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Global Tax Alert

OECD report forecasts falling tax revenues in Asian and Pacific Economies as a result of COVID-19 pandemic

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Executive summary

The Organisation for Economic Co-operation and Development (OECD) published Revenue Statistics in Asian and Pacific Economies 2020 (the Report) on 23 July 2020.

The Report, in its seventh edition, is part of a long-standing series of similar reports from the OECD covering regional tax data. This edition covers 21 jurisdictions,[1] with Bhutan, the People's Republic of China, Mongolia and Nauru included for the first time. Together, these 21 jurisdictions account for over 75% of GDP in Asia and over 90% in the Pacific. The Report includes data for years up to 2018.

The Report, which is also available in Japanese, is a joint annual publication of the OECD Centre for Tax Policy and Administration and the OECD Development Centre, with the cooperation of the Asian Development Bank, the Pacific Islands Tax Administrators Association and the Pacific Community, with the support of the governments of Ireland, Japan, Luxembourg, Norway, Sweden and the United Kingdom.

According to the Report, despite what the OECD describes as good progress in increasing tax-to-GDP ratios and mobilizing domestic revenues across the Asian and Pacific economies in 2018, tax revenues in the region are expected to decrease in the future as a result of the COVID-19 pandemic.

Building a better working world

Chapter 2 of the Report is a special chapter, which provides a summary of the discussion of tax policy and tax administration responses to the COVID-19 pandemic in the Asian and Pacific economies during a May 2020 virtual meeting of several multilateral groups working in the region.[2]

Detailed discussion

The Report shows that in 2018, tax-to-GDP ratios in the Asian and Pacific economies ranged widely, from 11.9% in Indonesia to 35.4% in Nauru. All jurisdictions covered had lower ratios in 2018 than the OECD member country average of 34.3%, with the exception of Nauru. Ten of the jurisdictions had tax-to-GDP ratios above the average reported by the OECD for Latin America and the Caribbean, also tracked by the OECD, which was 23.1% for 2018. The Report also shows differences in tax-to-GDP ratios between the Asian region and the Pacific region, with ratios in 8 of the 11 Asian jurisdictions below 20% (the exceptions being Japan, Korea and Mongolia) and ratios in 7 of the 10 Pacific jurisdictions above 23% (the exceptions being Papua New Guinea, Tokelau and Vanuatu).

Nearly two-thirds of the jurisdictions tracked by the OECD in both 2017 and 2018 had increases in their tax-to-GDP ratios in 2018. The largest increases were in Nauru, Tokelau and Mongolia (6.4 percentage points (p.p.), 3.8 p.p. and 2.5 p.p., respectively). According to the Report, this is largely due to increases in tax rates. The Report indicates that in Mongolia, the higher revenues reflected increases in personal income tax rates and in the excise rates on tobacco and alcohol. The Report also indicates that higher tobacco duties contributed to the increase in Tokelau. In addition, the Report states that the increase in Nauru was attributable to higher employment tax rates for nonresidents, higher service tax rates and higher rates for various business taxes. Four other jurisdictions (Solomon Islands, Korea, the Cook Islands and Samoa) had increases in their tax-to-GDP ratios of greater than 1 p.p. from 2017 to 2018.

According to the Report, over the decade ending in 2018, 11 of the 21 jurisdictions tracked by the OECD had increases in their tax-to-GDP ratios, with the highest increases in the Solomon Islands, Samoa and the Cook Islands (10.6 p.p., 7.0 p.p. and 4.9 p.p., respectively). Over the same period, Mongolia, Papua New Guinea and Kazakhstan had the largest decreases in their tax-to-GDP ratios (4.3 p.p., 8.6 p.p. and 9.3 p.p., respectively), which the Report indicates were attributable to reductions in Corporate Income Tax (CIT) revenues due to lower commodity prices.

Tax structures in the region

Data in the Report indicate that these 21 jurisdictions in Asia and the Pacific rely on both goods and services taxes and income taxes. In 10 jurisdictions covered in the Report — the Cook Islands, Fiji, Kazakhstan, Mongolia, the Philippines, Samoa, the Solomon Islands, Thailand, Tokelau and Vanuatu — taxes on goods and services accounted for the largest share of their tax revenues in 2018. In the majority of these jurisdictions, Value-Added Tax (VAT) was less significant than other taxes on goods and services, including excise and import duties. The Report shows that seven of these jurisdictions had higher revenues from other taxes on goods and services than from VAT, ranging from 31.1% of total tax revenues in Kazakhstan to 73.2% in the Solomon Islands; in contrast, three jurisdictions had a larger share of revenue from VAT (Mongolia (28.2%), Samoa (40.1%) and the Cook Islands (44.6%)). In 2018, revenue from other taxes on goods and services played a more prominent role in the Pacific jurisdictions than in the Asian jurisdictions covered in the Report. The Report shows that in 2018, revenues from CIT contributed between 28.1% of total income tax revenue in New Zealand and 86.3% of total income tax revenue in Bhutan. In nine of the jurisdictions covered, corporate income tax revenues as a share of total income tax revenue was greater than 60%. According to the Report, many of these jurisdictions had a significant share of CIT revenues from companies in the oil and mining sector, including Mongolia, Malaysia, Kazakhstan, Indonesia and Bhutan. Looking at historical data, the Report shows that corporate income tax revenues as a share of total tax revenues was lower in 2018 than in 2007 in nine jurisdictions, by between 3.1 p.p. of total tax revenues in the Philippines and 25.7 p.p. in Papua New Guinea.

According to the Report, social security contributions were a relatively small part of revenues for most Asian and Pacific jurisdictions, with some exceptions. Such contributions were a significant part of total revenues in Mongolia (20.1%) and Korea (25.4%) in 2018 and in Japan (39.9%) in 2017 (2018 data were not available for Japan).

Tax policy and administration responses to COVID-19

Chapter 2 of the Report notes that the ongoing COVID-19 pandemic will affect public revenues in different jurisdictions differently, indicating that the timing of the impact may also vary. According to the Report, in addition to the nature and extent of the health crisis and of confinement measures to address it, the structure of a jurisdiction's economy, its exposure to international flows including trade and tourism, the sources of government revenues, and the measures a government takes to protect firms and households from the economic impact of the pandemic will all be significant. The Report states that revenue data for the first months of calendar 2020 give some indication of the impact, with initial indications from Japan suggesting a 9.2% fall in revenues for the year ending March 2020[3] and data from Korea showing a decline in revenues for Q1 2020 of approximately 11% relative to Q1 2019.[4]

The Report also notes that it will be difficult to determine both the causes and relative magnitudes of revenue declines given the relief granted by many governments in the form of deferral of tax payment deadlines and the extensive economic support that many jurisdictions are delivering through their tax systems.

The Report further indicates that some jurisdictions may be more vulnerable than others, with South Asia's revenues being particularly impacted as a result of the current slowdown in global trade and travel restrictions having taken a significant toll on tourism in the Pacific Islands, for example.

According to the Report, economic changes associated with the COVID-19 pandemic will also affect tax types in different ways. In this regard, it suggests that CIT revenues, which are typically most directly linked to economic cycles, are likely to decrease by more than the decline in economic activity and reductions in employment and in wages will likely translate into lower personal income tax revenues and social security contributions. In addition, revenues from consumption taxes, especially from VAT, are likely to fall, due to a combination of the impact of lockdowns and lower consumer confidence, and a shift toward the consumption of staple goods that are often taxed at reduced or zero rates.

Chapter 2 of the Report notes several overarching objectives that tax administrations might want to consider adopting during the recovery period, as well as identifying the types of support, from both tax administrations and tax policymakers, that have already been observed in the jurisdictions covered by the Report and elsewhere within the OECD. The Report further identifies several considerations for tax officials in low income Asian and Pacific jurisdictions, noting that any tax policy approach is likely to evolve through the different phases of the crisis.

Implications

Tax statistics can be a valuable tool in understanding how structural, political and economic factors, the composition of an economy, and tax policies all affect different jurisdictions' tax systems.

According to Asian Development Bank research, as economies open back up following the COVID-19 pandemic, economic growth in the region could rebound to 6.2% in 2021.[5] As noted in the Report, "once the economic recovery is underway, tax measures to restore fiscal sustainability, building on existing strategies and domestic resource mobilization plans, will be increasingly important."

Companies should monitor the impacts of COVID-19 on the tax regimes of jurisdictions where they have operations.

Endnotes

1. Australia, Bhutan, People's Republic of China, the Cook Islands, Fiji, Indonesia, Japan, Kazakhstan, Korea, Malaysia, Mongolia, Nauru, New Zealand, Papua New Guinea, the Philippines, Samoa, Singapore, the Solomon Islands, Thailand, Tokelau and Vanuatu. It also provides information on non-tax revenues for Bhutan, the Cook Islands, Fiji, Kazakhstan, Mongolia, Nauru, Papua New Guinea, the Philippines, Samoa, Thailand, Tokelau and Vanuatu.
2. The OECD, the ADB, the Commonwealth Association of Tax Administrators, PITAA and the Study Group on Asian Tax Administration and Research (SGATAR).
3. Reuters (2020), "Japan tax collections fall most since June, more drops seen as virus bites", Reuters, https://www.reuters.com/article/us-health-coronavirus-japan-tax/japan-tax-collections-fall-most-since-june-more-drops-seen-as-virus-bites-idUSKBN22J1JX.
4. Eun-joo, L. (2020), "S. Korea's Q1 tax revenue shrinks $6.9 bn, fiscal deficit hits record high by March," Pulse by Maeil Business News Korea & mk.co.kr, https://pulsenews.co.kr/view.php?year=2020&no=466629.
5. DB (2020), Asian Development Outlook 2020, Asian Development Bank, http://dx.doi.org/10.22617/FLS200119-3.

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