EXECUTIVE SUMMARY

Requested by the FISC Subcommittee

National tax measures in response to the COVID-19 crisis

Assessment of their impact and results lessons to be learned for future crises

Background

In the face of the economic challenges emerging from the COVID-19 pandemic, the European Union (EU) and its Member States employed a range of measures to mitigate the economic impact of the crisis. The EU played a pivotal role in coordinating these efforts, using the funds allocated from the Recovery and Resilience Facility. To access these funds, Member States were required to develop national Recovery and Resilience Plans (RRPs) that aligned with specific criteria, including adherence to country-specific recommendations (under the European Semester for economic policy coordination), job creation, and overall economic, social, and institutional resilience. Notably, tax measures were integrated into the national RRPs as an essential component of the recovery strategies. Indeed, to mitigate the socio-economic impact of the crisis, EU Member States implemented various fiscal measures. These policies aimed to provide immediate relief, support economic recovery, and ensure the stability of businesses and individuals during these challenging times.

This study will consider a wide range of tax measures employed by EU Member States, including, but not limited to, cuts in both tax bases and tax rates, tax reliefs, exemptions, deferrals, and other supportive mechanisms. It will explore the specific objectives, scope, and targeted beneficiaries of these measures, considering the diverse economic frameworks and fiscal capacities of the Member States.

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Aim

The study has three main objectives. At first, it provides synthetic overviews of national tax measures implemented in response to the COVID-19 economic crisis across the EU Member States, offering both country-specific data and aggregates for the entire EU-27. This provides a comprehensive understanding of the tax measures adopted at the national level. Importantly, the study examines whether tax measures were designed and implemented as temporary or permanent solutions, as the use of permanent tax measures in response to a temporary crisis may have implications for EU economic policy.

Secondly, the study assesses the design of the presented national tax measures and analyses their likely impact on key economic factors such as competitiveness, purchasing power parity occupation and income inequality. By evaluating the effectiveness of the tax measures, the study aims to provide insights into their impact on economic recovery.

In the last section, the study formulates policy proposals from the conducted tax measures, evaluating their adequacy as economic policy responses and their potential applicability in responding to future crises. It identifies conditions under which these measures can serve as examples for effective crisis management and highlights areas where improvements in design or implementation are necessary.

Overall, this study provides a comprehensive analysis of national tax measures that were implemented in response to the COVID-19 crisis in the EU. By examining their structure, impact, effectiveness, and suitability for future crises, the study aims to contribute to evidence-based policymaking and inform decision-makers at the national and EU levels.

Key Findings

The tax reforms implemented by EU Member States to address the economic impact of the COVID-19 pandemic can be summarised by the following key trends:

- Personal income taxes (PIT): Reforms focused on permanent changes to the tax rate, both decreases and increases, as well as temporary reductions in the tax base. These measures primarily targeted taxes on labour. Additionally, temporary extensions and deferrals of payment deadlines were adopted;
- Social Security Contributions (SSC): The main trend was a decrease in the SSC tax rate, while a few countries opted for permanent increases in the tax base. Some countries also introduced tax benefits. Similar to other tax categories, temporary deferrals on tax payments were commonly implemented, often tailored to specific sectors or aimed at supporting employment;
- Corporate taxes: Changes to the tax base, decreases and tax benefits in particular, have been the most popular measure regarding corporate taxes. Ten countries decreased the tax rate on firms. Thirteen countries adopted deferrals of payments and three cancelled some fiscal duties; and
- VAT, other indirect taxes and other taxes: The majority of countries decreased the Value Added Tax (VAT) tax rate, whereas 14 countries permanently increased the tax rate on other taxes, and 11 countries decreased it. There was a general trend of expanding the tax base and introducing tax benefits, mainly with the objective of promoting environmental sustainability and improving public health.

The insights derived from the analysis conducted on taxation trends and essential economic factors such as competitiveness, purchasing power, occupation and inequality can be summarised by the following key results:

- Competitiveness: countries that implemented a greater number of policies to modify their tax systems exhibit higher competitiveness. More specifically, a decrease in fiscal pressure following the pandemic is positively linked to competitiveness. In this sense, tax base decreases appear to be the most successful measures;
- Purchasing power parity: from our analysis, we find no evidence that countries implementing a greater number of policy initiatives to modify their tax systems exhibit higher purchasing power parity. The study reveals a slightly negative association between the number of policies aimed at increasing the tax rate on personal income and purchasing power parity;
- Labour market: we find a positive association between the number of policies aimed at decreasing the fiscal pressure on personal income and the total level of employment. More specifically, cuts in personal income tax rates appear to be the most effective measures. Thus, targeted cuts in labour taxes may hold the potential to stimulate employment;
- Inequality: the analysis identifies a slight correlation between the introduction of tax policies addressed at supporting families or increasing caregiving and a reduction in income inequality between over 65 individuals. At the same time, we find no correlation between the introduction of policies targeted at low-income actors and a decrease of at-risk-of-poverty individuals. Moreover, the analysis identifies a strong positive correlation between the number of policies aimed at family and caregiving and both female and male occupation; and
- Temporary and permanent measures: addressing the economic impact of the COVID-19 crisis through tax measures requires a prudent strategy. Temporary measures, when quickly implemented, play a crucial role in providing immediate relief to individuals and businesses facing financial distress. However, in order to endure stability and predictability, permanent measures are indispensable to establish a framework with lasting effects on revenue generation and economic behavior. Striking a balance between temporary and permanent measures is pivotal: temporary measures offer vital short-term relief, but a sustainable, long-term framework is equally important. The analysis highlights that that a general reduction in fiscal pressure might benefit competitiveness: indeed, reducing tax bases and cutting tax rates are the most effective measures for enhancing competitiveness.

  The former, tax base reductions, have been mostly used as a temporary solution, providing immediate relief. Conversely, the latter, tax rate reductions, have been employed as a permanent solution. This balanced approach ensures both short-term relief and long-term resilience.

  Therefore, when considering the optimal mix for future crises, a combined strategy is likely to be optimal. It's imperative to carefully assess the nature of the crisis, fiscal sustainability, social impact, and policy objectives in the decision-making process. Flexibility and adaptability are essential, enabling adjustments based on the nature and severity of the crisis.

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