



FISCAL AFFAIRS

VAT and COVID-19

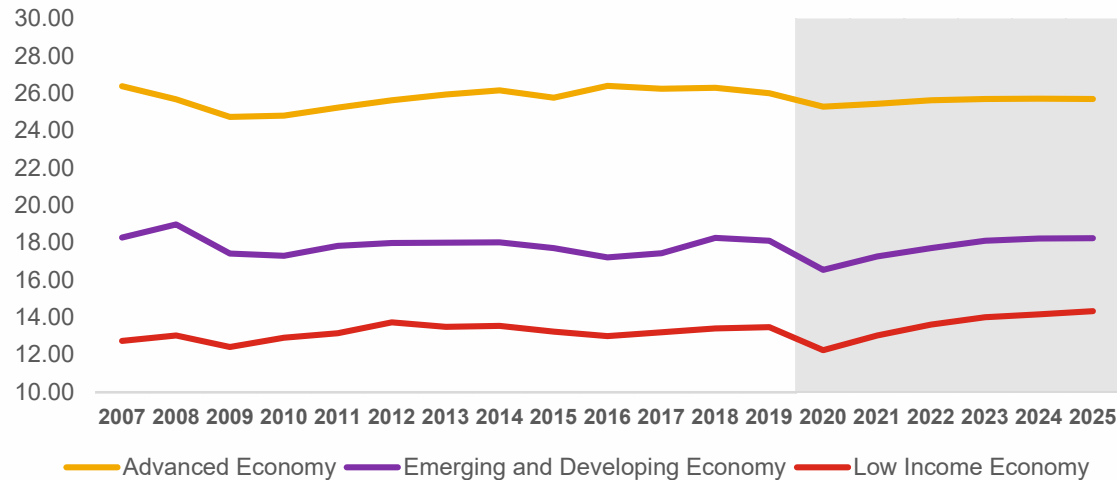
How did the VAT weather the COVID-19 crisis so far and what is next ?

NOVEMBER 17, 2020

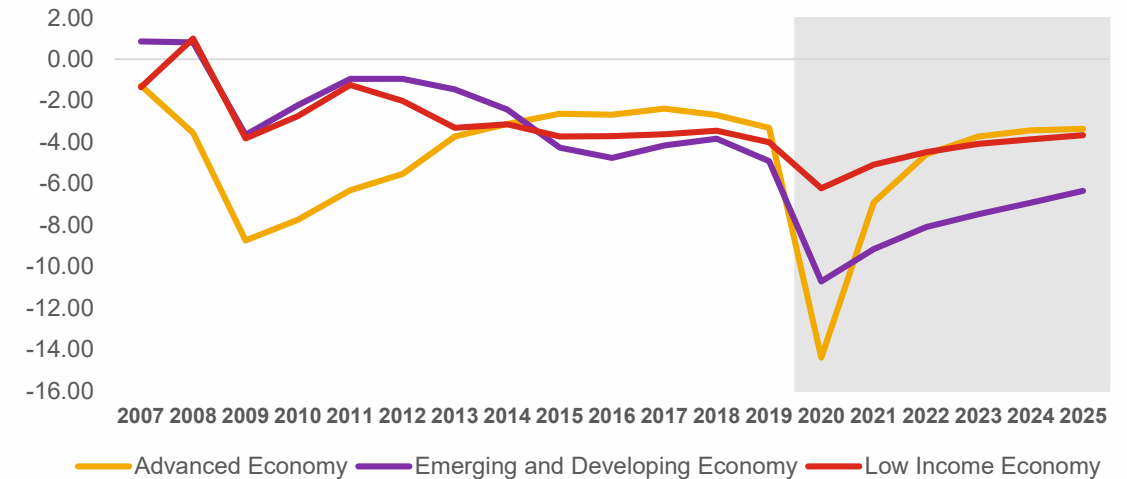
Victoria Perry
IMF

Fiscal Developments – Impact of COVID-19

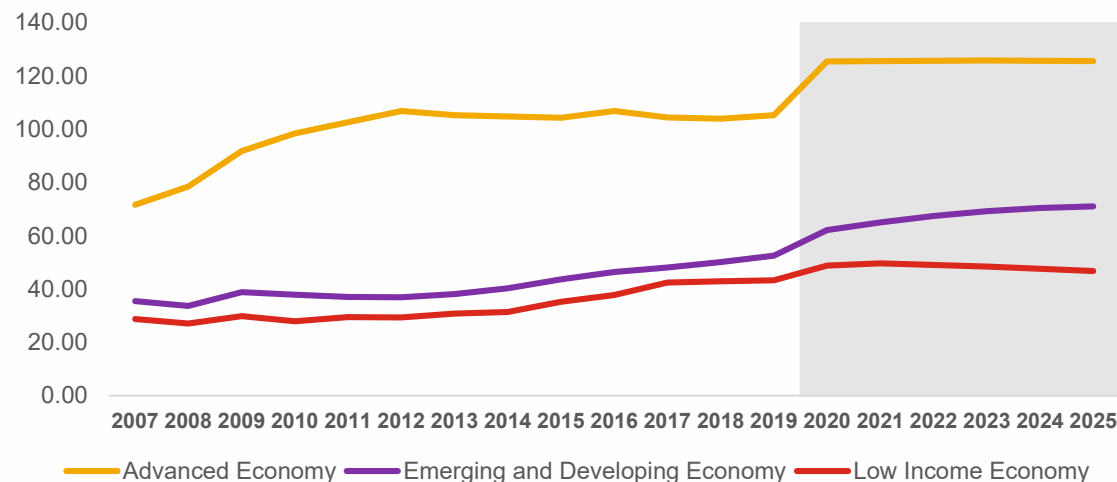
General Government Tax Revenue (% of GDP)



General Government Net Lending/Borrowing (% of GDP)



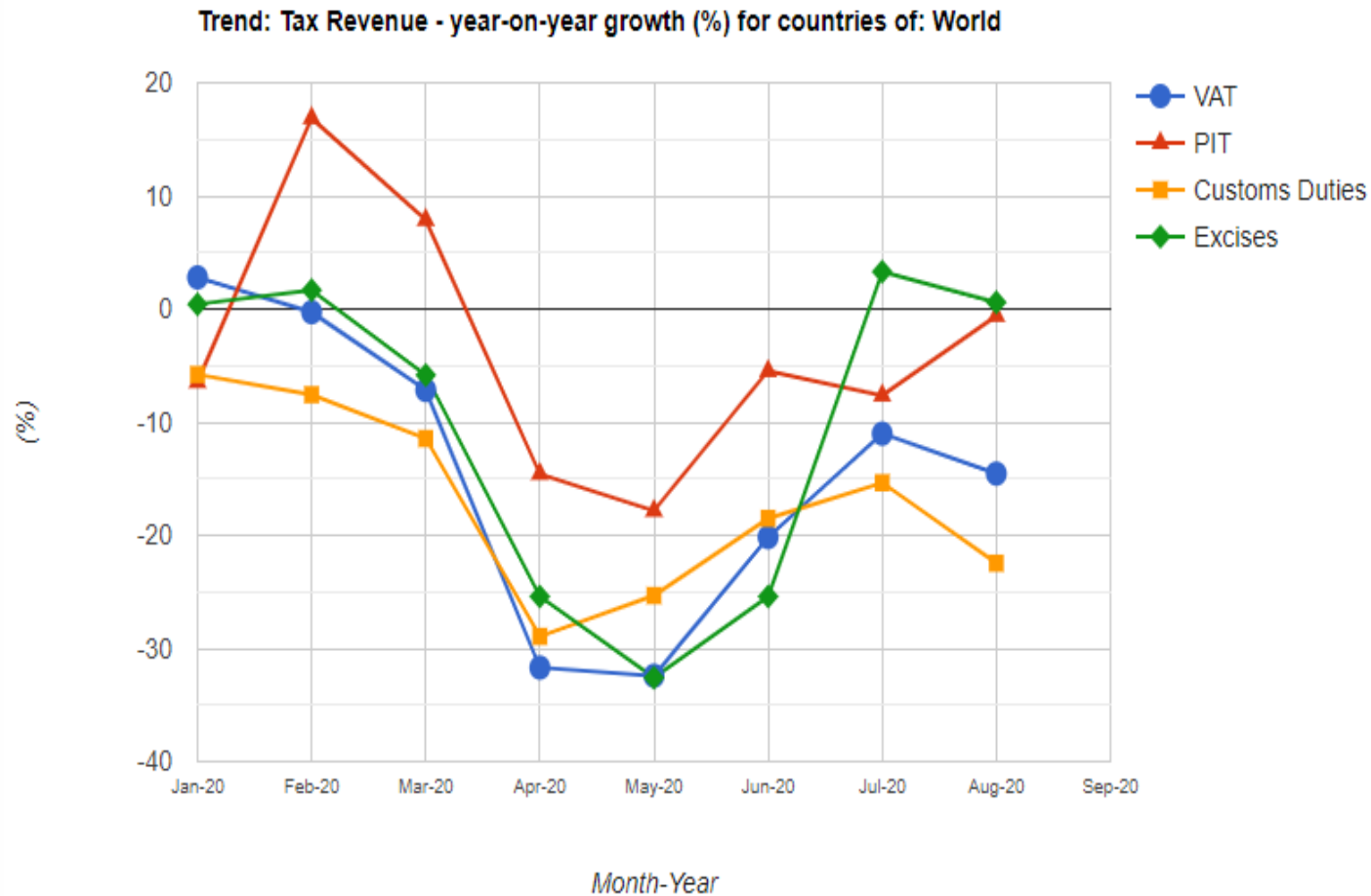
General Government Gross Debt (% of GDP)



- Decline in tax revenue most pronounced in EDEs and LICs
- Growing deficits and debt levels across all economies
- Yet, debt-carrying capacity varies

Source: Fiscal Monitor (Oct 2020)

VAT Performance during COVID-19



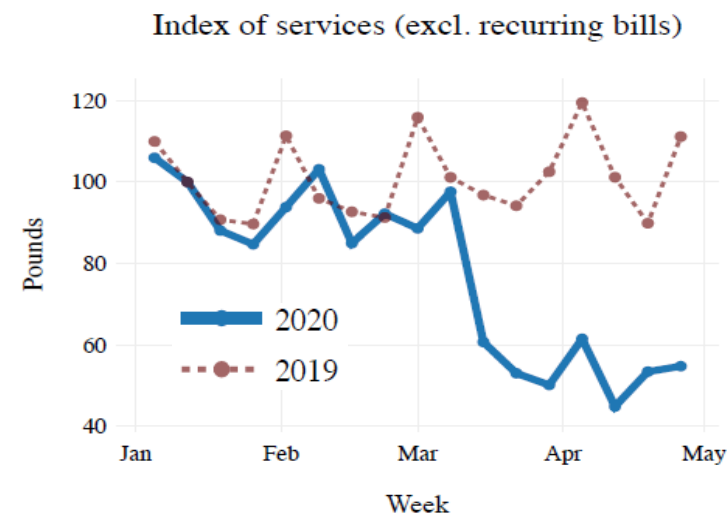
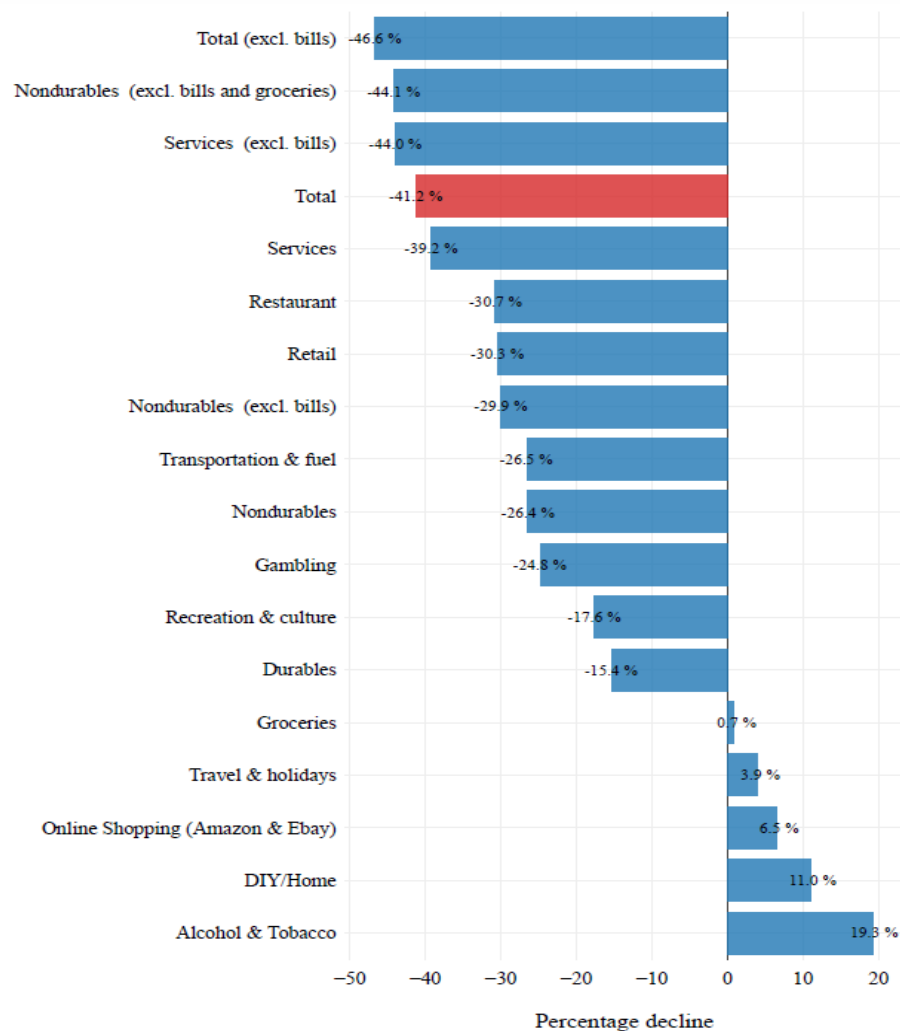
- Significant drop in VAT collections – over 30 percent at peak time to date, reflecting:
 - Lower consumption
 - Policy measures (reliefs and deferrals)
- No clear evidence of declining VAT compliance (yet...)
- While V-shaped, the overall VAT revenue performance expected to remain subdued

Source: World Bank. 2020. "Revenue Effects of COVID-19 – November Update". Global Fiscal Policy Series. Fiscal Policy and Sustainable Growth. Macroeconomics, Trade and Investment, World Bank

What Happened to Consumption?

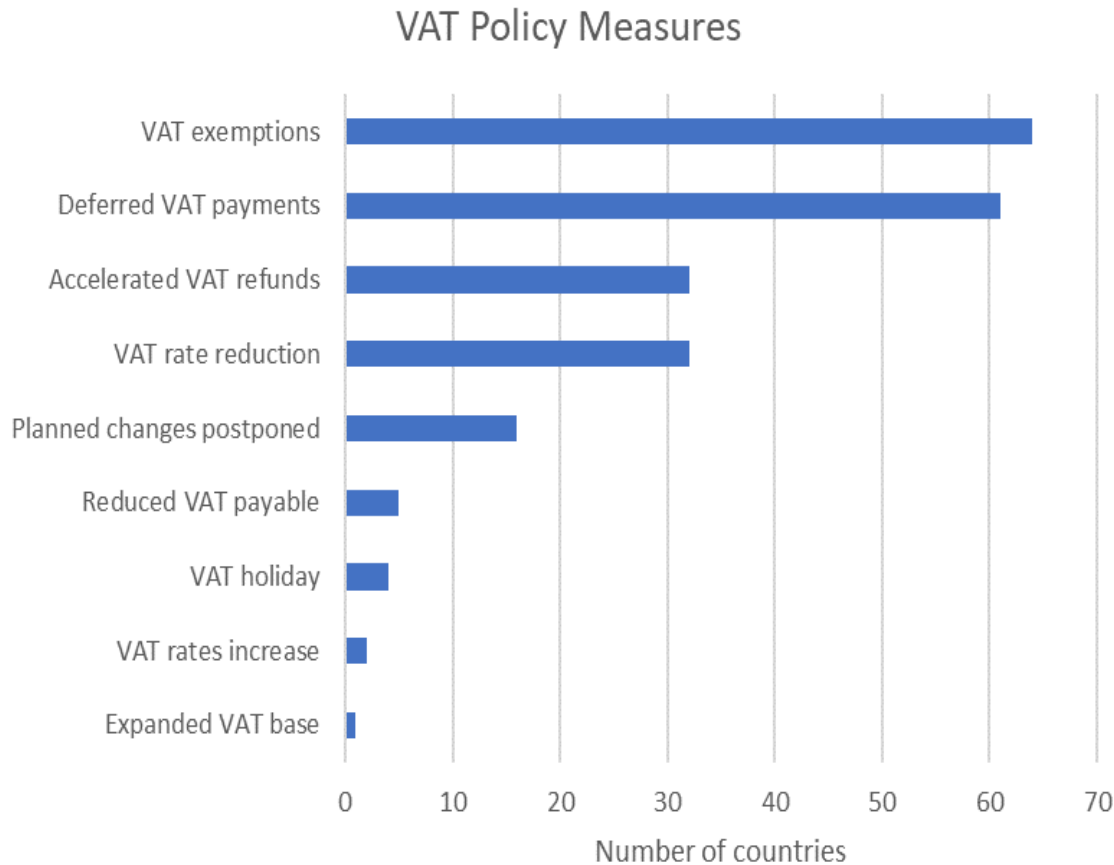
Case of England

Percentage change April 2019 vs. April 2020



Source: Paolo Surico, Diego Kanzig and Sinem Hacıoglu (2020).
Consumption in the Time of Covid-19: Evidence from UK Transaction Data, Discussion Paper DP14733, CEPR

VAT Response to Covid-19: Tax Policy

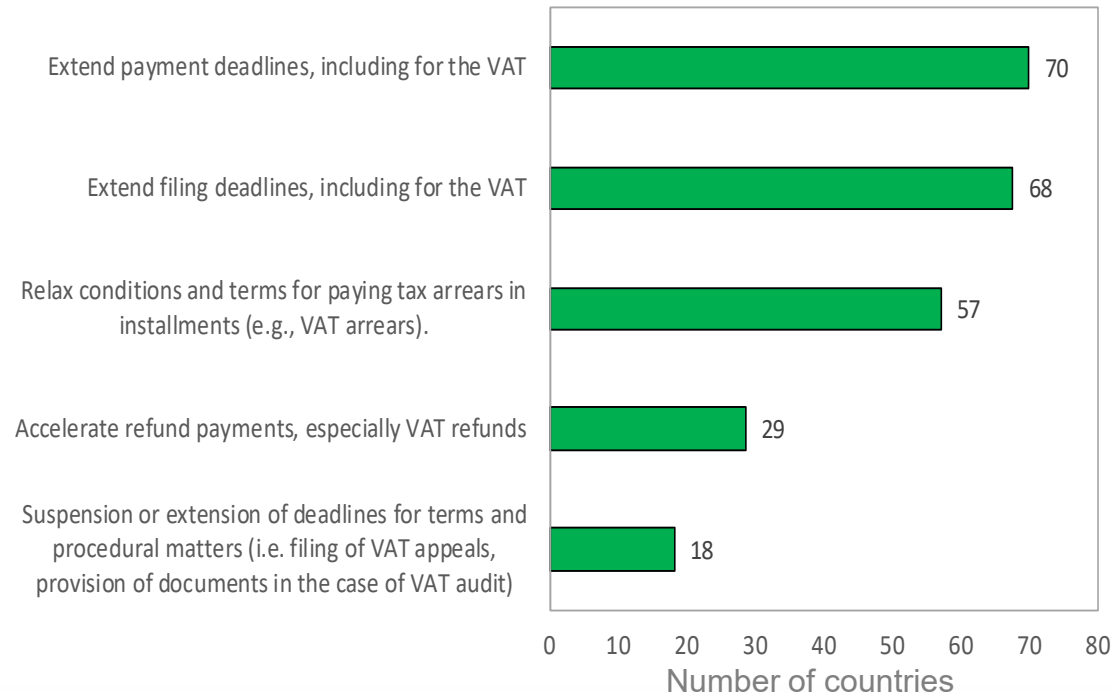


Source: IMF / WB / OECD Policy Tracker, Avalara.com,
R. Bird, (2020). *Vat in and after the pandemic*, Tax Notes

- Reliance on:
 - VAT reliefs – various exemptions and rate reductions
 - Improving VAT refunds
- Few countries:
 - Implemented general VAT cuts (Germany, Ireland, Kenya)
 - Increased their VAT rate (e.g. Saudi Arabia)
 - Postponed planned VAT reforms/modernization
- Around half of countries with VAT did not take any VAT policy measures

VAT Response to Covid-19: Tax Administration

Easing Taxpayer Obligations (Under Existing Law)



Source: IMF - Survey 'Revenue Administration Measures in Response to the COVID-19 Crisis and OECD Policy Tracker.

- Focus on easing taxpayers' obligation and ensuring business continuity
- Put in place administrative arrangements to implement government support policies
- Enhance communication and taxpayer assistance
- Protect revenue and safeguard compliance, e.g., focus on sectors not impacted by the crisis
- Not necessarily limited to VAT, part of general approach

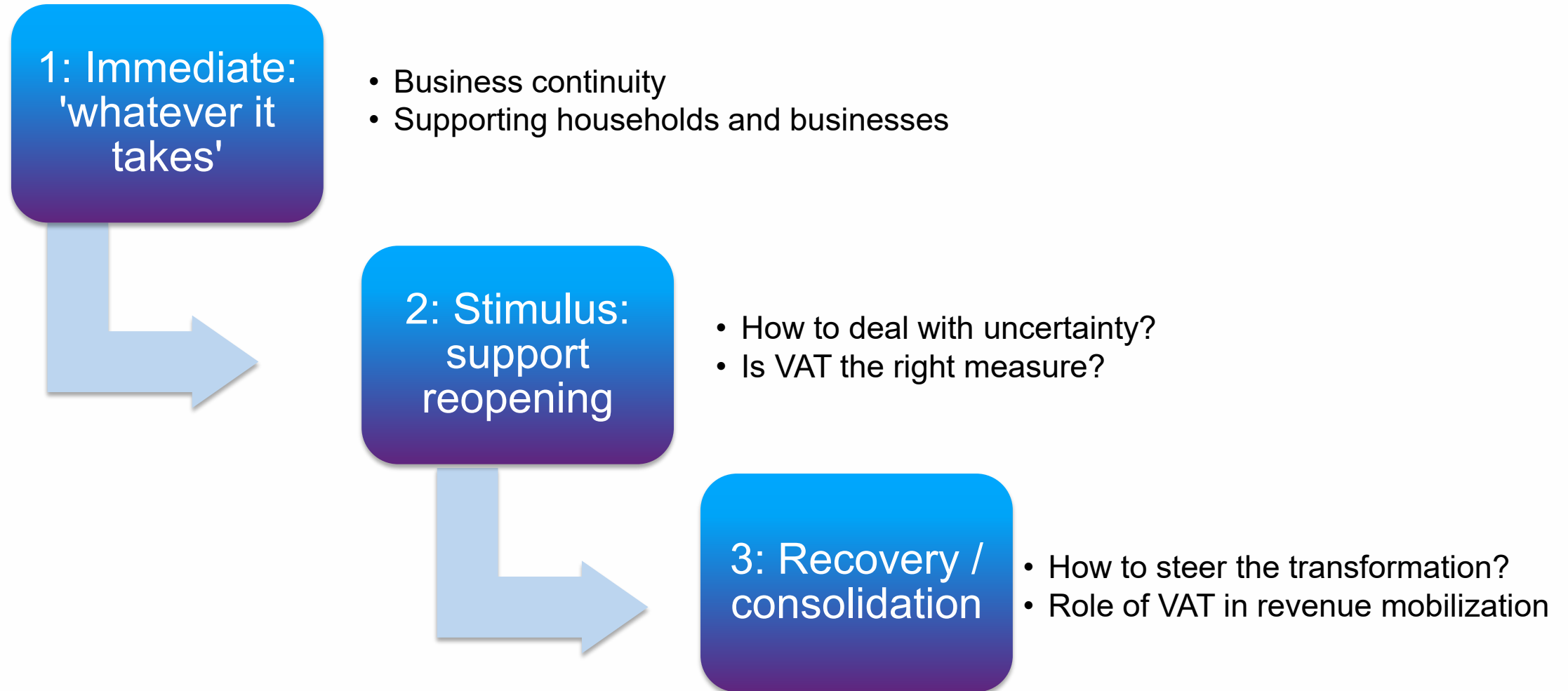
Revenue Administration – Business continuity

- Protecting the health of staff and taxpayers and ensuring capability to work remotely
- Some key measures implemented:
 - ☐ Senior management crisis team to meet daily
 - ☐ Prioritize work and reallocate workforce to ensure critical activities are adequately staffed
 - ☐ Implement remote work policies
 - ☐ Where face-to-face contact is necessary—implement personal safety measures, e.g. social distancing, PPE
- Many countries do **not** have a business continuity plan:
 - ◆ 22 of 41 Sub-Saharan African countries surveyed by FAD (54 percent)

VAT Morale and Compliance during Covid-19

- VAT compliance gaps grew during GFC
- For Covid-19, hard-up taxpayers are seeking to cut costs
- Covid-19 measures could increase compliance risks
- Implementation of large-scale relief schemes consume resources
- Reducing compliance gaps is more attractive than increasing tax rates or coverage

VAT Policy in 3 Different Phases



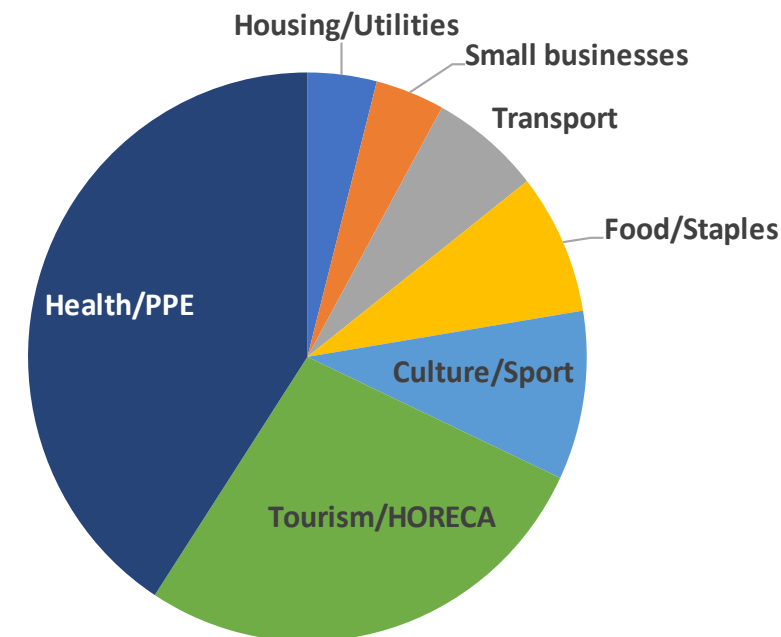
‘Whatever it Takes’ Phase

Initial response focused on:

- Easing compliance burden
- Supporting business cashflow and solvency
- Stimulating demand for most affected industries
- Subsidizing healthcare / PPE spending
- Protecting households / boosting disposable incomes

Largely justified, given uncertainty and limited understanding of the ensuing crisis...

Breakdown of VAT Reliefs by Sector



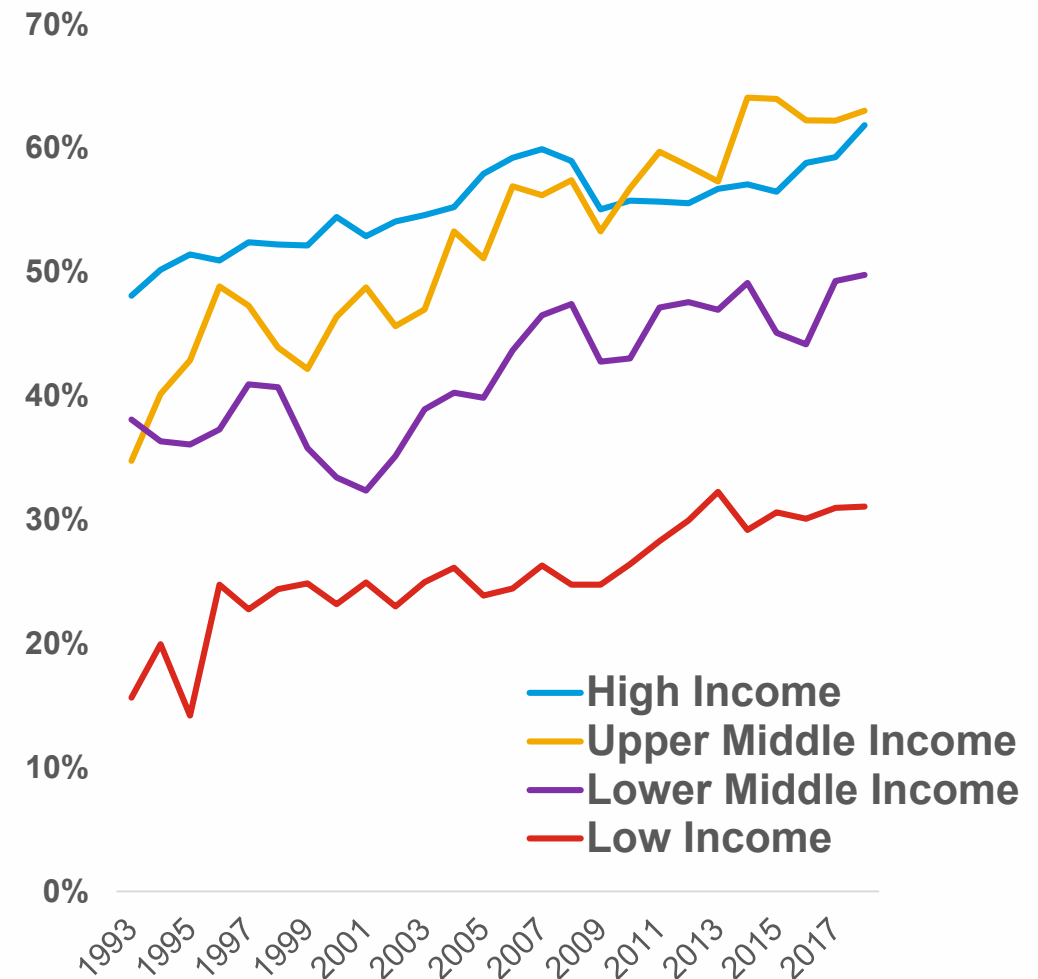
Reopening/Stimulus –a role for VAT?

- Timing has lingering uncertainty and variability, with current renewal of temporary lock down measures in some countries
- VAT not the most efficient instrument to stimulate economy, though some have used:
 - Time bound VAT reductions
 - Pre-announced future VAT increases
- Avoid selective VAT rate reductions
- Pay attention to negative externalities (impact on social distancing)

Role of VAT in Recovery

- Depends on initial position and available other instruments, still:
 - Broad-based VAT growth friendly
 - Revenue efficient
- Room for reversals of Covid-19 measures
- Room for improving VAT efficiency (important for fiscal consolidation)

VAT C-efficiency by Income Group



What does the future hold for the VAT?

- Improve VAT design:
 - ▶ Maintain good policies from mitigating stage (e.g. speedy VAT refunds, lower compliance burden)
 - ▶ Focus on capturing the growing digital sales
 - ▶ Political economy context (strengthening VAT to fund higher spending, e.g. on healthcare system)

Issues for discussion

- What did countries do to mitigate the impact of the crisis, what lessons can be learnt/carried over to the future.
- Were VAT measures appropriate to address consumers' and businesses' needs?
- What is the role of VAT in stimulating economic recovery? And further on, in consolidation?
- What challenges/opportunities does digitalization pose for VAT design and administration going forward?