional dollar, euro, yen) in the chosen asset type, financed either through savings (equity-finance) or borrowed funds (debt-finance). METRs measure the difference between the pre-tax and post-tax return, i.e., the difference between what the taxpayer would retain in a world with no taxes and what the taxpayer keeps, divided by the first term (the return in a no-tax world). The paper by Millar-Powell et al. (2022[59]) provides ETR estimates which are comparable across countries and housing investment scenarios.

Housing taxation and economic efficiency

The effective taxation of housing is typically lower for investments involving owner-occupied housing, long holding periods, and debt-finance. Owner-occupied housing is typically tax-favoured compared to rented residential property. The METR is commonly lower for debt-financed compared to equity-financed housing due to mortgage interest relief; in some countries housing investments are subsidised to the extent that they result in negative METRs, which reflects that tax deductions and credits outweigh the housing taxes levied over the holding period by the investor of the housing asset. The METR on housing also decreases with longer holding periods, holding other factors constant, because transaction taxes are spread over the life of the investment, as many countries offer concessionary tax treatment for long-term capital gains, and because capital gains taxes are deferred as they are commonly levied on realisation instead of on accrual.

The primary drivers of differences in METRs across investment scenarios (owner-occupied vs. rented and equity vs. debt-financed) are mortgage interest relief on debt-financed property and income taxes on rental income (but not imputed rental) (Figure 3.27). Mortgage interest relief reduces the financing costs of housing, commonly at the taxpayer's marginal income tax rate, which can reduce the overall tax liability generated by a housing investment. Figure 3.27 shows that mortgage interest relief considerably reduces METRs for debt-financed property, nearly outweighing the combined effect of all other taxes levied over the life of an owner-occupied housing investment on average across the countries considered in the study. The taxation of rental income and the non-taxation of imputed rents on owner-occupied housing, which is widespread practice across most countries in the study, is an important driver of the differences in METRs between rented and owner-occupied housing, respectively.

Figure 3.27. The composition of marginal effective tax rates, all housing investment scenarios, average across 40 countries, 2016



Note: Results are presented for a taxpayer earning 100% of average wage case; assuming inflation at the OECD average level; with a 20-year holding period; and the returns stemming 50% from capital gains and 50% from rent or imputed rent.
Source: Millar-Powell et al. (2022[59]).

https://stat.link/iy1knf

Housing taxation and equity

METRs are slightly progressive across income levels. The paper finds that METRs are similar for low-income (67% average wage) and average-income (100% average wage) taxpayers, with slightly higher METRs for high-income taxpayers (500% average wage), though there is substantial variation across countries. While the composition of METRs is relatively similar across different income levels, mortgage interest relief can provide greater benefit to taxpayers with higher incomes, particularly in countries where deductions are provided at the taxpayer's marginal income tax rate and tax systems are progressive. Recurrent taxes on immovable property and transaction taxes are found to have slightly progressive effects on average. Given that the share of total housing wealth held by households rises with income (with an even more skewed distribution for second residences), higher-income households are able to derive greater absolute benefits from the favourable taxation of owner-occupied housing.

Source: Millar-Powell et al. (2022[59])

Ireland introduced one of the most significant property tax reforms of the countries covered in the report, revising its recurrent tax on immovable property to promote equity and tax certainty. The Local Property Tax (LPT) reform introduced in July 2021 broadened the tax base by updating the fiscal cadastre, which previously included property values from May 2013 when the LPT was introduced, as well as by bringing new properties, which were previously exempt, into the tax base. At the same time, the reform cut existing property tax rates and widened the tax rate bands, while maintaining its rate schedule structure (which is made up of 20 bands). Despite significant property value increases in some regions since 2013, the reform is expected to decrease or leave property tax liabilities unchanged for most taxpayers. Around one third of the taxpayers are expected to face an increase in their recurrent property tax burden of up to EUR 100 (USD 118) per year while only 3% should face an increase of more than EUR 100. Residential property values are planned to be updated every four years instead of every three which aims to balance the need for timely property value updates with challenges in the tax administration

and compliance (taxpayers self-assess the value of their property). With the introduction of the reform, new residential property is regularly added into the tax base, which both aims to maximise tax revenue and increase the equity of the tax system. Properties built between valuation dates are valued with reference to the preceding valuation date and become liable at the upcoming liability date (on an annual basis). The reform also phased out some exemptions, including for first-time buyers. It also increased the income threshold below which taxpayers are eligible for property tax deferral and lowered the interest charged on deferred tax payments from 4% to 3% (Department of Finance - Ireland, 2021[60]).

Canada also introduced a recurrent tax on immovable property on vacant or underused homes held by foreign non-residents to promote a more productive use of the existing housing stock. From January 2022, a nation-wide annual 1% tax will be levied on the property value of homes considered vacant or underused. All property owners (other than owners excluded from the reform, such as Canadian citizens or permanent residents) are required to file an annual return for each property they own. The tax aims to raise revenues to support the government's investments in making housing more affordable. In addition, by increasing the costs of holding vacant homes, the tax aims at increasing housing supply and promoting housing market accessibility (Department of Finance - Canada, 2021[61]).

Several countries introduced reforms to their property transaction taxes, some of which were specifically targeted at property investments by larger-scale real estate investors. In addition to its recurrent property tax reform, Ireland also introduced a 10% stamp duty in May 2021, which applies to individuals or entities purchasing ten or more residential properties (excluding apartments) on a cumulative basis within a 12-month period (the tax applies to all properties purchased within this 12-month period). In comparison, the standard stamp duty rate for residential property is 1% on properties valued up to EUR 1 million (USD 1 182 741) and 2% on properties valued in excess of EUR 1 million. By reducing the incentive to bulk buy residential property, including by institutional investors, the stamp duty aims at promoting opportunities for individual buyers (KPMG, 2021[62]). Germany amended its Real Estate Transfer Tax (RETT) Act, which has tightened the real estate transfer tax rules for investors and made certain business structures, previously used to reduce tax liabilities, less attractive. In particular, the amendment aims to prevent transfer tax avoidance through certain share deals (i.e., the transfer of shares or interests in a real estate holding corporation or partnership, which does not trigger the RETT). In the Netherlands, the real estate transfer tax for non-owner-occupied real estate will be increased from 8% to 9% in January 2023, following an increase from 6% to 8% in 2021. Malta introduced a transaction tax exemption for eligible properties applying to the first EUR 750 000 (USD 887 005) of the property's transfer value. These properties have also been exempted from capital gains taxes. Israel temporarily updated its transfer tax rates and the tax brackets that these apply to for owners of more than one residential apartment; the same measure was implemented between 2015 and 2020 to reduce house price inflation. From November 2021 to the end of 2024, an individual buyer of a single residential apartment will pay an 8% purchase tax (up from 5%) for the part of the value of the apartment in excess of NIS 2 073 190 (USD 641 850) and up to NIS 5 348 565 (USD 1 655 900) (the third purchase tax band), and a 10% rate for the part of the value in excess of this. Previously, an 8% rate applied for the part of the apartment value between NIS 5 348 565 (USD 1 655 900) and NIS 17 828 555 (USD 5 519 680) and a 10% rate for the value thereafter. The reform has been introduced with the aim of curbing the demand for properties by residential real estate investors and thereby promote housing affordability.

Changes to existing wealth taxes were introduced in Argentina and Norway, both of which have increased the tax burden on the wealthiest. Argentina increased the progressivity of its wealth tax schedule by including two additional bands at the top.[36] While net wealth over ASR 18 million (USD 189 492) used to be uniformly taxed at a rate of 1.25%, the reform added a band for net wealth between ASR 100 million (USD 1 052 734) and ASR 300 million (USD 3 158 202), which is taxed at 1.50%, and a band for net wealth above ASR 300 million, which is taxed at 1.75% (IBFD, 2022[63]). The reform narrowed the wealth tax base, however, by raising the tax exemption threshold and by introducing additional exemptions. In Norway, the net wealth tax rate was raised from 0.85% to 0.95% for those with

a net worth above NOK 1.7 million (USD 197 905) (the tax-free threshold was increased from NOK 1.5 million) while net wealth above NOK 20 million (USD 2 328 289) is taxed at a rate of 1.1%. The reform also decreased the valuation discount (e.g., a factor by which the taxable base is reduced) for primary residences with a property value of above NOK 10 million (USD 1 164 144) from 75% to 50% as well as valuation discounts for secondary residences and farming permits.[37] The valuation discount of shares and operating assets and associated debt was changed from 55% to 75%.

The Netherlands and the United Kingdom introduced reforms broadening their inheritance and gift tax bases. Taking effect in 2023, the Netherlands will abolish the tax exemptions for gifts used for home purchases, improvements, or maintenance, applicable to transfers from parents to their children. The gift tax exemption is reduced from EUR 106 671 (USD 126 164) to EUR 27 231 (USD 32 207) in 2023 before it is abolished in 2024. In the United Kingdom, exemption thresholds for inheritance tax including both the Nil-Rate Band, the Residence Nil-Rate Band[38] and the Nil-Rate Band taper have been frozen at the level of the 2021/22 tax year until 2026 (thresholds are commonly adjusted for inflation on an annual basis). The Nil-Rate Band and the Residence Nil-Rate Band are maintained at GBP 325 000 (USD 447 003) and GBP 175 000 (USD 240 694) respectively while the Nil-Rate Band taper (threshold after which the tax relief is gradually reduced) is maintained at GBP 2 million (USD 2 750 786).

Several countries have introduced reforms to the taxation of crypto assets, which involved a mix of property and income tax changes. The taxation of crypto assets, crypto transactions and income derived from crypto exchanges has become an increasingly important topic on governments' policy agendas (see Box 3.12). Argentina broadened the base of its tax on debits and credits on bank accounts to include transactions related to crypto assets and crypto currencies (IBFD, 2021[64]). A 0.6% tax is levied on crypto exchanges carried out by intermediaries located in the country. Austria and Hungary also introduced taxes on income derived from crypto currency transactions (see Section 3.1 for further information).

Box 3.12. Crypto assets: tax policy and transparency implications

Crypto-asset regulation is high on the political agenda, notably among OECD countries. Whereas the financial stability implications and the anti-money laundering and counter terrorism financing issues related to crypto assets have been addressed, the tax implications have been largely unexplored until recently.

Against this background, two main directions have been developed for the OECD's work on tax and crypto assets. The first relates to transparency, with the establishment of a Crypto-Assets Reporting Framework. The second is policy-related, with prospects for expansion.

A Crypto-Assets Reporting Framework

The crypto-asset market is characterised by a new set of intermediaries that are frequently not subject to tax reporting requirements. Furthermore, detention and transfer of crypto assets across jurisdictions poses a risk that they will be used for illicit activities or to evade tax obligations. The OECD/G20 Common Reporting Standard (CRS), published in 2014, is a key tool in ensuring transparency on cross-border financial investments and in fighting offshore tax evasion. However, the current scope covered by the CRS does not provide tax administrations with adequate visibility on when taxpayers engage in tax-relevant transactions in, or hold, crypto-assets.

Therefore, the OECD is developing the Crypto-Asset Reporting Framework ("CARF"), complementing the CRS, and designed to ensure the collection and exchange of information on transactions in crypto-assets. The CARF has been designed around three key building blocks and some due diligence procedures to be followed. The first building block is a definition to establish the scope of crypto assets to be covered. The second defines the intermediaries subject to data collection and reporting requirements. The third building block defines the transactions within the scope of the reporting requirements.

The taxation of virtual currencies

In response to growing interest in the taxation implications of virtual currencies, the OECD published a report: *Taxing Virtual Currencies: An Overview of Tax Treatments and Emerging Policy Issues* in November 2020 (OECD, 2020[65]). Including detailed information on the tax treatment of virtual currencies in more than 50 jurisdictions, it is the first comprehensive analysis of the approaches and policy gaps across the main tax areas for such a large group of countries.

This report aims to support policy makers in their efforts to determine the appropriate tax treatment of virtual currencies. It provides a cross-country comparison of tax laws and guidance regarding virtual currencies and highlights emerging issues for policy makers.

The OECD is also in the early stages of examining the tax policy implications of non-fungible tokens (NFTs), following-up on its work on the tax treatment of virtual currencies. Preliminary analysis suggests that governments should consider whether the regulation of NFTs, including their tax treatment, should be similar or different to that of crypto assets. The objective of this work is to understand countries' challenges and options in taxing NFTs and related crypto-assets and will lead to a new analysis following-up on the 2020 Taxing Virtual Currencies report.

Source: G20 Finance Ministers and Central Bank Governors (2022[66]); OECD (2020[65]).

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Notes

[1] In addition to all OECD members, the report covers the following Inclusive Framework jurisdictions that responded to the questionnaire in 2022: Albania, Andorra, Argentina, Armenia, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Cabo Verde, the Cook Islands, Croatia, Georgia, Honduras, Kenya, Malaysia, Malta, Mauritius, Monaco, Morocco, Nigeria, Pakistan, Peru, Romania, Saudi Arabia, Senegal, Seychelles, South Africa, Togo, Ukraine, the United Arab Emirates, Uruguay, and Viet Nam.

[2] Where the text references an average across OECD and selected non-OECD Inclusive Framework jurisdictions, this represents the unweighted average for all OECD countries, as well as Argentina, Brazil, China, Indonesia, and South Africa, unless otherwise specified.

[3] Notably, the PIT & SSC revenue trends described in the earlier parts of Section 3.1 are not the result of changes to PIT and SSC measures described towards the end of Section 3.1 – the tax revenue data are from 2020 while the tax reforms information covers the following year, 2021.

[4] Comparable data was not available for Costa Rica, who joined the OECD in May 2021, at the time of writing.

[5] Conversions refer to the OECD official 2021 exchange rates and not purchasing power parity rates. See https://data.oecd.org/conversion/exchange-rates.htm#indicator-chart for more detail.

[6] Throughout this section, thresholds and the monetary amounts of tax relief will be provided on an annual basis, unless stated otherwise.

[7] These tax rates are paid on top of Canada's federal tax rates. Canada's federal tax rates for 2021 were: 15% on the first CAD 49 020 (USD 37 700) of taxable income; 20.5% on the portion of taxable income over CAD 49 020 up to CAD 98 040 (USD 75 415); 26% on the portion of taxable income over CAD 98 040 up to CAD 151 978 (USD 116 906); 29% on the portion of taxable income over CAD 151 978 up to CAD 216 511 (USD 166 550) and 33% of taxable income over CAD 216 511.

[8] At the time of writing, the IMF had not published an official exchange rate for the Nigerian Naira to United States Dollar for 2021. The 2020 exchange rate of NG 358.81:1 USD has therefore been used.

[9] Preliminary CIT revenue data for 2020 were not available for Australia, Greece, or New Zealand.

[10] The OECD Corporate Tax Statistics Database provides statutory CIT rates for all OECD countries as well as the following additional Inclusive Framework jurisdictions: Argentina; Brazil; Bulgaria; China; Croatia; Hong Kong, China; India; Indonesia; Peru; Romania; Saudi Arabia and South Africa.

[11] The OECD uses the canton of Zurich as a basis for its combined CIT rate for Switzerland.

[12] Not all firms are subject to this 25% tax rate, however. From the start of 2021, Türkiye lowered the corporate income tax rate by 2 percentage points for five accounting periods (from the accounting period of their initial public offering) for corporations whose shares are offered to the public for the first time to be traded on the Borsa Istanbul Equity Market, and who are subject to a corporate tax rate of at least 20%. Financial leasing companies, factoring companies, financing companies, payment and electronic money institutions, authorized foreign exchange institutions, asset management companies, capital market

institutions, insurance and reinsurance companies and pension companies are excluded from qualifying for this lower rate.

[13] Türkiye also announced in 2021 that it would apply a 23% tax rate to corporate income for the year 2022.

[14] Ontario's Regional Opportunities Investment Tax Credit only applies to up to CAD 500 000 (USD 400 000) of property, and therefore largely targets SMEs.

[15] The measures discussed in this paragraph refer to those that apply to R&D and innovation related expenditure and income. General CIT measures, e.g., accelerated depreciation on investments, that is not specifically targeted to R&D or innovation, even though it may have an indirect effect, is not discussed as an R&D and innovation-related policy.

[16] See the German Finance Ministry's Combating Tax Avoidance and Unfair Tax Competition Act at https://www.bundesfinanzministerium.de/Content/EN/Downloads/Resources/Laws/act-combating-tax-avoidance-and-unfair-tax-competition-and-amending-further-acts.pdf?__blob=publicationFile&v=2.

[17] Tax revenue data for taxes on goods and services were selected for all OECD countries and five non-OECD inclusive framework members (Argentina, Brazil, China, Indonesia and South Africa). Notably, the country coverage of the tax revenue data (43 countries) differs from the tax policy reform trends (71 countries). The latter is based on responses to the OECD's annual tax policy reform questionnaire, which includes all OECD countries. See the Introduction of the report and endnote 9 for more detail.

[18] The United States is the only OECD country that employs a retail sales tax rather than a value added tax as its principal consumption tax. Its retail sales tax is not a federal tax but is rather tax imposed at the state and local government level.

[19] The United States is the only OECD country that employs a retail sales tax rather than a value added tax as its principal consumption tax and is therefore not included in VAT comparisons. The non-OECD Inclusive Framework jurisdictions referred to are Argentina, Brazil, China, Indonesia, and South Africa.

[20] Comparisons of changes between 2019 and 2020 were not possible for Australia, Japan, and New Zealand as these had not published preliminary 2020 VAT revenue data at the time of writing. The USA does not operate a federal VAT and was therefore not included in this VAT analysis.

[21] VAT rate data were used for 36 OECD countries and for Saudi Arabia. Comparable data were not available for Costa Rica or for partner countries (Argentina, Brazil, China, Indonesia, and South Africa) at the time of writing. The USA does not operate a federal VAT.

[22] The zero VAT rate applied to hotels and tourism services was later extended until the end of 2022. The VAT rate previously applied to restaurants (food and beverage services) was the 8% reduced rate, while airline tickets and related services had previously been subject to the standard 19% rate. The 5% reduced rate on airline tickets and related services will remain in place until 31 December 2022.

[23] This measure was extended, retrospectively, at the end of April 2022.

[24] There have since been discussions in the Estonian parliament to extend the period during which the reduced rate will be applicable to January 2023.

[25] Italy has since extended the temporary cut in its VAT rate on domestic and industrial use gas until 30 June 2022. The 10% reduced VAT rate was previously applied to sales of natural gas up to 480 cubic

metres a year, and the standard 22% VAT rate was applicable for consumption above this amount. The VAT rate on domestic gas use had previously been 22%.

[26] These measures were then extended as part of the Polish government's second "anti-inflation shield" package of measures. From 1 February 2022 until 31 July 2022, the VAT rate for natural gas was reduced to 0% and to 5% for district heating.

[27] In December 2021, the Spanish government announced that it would extend this measure until the end of April 2022. A further extension, until the end of June 2022 was later approved.

[28] The VAT digital toolkit for Latin America and the Caribbean is the OECD's most well-established digital toolkit.

[29] In Poland, changes to the taxation of tobacco products and their substitutes were legislated in 2021, and will take effect as of 1 January 2022 (e.g., an increased excise tax rate on heated tobacco products) and in subsequent years (e.g., the increase in the excise tax rate on cigarettes, rolling tobacco and raw tobacco).

[30] Environmentally related tax revenue data covers all 38 OECD countries and four non-OECD Inclusive Framework jurisdictions (Argentina, Brazil, India, and South Africa). 2020 data were available for all but nine of the 42 countries. Data for 2019 was used for Argentina, Brazil, Costa Rica, and South Africa; 2015 data for Australia, Israel, and the United Sates; and 2014 data for Canada, India, and Korea. Data for the category "other" uses group revenues from pollution and resources tax plus eventually other taxes not specified resulting from adjustments to match the total.

[31] Environmentally related tax revenue data for 2020 were available for 32 of the 38 OECD countries. Data were not available for Australia, Canada, Costa Rica, Israel, Korea, and the United States.

[32] Effective carbon rates data are available for 37 OECD countries and six non-OECD Inclusive Framework jurisdictions (Argentina, Brazil China (People's Republic of), India, Indonesia, and South Africa). At the time of writing, 2021 data on effective carbon rates were only available for Argentina, Australia, Brazil, Canada, France, Germany, India, Indonesia, Italy, Japan, Korea, Rep., Mexico, South Africa, Türkiye, the United Kingdom and the United States.

[33] Sweden operates a *bonus malus* system whereby it seeks to reward vehicles that emit relatively small amounts (up to 60 grams per kilometre) of CO_2, with a maximum *bonus* of SEK 70 000 (USD 8 140), while burdening vehicles that emit relatively large amounts of CO_2 with higher vehicle tax for the first three years: *malus*.

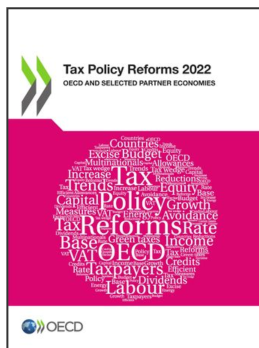
[34] This will rise to EUR 7.95 (approximately USD 9.94) in 2022.

[35] Note that "Recurrent Taxes on Net Wealth" include taxes levied on individuals and corporate entities

[36] Note that Argentina levies a permanent tax on net wealth ("*Impuesto sobre los bienes personales*" (ISBP) discussed in this report, which is different to the one-off wealth tax which was introduced in addition to the ISBP

[37] For example, a property with a market value of NOK 5 million (USD 582 072) would have had a taxable value of NOK 1.25 million (USD 145 518) before the reform while the taxable value after the reform would be NOK 2.5 million (USD 291 036).

[38] Besides a basic allowance (Nil-Rate Band) of GBP 325 000 (USD 447 003), the United Kingdom provides an additional tax-free threshold ("Residence Nil-Rate Band") for residences with certain qualifying characteristics, which are passed on to direct descendants.



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