Subcommittee on Tax Matters (FISC) of the European Parliament
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Opening Remarks

Thank you for the opportunity to address the Subcommittee on Tax Matters (FISC) of the European Parliament on the role of tax policy in responding to the COVID-19 health and economic crisis.

The pandemic continues to wreak havoc on lives and the economy worldwide. Although the outlook is highly uncertain, the OECD forecasts that with a second wave of infections, such as the one being experienced now, the Euro area's GDP would decrease by 11.5% compared to 2019.[1]

The immediate priority for fiscal policy, in combination with monetary policy, remains to cushion the adverse impacts of the sharp decline in economic activity, and to set the stage for a strong recovery. Increasingly, governments need to do both at the same time – preserve and reboot. Governments also need to prepare for tax reform once economic recovery is solid, responding to citizens' demands for more inclusiveness, more resilience, and sustainable prosperity.

Social resilience

Since the outbreak of the pandemic, the OECD has assisted governments by compiling data on the various policies announced, producing analysis and providing tax policy advice and guidance. Our April report, "Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience", provides a stocktake of over 120 countries' emergency tax policy responses, and outlines a framework for tax policy during and after recovery. It emphasises that strengthening confidence is the key objective in the near term. This means continuing to provide support to the most severely affected businesses and households to avoid scarring effects. Expansionary fiscal policy will play a key role in encouraging a sustainable and inclusive recovery, and in meeting public financing needs, once countries exit the crisis.

While the immediate priorities of governments should be on cushioning the impact of the crisis and supporting recovery, it is also time to begin a deeper reflection on where fundamental tax reforms may be necessary in the long term to help put budgets on a solid footing after the COVID-19 crisis. There is no one-size-fits-all reform package as each country has its own mix of taxes and economic specificities. However, there are some key issues that should be high priorities for all: strengthening the fight against tax evasion and avoidance, using tax tools to address climate change, and reviewing taxes on labour.

International tax cooperation and the fight against tax evasion and tax avoidance

Strengthened international tax policy cooperation will be crucial to respond to the crisis. The fight against tax evasion and tax avoidance is more urgent than ever, as governments have used public funds to support ailing companies during the crisis and the public tolerance for evasion and avoidance is wearing thin. Through initiatives such as the OECD/G20 Base Erosion and Profit Shifting (BEPS) project and current efforts to address the tax challenges arising from the digitalisation of the economy, the OECD has made significant progress with the 137 members of the Inclusive Framework on BEPS,

[1] http://www.oecd.org/economic-outlook/june-2020/

and a review is underway of the BEPS minimum standards to strengthen them. On the digital project, the Inclusive Framework delivered detailed blueprints of the proposed new nexus and profit allocation rules (Pillar One) and the proposed global minimum tax (Pillar Two) last month, which serve as a solid basis for a future agreement. We are working hard with all members to reach a successful conclusion by mid-2021.

On fighting tax evasion, information on 84 million financial accounts was exchanged automatically in 2019 with a total value of around EUR 10 trillion through the automatic exchange of information. In total, at least 102 billion euros of additional revenues have been identified for collection. Consideration of further expansion of automatic exchange of information is also underway.

Addressing climate change

It is now well recognised that tackling climate change can and must be an integral part of recovery strategies. Stimulus can steer towards greener choices by making support conditional on alignment with environmental goals. These incentives will have stronger effects if investors and households know that significant carbon prices are coming. Carbon pricing, including fuel and carbon taxes, emissions trading and fossil fuel subsidy reform therefore is a critical component of policies for a low carbon recovery.

The OECD estimates that more than 60% of emissions in OECD and G20 countries are not priced at all. The EU is working towards stronger carbon prices, realising that tax policy must play its part in levelling the playing field for clean technologies. Better aligning energy taxes with the pollution profile of energy sources will help to reduce investment in carbon-intensive technologies and shift financial flows to greener alternatives.

Employment

The OECD estimates the unemployment rate in the Euro area will be almost 13% in Q4 2020.[2] Reduced economic activity is reducing productivity of workers in a context where taxes on labour, including social security contributions, are high across the EU, and are pricing workers out of the labour market. Governments may need to revisit the design of taxes on labour income including social security contributions, in order to maintain the supply of high-quality jobs and to prevent long-lasting negative effects on EU economies.

These are some of the key tax issues to consider in responding to the COVID-19 crisis. The OECD stands ready to support EU and other countries as they begin their consideration of possible tax reforms in these challenging times.

Thank you again for inviting me today and I look forward to your questions.

[2] https://www.oecd.org/economic-outlook/