

2 Tax revenue context

This chapter is based on the OECD Global Revenue Statistics Database and its accompanying publications. It describes the latest tax revenue trends, analysing both total tax-to-GDP ratios and tax structures over time, across low-, middle-, and high-income countries, focusing on OECD countries in particular.

This chapter describes tax revenue trends up to 2021. It focuses on changes in tax-to-GDP ratios and the tax structure principally in OECD countries, as well as for different income groups, focusing on changes over the last two to three decades. This framing permits the reader to identify if year-on-year changes in tax revenues are representative of a continuing trend or signify a change and whether they reflect the impact of past reforms described in previous editions of the publication. It also provides the tax revenue background to subsequent discussions on the tax policy reforms introduced by jurisdictions in 2022 (Chapter 3). Readers are encouraged to review the OECD Revenue Statistics publication, which provides a more detailed description of changes in tax revenue levels and composition (OECD, 2022^[1]).

Nominal tax revenues increased by a proportionally larger extent than nominal GDP in 2021 on average across the OECD as economic activity rebounded. The rise in the average tax-to-GDP ratio in OECD countries was notable, increasing +0.6 percentage points (p.p.) from 2020 – the largest recorded between 1990 and 2021. 2021 was also the second consecutive year the OECD average tax-to-GDP ratio rose, though in 2020 this was due to proportionally smaller decreases in nominal tax revenues than GDP. The increase is also a continuation of the general trend of small rises in the tax-to-GDP ratio that has been observed since 1990. Data suggest that tax policy measures supported growth in tax revenues as economic activity rebounded in 2021, having prevented significant declines in tax-to-GDP ratios in 2020.

Tax structures remained broadly stable in OECD countries in 2021. As shown by the OECD (2022^[1]), the average composition of taxes across OECD countries has retained a similar composition as that reported over the last decade. Increases in tax-to-GDP ratios were largely driven by greater corporate income tax (CIT) and value added tax (VAT) revenues across jurisdictions. Most jurisdictions also recorded a marginal decrease in revenues from social security contributions (SSCs) and excise taxes.

2.1. Trends in tax revenue levels

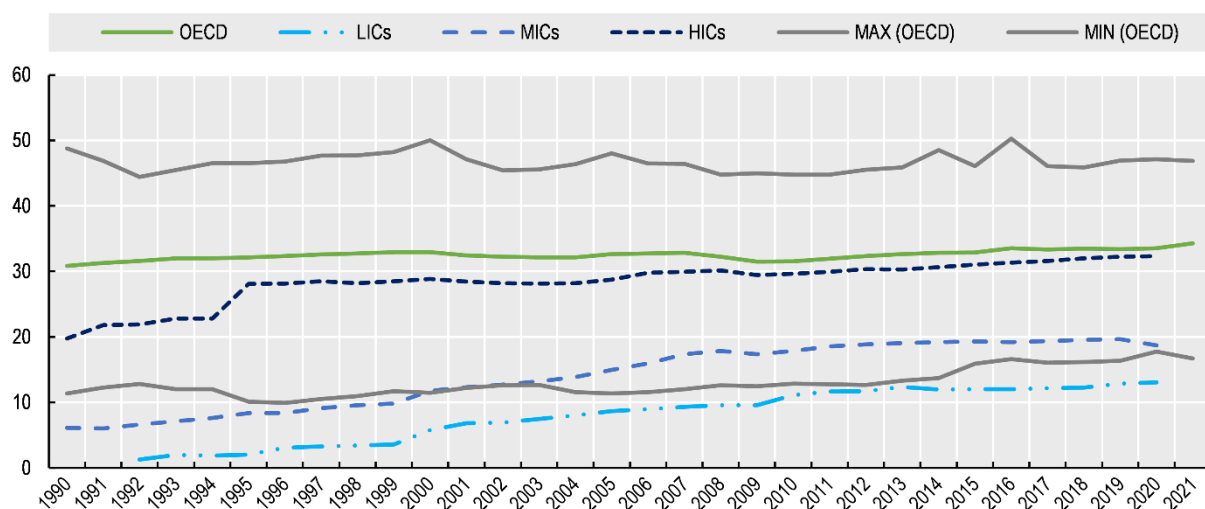
Tax revenues continue to vary significantly across jurisdictions (Figure 2.1). However, differences between OECD countries' tax-to-GDP ratios also continued to narrow slowly as the countries with ratios closer to the minimum converge towards the OECD average, following the trend recorded over the last three decades. Tax-to-GDP ratios in low- and middle-income countries (LICs and MICs, respectively) have also been trending slowly upwards over the same period, albeit from lower levels. However, with the data available to-date there is no clear pattern of convergence or divergence across these country groups.¹

2021 marked the second successive year that the OECD average tax-to-GDP ratio rose, continuing the general trend of small rises in the tax-to-GDP ratio. The rise in the average tax-to-GDP ratio in OECD countries was notable, increasing by +0.6 percentage points (p.p.) from 2020 to 34.1% – the largest recorded between 1990 and 2021 and above the average yearly rise of 0.14 p.p. In comparison, the average yearly increase in the tax-to-GDP ratio of LICs, MICs, and HICs was 0.21 p.p., 0.14 p.p., and 0.11 p.p., respectively, between 1990 and 2020.

Nominal tax revenues increased by a proportionally larger extent than nominal GDP in 2021 on average across the OECD as economic activity rebounded. In contrast to 2019-2020, when the tax-to-GDP ratio rose (+0.2%) due to many countries experiencing smaller decrease in nominal tax revenues relative to the contraction in GDP, the increase in the ratio between 2020 and 2021 was due to relatively larger increases in nominal tax revenues (+12.8%) than GDP (+10.5%) on average and this proportional rise was experienced in a majority of countries. The average tax-to-GDP rose by 0.2 p.p. in LICs in 2020, but MICs recorded a -0.95 p.p. decrease on average during the first year of the pandemic.

Figure 2.1. Trends in tax-to-GDP ratios, 1990-2021

Tax revenues as a percentage of GDP



Note: The maximum and minimum OECD values signal the range. The number of jurisdictions included in each group varies over time – see the Global Revenues Statistics database for more information.

Source: Global Revenues Statistics Database.

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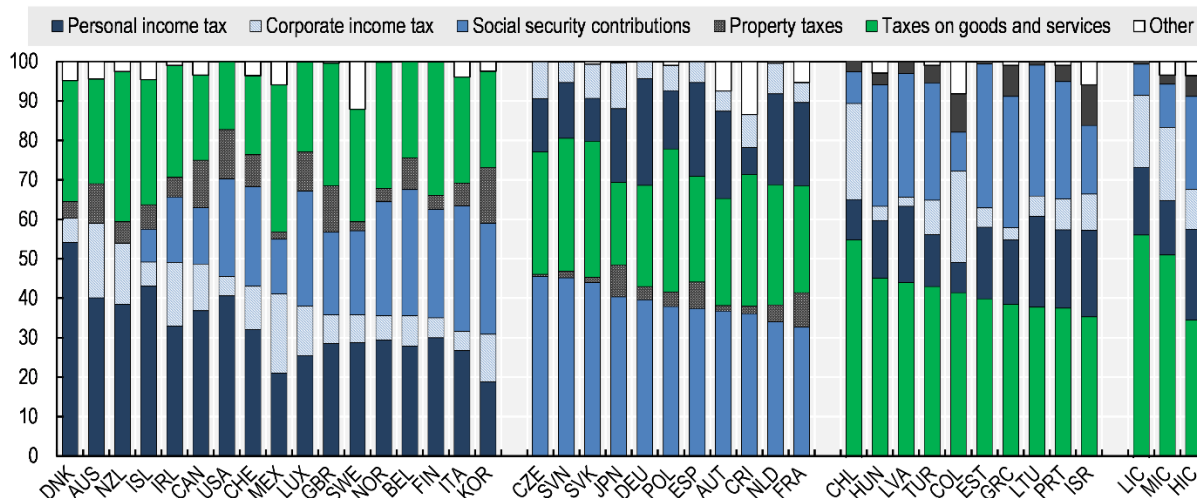
Tax-to-GDP ratios in OECD countries increased between 2020 and 2021 in 24 of the 36 countries for which preliminary 2021 data is available, declined in 11 countries and remained unchanged in one. The largest increase in 2021 was observed in Norway, whose tax-to-GDP ratio rose by 3.4 p.p. due to an increase in corporate income tax (CIT) revenue caused by higher revenues from fossil-fuel extraction following exceptional declines the previous year. The second-largest increase was in Chile (2.8 p.p.), while increases in excess of 2 p.p. were also observed in Israel and Korea. The largest fall in the tax-to-GDP ratio was recorded in Hungary (2.1 p.p.). Canada, Iceland, Mexico and Türkiye also recorded a decline in their tax-to-GDP ratio of 1 p.p. or more.

2.2. Trends in tax structures

The tax structures of jurisdictions continue to vary markedly. As illustrated by Figure 2.2, across the OECD, 17 countries raised the largest part of their revenues from income taxes (both corporate and personal), 11 countries raised the largest part of their revenues from social security contributions and ten countries raised the largest part of their revenues from taxes on goods and services (including VAT), while taxes on property and payroll taxes tend to play a smaller role in revenue systems. LICs and MICs largely fall into the latter category, whereby taxes on goods and services contribute the greatest share of total taxes (56% and 51%, respectively). Excise taxes also form a larger share of revenues within taxes on goods and services in LICs and MICs than in HICs.


Figure 2.2. Tax structures, 2020

Share of tax category in total tax revenues (%)



Note: Personal income taxes refer to tax category 1100 under the OECD classification of taxes, corporate income taxes to tax category 1200 and social security contributions to tax category 2000. Property taxes refer to tax category 4000 and taxes on goods and services to tax category 5000. Other taxes refer to taxes other than the aforementioned five categories which contribute to the remaining revenues to total tax revenues. Tax revenues are the sum of taxes collected by all levels of government. See Revenue Statistics Interpretative Guide for more detail. The low- (LIC), middle- (MIC), and high-income country (HIC) averages are representative of the 116 jurisdictions that provide tax revenue data to the OECD.

Source: OECD Global Revenue Statistics Database.

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While tax levels have generally been rising on average, the tax structure of the OECD has been remarkably stable over time.² PIT revenues generated 24.1% of total taxes on average in 2020 compared with around 27.5% in the 1990s, while CIT revenues have varied between 7.5% and 11.2% since 1990 and contributed 9% of total tax revenues in 2020. SSCs accounted for 26.6% of total tax revenues on average across the OECD in 2020, having risen from 23% in the early 1990s. The contribution of taxes on goods and services to total revenues has fallen from 34.5% in the late 1990s to 32.1% in 2020 – the growth of VAT has counteracted the diminishing share of specific taxes on goods and services, such as excises and custom duties. The share of property taxes has remained relatively stable at around 5.5% of total tax revenues from 1990-2020.

Tax structures in OECD countries were not notably altered by changes to tax revenues between 2020 and 2021.³ As shown by Figure 2.3, in 18 of the 25 countries that experienced an increase in their tax-to-GDP ratio, an increase in either CIT or VAT revenues was the main driver of the rise. PIT increased as a share of GDP in 17 of these 25 countries – two fewer than was the case for CIT. PIT revenues declined as a share of GDP in all but two of the 11 countries whose tax-to-GDP decreased in 2021, underlining the importance of variations in this tax type to overall revenue levels. Sixteen of the 25 countries whose tax-to-GDP ratio increased overall in 2021 experienced a decline in SSCs, while all but three of the countries whose tax-to-GDP ratio decreased overall experienced a decline in SSCs.

CIT revenues increased as a share of GDP in two-thirds of countries for which preliminary data are available in 2021, declined in nine and were unchanged in four. The largest increase was observed in Norway, where CIT revenues rebounded from a 3.6 p.p. decline in 2020 to rise by 7.3 p.p. in 2021 due to

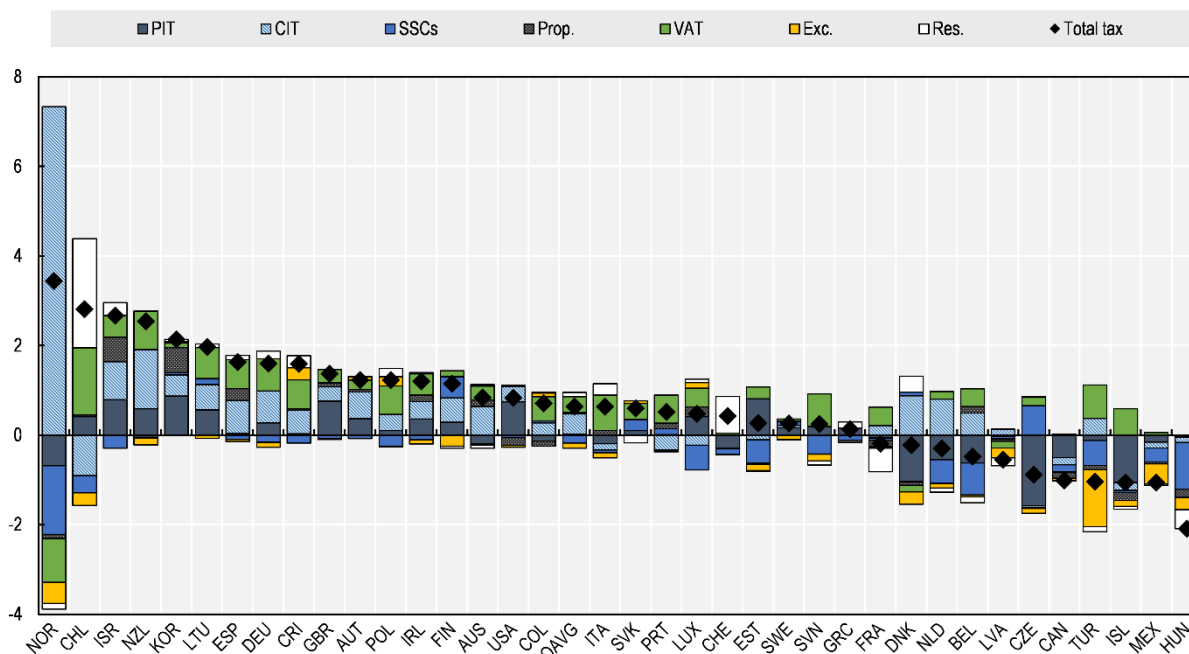
an increase in revenues from petroleum extraction following an exceptional decline the previous year. Eleven other countries observed increases in CIT revenues larger than 0.5 p.p.

Revenues from VAT increased as a share of GDP in 30 countries in 2021 as consumption rebounded in the second year of the pandemic, remained unchanged in three and declined as a share of GDP in three. The increase in VAT revenues exceeded 0.5 p.p. in 13 countries. Excise revenues declined as a share of GDP in 21 countries – with all but two of these decreases being smaller than 0.3 p.p. – while they increased in six and were unchanged in ten countries.


PIT revenues increased as a share of GDP in 17 countries in 2021, declined in 14 and remained unchanged in seven. Increases exceeded 0.5 p.p. in seven countries and the decreases in PIT exceeded 0.5 p.p. in six countries. SSCs increased as a share of GDP in eight countries, declined in 22 and were unchanged in six. The decreases were larger than 0.5 p.p. in five countries. Property taxes increased as a share of GDP in 11 countries, declined in 13 and were unchanged in 13. Bar two countries, none of the changes exceeded 0.3 p.p.

Figure 2.3. Decomposition of change in OECD tax-to-GDP ratios by tax category, 2020-21

Year-on-year change, p.p.



Note: Data for 2021 are preliminary and should be interpreted with caution. This graph includes the change between years 2019 and 2020 for Australia and New Zealand, the average excludes Japan and Greece due to the unavailability of disaggregated data for these countries. Source: OECD (2022₍₁₎).

StatLink  <https://stat.link/a7kp9b>

References

- OECD (2022), *Revenue Statistics 2022: The Impact of COVID-19 on OECD Tax Revenues*, OECD Publishing, Paris, <https://doi.org/10.1787/8a691b03-en>. [1]
- World Bank (2022), *New World Bank country classifications by income level: 2022-2023*, <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2022-2023>. [2]

Notes

¹ The OECD Global Revenue Statistics Database covers 116 countries. Using World Bank income group classifications from 2022 (World Bank, 2022^[2]), 11 countries are classified as low income, 58 as middle income and 47 as high income.

² There is insufficient data available from 1990 for LICs and MICs to draw comparative conclusions about the evolution of their tax structures.

³ Preliminary data for 2021 are only available for OECD countries (with the exceptions of Australia and New Zealand) and thus there is no analysis of changes to overall tax structures in LICs and MICs.



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