

Belt and Road Initiative Tax Journal

Responding to
COVID-19:
TAX PERSPECTIVE



Belt and Road Initiative Tax Journal “一带一路” 税收
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主管单位：国家税务总局

主办单位·编辑·出版·发行：中国税务杂志社

社 长：刘 磊

总 编 辑：李万甫

地 址：北京市丰台区广安路9号国投财富广场1号楼九层/十层，100055

印 刷：北京久佳印刷有限责任公司

出版日期：6月15日，12月15日

发行范围：国内外公开发行人

国内定价：全年人民币400元

The Belt and Road Initiative Tax Journal: An Important Platform for BRI Tax Cooperation

Wang Jun



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Commissioner of the State Taxation
Administration
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My colleagues and I first came up with the idea of doing a tax journal to facilitate the Belt and Road Initiative (BRI) last year. After months of elaborate preparations, the inaugural issue of the *Belt and Road Initiative Tax Journal (BRI Tax Journal)* eventually comes off the press.

Seven years ago, Chinese President Xi Jinping proposed the Belt and Road Initiative with the objective of promoting shared prosperity among countries and regions. The initiative embraces the trend of the times featuring peaceful development and win-win cooperation and accords with the BRI's aspiration for openness and joint development. With the support of the international community, it has borne rich fruits and become an important public product for the building of a global community of shared future.

Given the indispensable role of taxation in resource allocation, cross-border flow of production factors and international economic and trade relations, tax cooperation has emerged as an important factor in the development of the BRI. In recent years, in line with President Xi Jinping's proposals, the State Taxation Administration (STA) of China has given full play to the role of taxation to support the BRI and build a new type of international tax relations underpinned by win-win cooperation. In 2019, the First Belt and Road Initiative Tax Administration Cooperation Forum (BRITACOF) was successfully held in Wuzhen, Zhejiang Province of China, and the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM) that consists of 34 member tax administrations and 22 observers was established thereupon. Under the framework of the BRITACOM, the participants, through active communication and close collaboration, have been formulating and implementing programs that have yielded concrete outcomes on issues ranging from following rule of law, raising tax certainty, expediting tax dispute resolution, streamlining tax compliance and digitalizing tax administration to enhancing tax administration capacity, which in turn provide robust support for the BRI from a tax perspective.

Initiated by the STA, the *BRI Tax Journal* has received encouraging response and support from tax administrations of the BRI participating jurisdictions in the cooperative spirit of extensive consultation, joint contribution and shared

benefits. It represents a significant milestone in the implementation of the BRITACOM, as well as in international tax cooperation.

The *BRI Tax Journal* will serve as an important platform for communication and cooperation among tax administrations of the BRI jurisdictions and beyond, through which BRITACOM members and other stakeholders can share insights for the formulation and development of effective tax policies and tax systems, exchange innovative practices and invaluable experience so as to scale new heights in tax governance as well as in national governance in general, and explore more opportunities for cooperation and coordination in the field of tax to further foster the growth of international trade and economy.

Memorably, the inaugural issue of the *BRI Tax Journal* features the most pressing issue that is currently being faced by every country and region in the world — COVID-19. As noted by President Xi Jinping, the recent outbreak of COVID-19 across the globe has shown once again that mankind is a community with shared future, where solidarity and cooperation is our most powerful weapon for defeating the virus. Confronted by the ravages of COVID-19, the international community has not flinched. The people all over the world have tackled the virus head on. Around the world, people have looked out for each other and pulled together as one. With love and compassion, we have forged extraordinary synergy in the fight against COVID-19.

To hedge against the far-reaching impact of the epidemic, the Chinese government has been pursuing a more proactive and impactful fiscal policy and a prudent monetary policy in a more flexible and appropriate manner, and rolled out a series of countermeasures including those in terms of tax. The STA has been committed to thorough implementation of tax incentives, “zero physical contact” taxpayer services, big data analysis to support the resumption of work and production, and all-round enhancement of epidemic prevention and control. This package has played a positive role in the fight against the epidemic and in facilitating economic and social development. Meanwhile, countries and regions around the world, including the BRI jurisdictions, have also introduced a range of tax incentives to weather the impact of COVID-19 while maintaining economic stability. In this context, the inaugural issue of the *BRI Tax Journal* focuses on these preferential tax policies and taxpayer service packages, featuring policy effect analysis, hands-on experience and insights from multiple perspectives including those of international organization, industry experts and scholars. It is hoped that these valuable insights will contribute to international cooperation and coordination and the economic revival. We human beings will eventually prevail over the coronavirus.

Going forward, the *BRI Tax Journal* will continue to focus on trends and major events in international taxation. With impartiality and objectiveness, it will follow up with the latest tax reforms and developments worldwide, explore ideas and approaches in tax governance and cooperation, and fulfill its bigger role of promoting international tax cooperation to a higher level, all of which will culminate in realizing the BRI vision and building a community with shared future for mankind.

I would like to express my utmost gratitude to all colleagues who have contributed to the successful launching of this Journal, in particular the BRITACOM member tax administrations and observers, as well as international organizations, industry experts and scholars. With your sustained attention and vigorous support, I believe that the *BRI Tax Journal* will grow into an important instrument for greater international tax cooperation in the future.

From the bottom of my heart, I wish the *Belt and Road Initiative Tax Journal* every success!

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Positive Roles of China's Preferential Tax & Fee Policies for Epidemic Control and Socio-economic Development

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Since the outbreak of the COVID-19, Chinese President Xi Jinping has delivered keynote speeches as well as a series of remarks and instructions on efforts coordinating COVID-19 prevention and control with socio-economic development, and has also made overall deployments to secure decisive victories in fighting against the epidemic and poverty, and in building a moderately well-off society in all aspects. Premier Li Keqiang and Vice Premier Han Zheng have presided and convened meetings on many occasions, setting out clear requirements for epidemic control and resumption of work and production.

Wherever there is epidemic, fight will continue until it perishes. The State Taxation Administration (STA) of China has resolutely honored the spirit of the key-

note speeches and instructions of President Xi Jinping, and earnestly implemented the decisions and deployments of the Communist Party of China (CPC) Central Committee and the State Council. Based on the characteristics of China's tax system and administration, the STA has rolled out a four-pronged package of policy and administration tools to tackle the challenges posed by COVID-19, namely thorough implementation of tax incentives, "zero physical contact" taxpayer services, big data analysis to support the resumption of work and production, and all-round enhancement of epidemic prevention and control.

1. Implementing Preferential Tax Policies in Priority Areas

Since the outbreak of COVID-19, the



Chinese government has rolled out 23 preferential tax policies in 5 batches to support the epidemic control and socio-economic development. The policies, focusing on four aspects, are designed to mobilize resources of all parties in society to support the supply of materials for epidemic control, to alleviate difficulties faced by market players, to fight the epidemic, and to facilitate socio-economic development.

1.1 Focusing on Support for Epidemic Control

- **Support epidemic control and treatment.** Targeted preferential tax policies are adopted to encourage and support front-line medical staff and epidemic control workers for their dedication and the public for proactive protection and prevention. Subsidies and bonuses for temporary work as obtained in accordance with the government standards by medical staff participating in epidemic control as well as anti-epidemic workers shall be exempted from individual income tax. Medication, health supplies, protective equipment and other relevant materials (excluding cash) as obtained by individuals from their employers for the purpose of preventing COVID-19 are free from individual income tax.
- **Support material supply.** To accelerate the supply of essential anti-epidemic materials and facilitate relevant enterprises to increase production input, update equipment and enlarge production capacity, preferential tax policies (VAT and enterprise income tax, etc.) are adopted, covering emergency medical supplies such as medication and protective equipment and important daily necessities in their production, transportation and delivery. Manufacturers supplying essential anti-epidemic materials are refunded in full amount of their excess input VAT, which would otherwise be carried forward. Taxpayers' revenue from transporting essential anti-epidemic materials is exempted from VAT, urban maintenance and construction tax, education surcharge and local education surcharge. Taxpayers' revenue

from providing public transportations, life services and express delivery services for daily necessities of residents is exempted from VAT. Manufacturers of essential anti-epidemic materials are allowed to deduct the purchases in a lump sum before calculating their enterprise income tax when purchasing equipment to expand production capacities. Imports of anti-epidemic supplies as organized by health authorities are exempted from customs duty. In addition, to assist enterprises and industries that are severely affected in the epidemic, the carryover period for losses incurred in 2020 will be extended from 5 years to 8 years.

- **Support charitable donations.** To mobilize the entire society to support epidemic control, the STA has introduced many preferential tax policies to incentivize donations. The scope of imports eligible for donation exemption has been expanded. Donations as imported anti-epidemic supplies are exempted from customs duty, VAT and excise duties on imports. Goods donated for epidemic control purposes are exempted from VAT, excise duties, urban maintenance and construction tax, education surcharge and local education surcharge. Cash and goods donated, through non-profit organizations or state organs such as governments above the county level and their affiliated departments, for epidemic control purposes are deductible in full amount before calculating individual or enterprise income tax liabilities. Anti-epidemic goods as donated directly to hospitals responsible for preventing and curing the epidemic are deductible in full amount before calculating individual or enterprise income tax liabilities.

1.2 Focusing on Relieving Enterprises' SSCs

- **Periodically exempt and reduce Social Security Contributions (SSCs).** To effectively relieve businesses' pressure, reduce their employment costs and boost the confidence in resumption of work and production, policies have been introduced

to periodically relieve businesses' contributions to pension, unemployment, work-related injury and health insurances. From February to June 2020, all kinds of businesses in Hubei Province and micro, small and medium-sized enterprises as well as the self-employed registered as entities in other regions are entitled with exemptions of contributions to pension, unemployment and work-related injury insurance. Large businesses are entitled with 50% reduction of the aforementioned contributions from February to April 2020. In addition, enterprises that have serious difficulties in production and operation due to the epidemic can apply for deferred payment of SSCs for up to 6 months without overdue fines.

- **Periodically reduce health insurance contribution.** To further reduce the burden on enterprises, policies have been introduced to allow health insurance authorities in different regions to reduce the employers' contributions to health insurance by half from February to June 2020, subject to health funds of respective regions.

1.3 Focusing on Support for the Development of Micro and Small-sized Businesses and the Self-employed

- **Reduce VAT rates.** Relevant policies have been adopted to help micro and small-sized businesses and the self-employed overcome difficulties in their operation. For small-sized VAT taxpayers in Hubei Province, from March to December 2020, sales revenue to which 3% levy rate is applicable is exempted from VAT, and the practice of prepaying VAT for VAT items subject to the levy rate of 3% is suspended. For small-sized VAT taxpayers outside Hubei Province, from March to December 2020, the levy rate applicable to sales revenue is reduced from 3% to 1% for VAT purposes, and the levy rate applicable to items subject to prepayment is also reduced from 3% to 1% for VAT purposes.
- **Incentivize rent relief.** Governments at local levels are encouraged to exempt and

reduce urban land use tax on property owners so as to encourage them to exempt or reduce the property rents of the self-employed and micro and small-sized businesses in the service sector to further reduce their burdens.

- **Facilitate reduction of financing costs.**

To reduce the financing costs of micro and small-sized enterprises and the self-employed, some expired preferential tax policies for inclusive finance system are extended to the end of 2023. Financial institutions' interest income accruing from loans to micro and small-sized enterprises, the self-employed and farm households, equal to or less than RMB1 million, is exempted from VAT. Interest income from loans to farm households, equal to or less than RMB100,000, and premium revenue from insurances to the plantation and breeding sectors are charged by 90% when calculating enterprise income tax. For micro-credit companies, interest income accruing from loans to farm households, equal to or less than RMB100,000, is exempted from VAT and will be charged by 90% when calculating enterprise income tax. Besides, the loan loss reserve provided at 1% of the year-end loan balance is allowed to be deducted for enterprise income tax purpose.

1.4 Stabilizing Foreign Trade & Investment and Expanding Domestic Demand

- **Raise export VAT refund rate for certain products.** With global economy hit hard by the pandemic, to support exports, since 20 March 2020, the export VAT refund rate of 1,084 items of products including porcelain sanitary appliances has been increased to 13%, and that of 380 items of products including plant growth regulators to 9% respectively, so as to align refund rate with levy rate for all export products, except for energy-intensive, high-polluting and resource-demanding ones. Meanwhile, time is shortened for review and refund so as to release cash flows for businesses.
- **Expand the catalogue of industries**

to encourage foreign investment. This move is to enable foreign investment in more areas to enjoy tax and other preferential policies, and to ensure that domestic and foreign-invested enterprises enjoy relevant tax reduction and other relief policies on an equal footing.

- **Implement tax incentives to promote automobile consumption.** In order to stimulate automobile consumption, the sales of used vehicles by second-hand car dealers will be subject to reduced VAT, and the exemption of new energy vehicles from vehicle purchase tax due to be expired at the end of 2020 will be extended by 2 years, in a bid to develop the automobile market and upgrade the automobile industry.

2. Implementing Multifaceted Administrative Measures

Tax offices across the country, in their commitment to robust implementation of aforementioned “four-pronged package of policy and administration tools”, have worked with authorities of finance, human resources and social security and health insurance to smoothly implement the “last kilometer” of policies to ensure that tax preferential policies benefit tax and fee payers in a timely manner.

2.1 Building Mechanisms for Implementation

With the four-pronged approach in mind, the STA has established a mechanism for policy research and implementation, and address issues and problems that may arise in the course of policy execution. Local tax authorities at different levels have designated units and personnel to implement policies with role-based tasks and responsibilities to enable the customers to claim policy benefits to the fullest.

2.2 Specifying Supporting Measures

Working with the Ministry of Finance and other relevant departments, the STA has issued 12 specific policy documents and separately for-

mulated 6 supporting operational measures. The *Guidelines of Tax Preferential Policies for Supporting Epidemic Control and Social and Economic Development* has been issued and updated, detailing recipients, contents and operational measures of the policies. Tax authorities at all levels have actively promoted “zero physical contact” taxpayer services such as online processing tax matters, self-service and pre-processing without requiring complete set of documents so as to make it easier for taxpayers to enjoy the benefits. At the same time, deferral of tax filing and tax payments in accordance with laws, among other measures, has been introduced.

2.3 Enhancing Publicity and Education

The *Spring Breeze Project*, which is to improve the taxpayer service now in its 7th year, and the 29th National Tax Publicity Month themed as “tax and fee reduction and excellent service to help resume production and promote development”, have ensured availability and accessibility of preferential policies for tax and fee payers. The STA has actively participated in press conferences of the Joint Prevention and Control Mechanism of the State Council. In addition, “online tax workshops” are established with 11 videos and 41 “short videos” repeatedly aired, 15 batches of 321 questions answered and 3 online interviews conducted to promptly respond to concerns of customers.

2.4 Conducting Supervision and Assessment

Policy implementation is incorporated into the performance assessment system of tax officials to ensure that tax administrations at all levels earnestly discharge their responsibilities. Internal self-examination and external supervision are enhanced to seriously address problems. Timely review of prior work is carried out to consolidate work effectiveness. Three categories of 15 risks from 9 perspectives are released to guide local tax authorities to address problems in a timely manner. Tax officials with perfunctory acts will be held accountable in accordance with laws and regulations.

3. Implementing Preferential Policies with More Positive Outcomes

In response to the epidemic, a range of tax and fee reduction policies rolled out by the Chinese government have been proven to be effective in tackling the impact of the epidemic and facilitating the epidemic control and socio-economic development.

3.1 A Prompt and Effective Response

At the onset of the outbreak, it is imperative to carry out medical treatments and ensure medical supplies. The fiscal and tax administrations issued preferential tax policies covering medical treatment, materials supply and public welfare donation in a timely manner, providing strong policy supports to ensure production and transportation of essential materials, and mobilizing society to participate in prevention and control, so as to secure a decisive victory against the epidemic.

With epidemic control measures moving on, it is necessary to coordinate the epidemic control and socio-economic development and help resume work and production. Tax and fee reduction policy packages have been introduced to relieve enterprises' burden of VAT (in full or in part) and SSCs, reduce their labor costs and boost their confidence in resuming work and production.

With the spread of the epidemic around the world and constant implementation of domestic anti-epidemic measures, it is fundamental to focus on both domestic and international markets by means of stabilizing foreign investment and trade and expanding domestic demand. Export refund rate of products, except for energy-intensive, high-polluting and resource-demanding ones, has been raised, and preferential policies to boost domestic demand, such as automobile consumption, have been put in place in good time.

3.2 An Effective Bail-out for Enterprises

The new series of preferential tax policies, built on larger scale tax and fee reductions of last year, have been proven to be supportive to epidemic control and socio-economic development.

In the first quarter of 2020, China has achieved a cumulative tax reduction of RMB742.8 billion, hereinto RMB318.2 billion from additional tax and fee cuts was the result of preferential policies adopted this year to support epidemic prevention and control, and RMB424.6 billion was the effect of continued implementation of 2019 preferential policies. These policies have not only met urgent needs of enterprises, but also promoted the resumption of work and production, and boosted job stability.

3.3 A Steady Recovery of Economy

With intensifying effect of a host of macro-regulation policies, including fiscal and tax policies deployed by the Chinese government, China has gradually put its economy back on track while containing the epidemic. As regards main indicators of the economy in March 2020, the value added of industries above designated size decreased by 8.4% year-on-year, a decline of 5.1 percentage points compared with the January – February period, while the fixed asset investment nationwide decreased by 16.1% year-on-year, a drop of 8.4 percentage points from the first two months as a whole. In March, total imports and exports fell 0.8% year-on-year, down 8.7 percentage points from the January – February period; and the service sector production index fell 9.1% year-on-year, a decline of 3.9 percentage points from the first two months of 2020.

Tax data also shows that since the resumption of work on 10 February 2020, sales revenue of enterprises nationwide has been growing week by week compared with that of last year, and has exceeded 96% of last year by late April. Manufacturing industry has witnessed a relatively fast resumption of production and sales, with sales revenue of high-tech manufacturing equivalent to 102.6% of the figure last year. Other good signs include accelerating development of new models of business, sound recovery of domestic transportation and logistics with cargo transportation gradually returning to normal, as well as rapidly released potential of resident consumption spurred by the recovery of consumption in kind.

Quality Tax Service and Management Ensures China's Economic Development and Victory over COVID-19

Taxpayer Service Department, the STA



1. Introduction

In recent years, the Chinese tax authority has continued to deepen the reform of “streamlining administration, delegating powers, improvig regulation and upgrading services”, improve tax-related business environment, and constantly rolled out new and optimized measures to facilitate tax processing, and provided taxpayers with high-quality, efficient, convenient and smart tax services. Since the outbreak of COVID-19, following the decisions and deployment made by the Communist Party of China (CPC) Central Committee and the State Council, the State Taxation Administration (STA) of China, as well as all its offices across the country, has been committed to a four-pronged package of policy and administration tools to tackle the challenges posed

by COVID-19, namely thorough implementation of tax incentives, “zero physical contact” taxpayer services, big data analysis to support the resumption of work and production, and all-round enhancement of epidemic prevention and control, giving full play to its functions to support the fight against the epidemic as well as socio-economic development, and found opportunities in these challenges to advance the modernization of the system and capacity for tax governance, further enhancing the role of tax as foundation, pillar and safeguard in national governance.

2. Tax Service and Management during Epidemic Prevention and Control

Once the epidemic broke out, the STA rose up to the occasion to align its taxpayer services: launching the *Spring Breeze Project* nationwide, promoting “zero physical contact” taxpayer services to avoid transmission resulting from gathering, guaranteeing taxpayers informed with and benefited from targeted preferential tax policies in time, and leveraging big data analysis for coordinated resumption of work and production across upstream and downstream enterprises.

2.1 Launching the *Spring Breeze Project* to Improve Taxpayer Service for the 7th Consecutive Year

The *Spring Breeze Project* is an important annual event the STA has conducted for tax and fee payers, integrated with a batch of innovative services to support economic and social development. It is held in March every year, which happens to be spring in China, the most comfortable season of the year. The warm and comfortable “spring breeze” hereby does not mean breeze from Mother Nature, but refers to quality, accessible, and efficient taxpayer services. Marking the 7th consecutive year since its launch, the 2020 *Spring Breeze Project*, themed “containing the epidemic, promoting development and contributing to a moderately well-off society in an all-round way”, is consisted of 76 measures in 24 items from 4 aspects, respectively, assisting enterprises to weather negative impacts through supporting epidemic prevention and control, promoting resumption



of work and production, serving the national development strategy and optimizing tax-related business environment. Since 2014, the STA has carried out this Project for 7 years in a row and put forth a total of 147 measures spanning 39 categories, providing more efficient and quality services, improving taxpayers' satisfaction and sense of gain, and building a prestigious brand of China in taxpayer services.

2.2 Vigorously Promoting "Zero Physical Contact" Taxpayer Services

Taxpayers in China used to have their tax matters processed in taxpayer service halls, the main premises where taxpayer services are provided, which becomes inappropriate during the outbreak seeing that face-to-face interaction will increase the risk of transmission. To this end, the STA has upgraded their approaches to enhance "zero physical contact" taxpayer services through Online Processing, Self-Service, Mailing Service, Online Q&A so as to minimize gathering and facilitate tax services.

- **Online Processing** means to have tax matters processed online as much as possible. The STA actively expands the scope of online taxpayer services, up to 185 items by now. All its offices across the country adapt the above-mentioned items to their local situations, further enriching their own online taxpayer services list and increasing the online processing rate.
- **Self-Service** means that for those who are really in need of on-site taxpayer services, tax staff will firstly guide them to process their tax matters on self-service kiosks in the taxpayer service hall. *Measures on Management of Self-Service Tax Kiosks* and *Specification of Self-Service Tax Kiosks*, issued by the STA in 2019, regulate the management and use of self-service tax kiosks and facilitate taxpayers' access to self-service.
- **Mailing Service** encourages and guides taxpayers to obtain physical documents via mailing, such as delivery of invoices after on-line application.
- **Online Q&A** refers to that tailored questions and needs from taxpayers during tax matter

processing will be taken care of with patient, timely and accurate responses through 12366 Taxpayer Service Hotline, WeChat, etc. According to a survey carried out by the STA in March 2020 on the needs of taxpayers for services on tax matters during epidemic containment, taxpayers showed high awareness of "zero physical contact" taxpayer services, with 96% informed with full online processes; "zero physical contact" services become taxpayers' first choice, with 92.65% turning to e-tax bureaus when handling their tax matters; diverse types of online taxpayer services are widely recognized by taxpayers, with a satisfaction rate of 97.3%.

2.3 Effective Measures to Ensure Safety and Convenience of On-site Processes

For tax and fee payers who are really in need of on-site services, the STA provides a safe and efficient physical service environment, minimizing the time that taxpayers spend in the service hall and improving efficiency of processes by means of "Processed in Safety, Processed with Appointment, Guidance towards Assurance, Green Corridor, Accommodation for Incompletion" and so on.

- **Processed in Safety** requires that all tax bureaus strictly follow the guidelines of epidemic prevention and control, to ensure ventilation, sanitation, cleaning and disinfection of service halls, and notify taxpayers with relevant safety precautions in an appropriate way.
- **Processed with Appointment** means to offer appointment service for those taxpayers who are really in need of on-site services, with precautions mentioned above in place. As a result, tax matters are processed in a staggered manner so that urgent needs of taxpayers will be guaranteed with safe, timely and efficient acceptance, response and follow-up.
- **Guidance towards Assurance** refers to that the guidance and consultation function of taxpayer service halls is enhanced by strict implementation of first-contact person accountability, so as to secure better guidance, more efficient processing and shorter pro-

cessing time.

- **Green Corridor** as its name suggests, is a convenient service provided for taxpayers working for the production, sale or transportation of major supplies for epidemic prevention and control, whose service needs would be addressed as priority.
- **Accommodation for Incompletion** means that if relevant documentation provided is not complete but does not affect the substantive review during an on-site interaction, the taxpayer is allowed to submit paper materials later without interference with the following procedures on the condition of a written commitment for supplements.

According to statistics, from 1 February to the end of March of 2020, a total of 2.55 million people in China opted for **Processed with Appointment**, an increase of nearly 30 percentage points over the same period last year.

2.4 Enhancing the Awareness of Preferential Tax Policies

The STA provides taxpayers with targeted information of preferential policies on tax and fees via Thorough Guidelines, Clear Interpretation and Extensive Publicity.

- **Thorough Guidelines** refers to the thorough guidelines on preferential policies published by the STA, which provide a “panoramic” presentation of various preferential tax policies and administrative services that support epidemic prevention and control and resumption of work and production, enabling taxpayers’ comprehensive understanding of these tax incentives.
- **Clear Interpretation** means to clarify the interpretation of preferential policies. Firstly, three online interviews are held via the portal of the STA in the theme of preferential tax policies in epidemic prevention and control, focusing on topics including VAT, social security contributions and SMEs involved. Through online communication and interaction with more than 4,000 netizens and direct connection with taxpayers to an-

swer concerned questions, these interviews received positive response from the public. The second is to release videos supporting epidemic prevention and control and socio-economic development on national platforms like 12366 Tax Service Platform, and invite authoritative interpretation from tax experts on key points of policies, thus helping taxpayers have a full knowledge of incentives and regulations in time. The third is the compilation of categorized e-books on the interpretation of tax policies in epidemic prevention and control. In order to facilitate taxpayers’ targeted and quick retrieval, the questions are divided into 15 categories of 333 questions by tax type, 6 categories of 391 questions by taxpayer type, and 11 categories of 313 questions by specific industries or behaviors. The fourth is the release of *Q&As on Preferential Tax Policies during Epidemic Prevention and Control*, answering altogether 237 hot concerns of taxpayers in 10 issues, published on platforms such as e-tax bureaus, portals, WeChat, Weibo and special column for epidemic prevention on the 12366 platform.

- **Extensive Publicity** means to expand the publicity of preferential policies. First is to add “a dedicated line for SMEs services” to the 12366 tax service hotline, to launch two columns on 12366 Tax Service Platform, respectively *Preferential Tax Policies during Epidemic Prevention and Control* and *Services for SMEs & Individual Businesses*, and to promote the use of a QR¹ code which integrates all the information of tax policies and administrative services during epidemic prevention and control. At present, the number of hits on the column *Preferential Tax Policies during Epidemic Prevention and Control* has reached nearly 2 million, and the QR code has been scanned almost 1 million times. The second is extensive publicity and promotion of the authoritative interpretation on preferential tax policies of the STA, as well as the promotional products, through websites, e-tax bureaus, WeChat and other channels, bringing a nationwide scale

1 A QR code is a two-dimensional matrix code.

effect. To date, relevant products have been viewed more than 65 million times.

2.5 Extending the Deadlines for Tax Filing

In view of the generally late resumption of work and production during the epidemic and difficulties encountered by enterprises in production and operation, coupled with the fact that financial personnel of some enterprises cannot be on duty yet, taxpayers are having great difficulties in filing their tax returns. In this regard, the STA has promptly introduced measures to extend the deadlines for tax filing, handled delayed tax filings and deferred tax payments in a timely manner in accordance with laws.

- **Extend the deadlines for tax returns.**

For taxpayers and withholding agents who file tax returns monthly, the deadlines for filing tax returns in February, March, April and May of 2020 should be extended in accordance with laws, and according to a region-specific, multi-level targeted approach to epidemic prevention and control, localities may further extend the deadlines for filing tax returns to effectively address the concerns of taxpayers.

- **Postpone filing tax returns.** After extending the deadlines for tax filing in February, March, April and May of 2020, if taxpayers still have difficulties in tax filing due to the impact of the epidemic, they may apply to their competent tax authority for deferred tax filing. Meanwhile, considering the severe impact of COVID-19 in February 2020, local tax administrations strictly implemented the “FOUR NOs” requirement, that is, no interest charged for late filing of tax returns, no administrative penalties, no adjustment of taxpayer credit rating, and no identification as abnormal taxpayers for eligible taxpayers in accordance with laws.

- **Handle deferred tax payments.** During the epidemic, in order to better help taxpayers overcome difficulties and support enterprises to resume work and production, the STA requires local tax administrations to, in accordance with laws, promptly approve the applications of deferred tax payments of enterprises,

especially SMEs that have serious difficulties in production and operation, so as to actively ease financial pressure of enterprises.

2.6 Leveraging Tax-related Big Data to Help Enterprises Resume Work and Production

As a key production factor, data has constantly become an important support for decision-making and action-taking. Among them, tax-related big data, especially VAT invoice data, thanks to its wide coverage, high timeliness and detailed information, can reflect the production and operation of enterprises and the functioning of economy and society in a timely and comprehensive manner and provide an accurate, detailed and dynamic observation path for the resumption of work and production and sales of enterprises. During the epidemic, the Chinese tax authority has taken full advantages of big data in accordance with the requirement of “big data analysis to support the resumption of work and production”, carried out in-depth analysis and application of tax-related big data, and fully served the resumption of work and production and sales of enterprises. The Chinese tax authority has carefully sorted out the urgent problems to be solved in the industrial chain and upstream and downstream enterprises in various industries. Under the premise of protecting the taxpayers’ business secrets in accordance with laws and respecting market rules, tax-related big data is used to comprehensively analyze supply and marketing chains as well as upstream and downstream ends of enterprises to accurately match suppliers. With the consent of both parties, tax authority will forward information of the commodity supplier to the demander, so as to realize the connection of production and sales.

3. Next Steps in Optimizing Tax Services

Confronted with the sudden outbreak of COVID-19, the Chinese tax authority has continued to optimize tax services and upgrade the quality of services, and has delivered satisfactory answers. In the future, China’s tax service is yet to face more challenges. In order to adapt to the modernization of national governance system and governance capabilities to meet ur-

gent needs of more than one billion taxpayers for high-quality and convenient services, efforts must be redoubled to make innovations and breakthroughs in China's tax service in the New Era and give full play to the role of tax service departments as the frontline of taxation, so as to boost the further upgrading of tax governance capacity and the further optimization of tax governance system.

3.1 Firmly Establishing the Concept of Modern Tax Services

We should establish the tax and fee payers-centered concept, and pursue tax services in a way to meet the needs of tax and fee payers. We should form the awareness of tax authority providing services in accordance with laws, clarify the rights and obligations of tax administrations and taxpayers, establish a new tax service system in which taxpayers voluntarily fulfill their obligations and tax administrations exercise functions and powers in accordance with laws to provide high-quality and convenient services, so as to ensure that tax services are not absent or overstepping their limits. We should establish the concept of multi-level and categorized services and, centering on the goal of "encouraging voluntary compliance of taxpayers", to provide categorized services according to different credit ratings and make good use of the limited service resources.

3.2 Firmly Grasping the Overall Objectives of Tax Services

Focusing closely on the goal of improving tax-related business environment and taxpayers' satisfaction and compliance with tax laws, we aim to provide various tax services. On the basis of benchmarking international advanced experience, we will further improve the work program for optimizing tax-related business environment, study and formulate innovative measures that are targeted, operational and effective, strive to create a world-class tax-related business environment, gradually improve the international ranking of China's tax indicators of business environment, ensure continuous improvement in taxpayer satisfaction, and promote voluntary compliance with tax laws by tax and fee payers.

3.3 Vigorously Promoting the Reform of Tax Facilitation System

We will coordinate the internal cooperation mechanism in China's tax system, re-examine the rationality of the tax administration system from the perspective of taxpayers, fully implement *Version 3.0 of the Tax Service Standards* and *Version 2.0 of the Tax Collection and Administration Standards*, and improve supporting service systems such as the management of tax service halls, taxpayer credit rating management, tax-related consulting and the safeguarding of taxpayer rights and interests, gradually developing a comprehensive, scientific, standardized and effective tax service system.

3.4 Constantly Innovating the Technical Means of Tax Services

We will use the most advanced and cutting-edge technology to support the new tax processing system, and establish a mechanism to drive technology advancement with the system and support system innovation by technologies.

- **Analyze data comprehensively.** Through big data mining, cloud computing analysis and other technical means, we will pinpoint key needs, barriers, pains and difficulties, respond in a timely manner, and form a virtuous cycle of "demand collection, demand analysis, demand response and continuous improvement" in order to provide more convenient, timely and efficient tax services.
- **Provide intelligent consulting services.** We will bolster the transformation of tax services to make it intelligent, website-based and digital, integrate intelligent consultation, online consultation and hotline consultation, divert hotline pressure, and seek breakthroughs in optimizing the 12366 operation mode.
- **Modernize technological innovations.** We will promote the optimization and upgrading of the Electronic Tax Bureau, advance electronic and paperless tax services, expedite the full online processing of major tax-related items, and continuously expand social service channels, so as to create a new model of advanced, intelligent and high-end tax services.

COVID-19 Economic Support Measures in Kazakhstan and Russia¹

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1. Introduction

The COVID-19 pandemic requires affected countries to take swift measures to protect the health and safety of their people and support their economies. This article discusses the tax, customs and other economic support measures introduced in response to COVID-19 in the two largest economies in the Eurasian Economic Union (EEU) — Kazakhstan and Russia.

2. Kazakhstan — Response to COVID-19

In response to the COVID-19 pandemic, the Kazakhstan government declared a state of emergency on 15 March 2020 (formally ended on 11 May 2020), and has imposed a quarantine (as well as checkpoints at the borders) and instituted other public safety measures. At the same time, the government has implemented a host of fiscal policies in the form of direct and indirect

¹ The authors wish to thank the following for their contributions to the preparation of this article: Deloitte Russia — Tatiana Glazneva, Blokhina Natalia, Sharaeva Anna, and Ekaterina Kondratyeva; Deloitte Kazakhstan — Sholpan Dossymkhanova, Zhannat Tulenbayeva, and Assel Assubayeva.

tax relief measures to help stabilize the country's economy and support both businesses and individuals that are confronting severe financial burdens. The government also has introduced customs duty relief for imports and restrictions on exports of certain medical and other essential products in coordination with EEU rules.

2.1 Kazakhstan—Tax Relief Measures

2.1.1 Tax reductions and exemptions

2.1.1.1 Micro enterprises and SMEs

According to information published on its website, the State Revenue Committee (SRC) has introduced a three-year income tax exemption and audit moratorium for the period from 1 January 2020 to 31 December 2022 for micro and small entities eligible for special tax regimes.²

In addition, Government Resolution No. 141 dated 27 March 2020 provides the following relief measures for micro enterprises and SMEs:

- Extend the deadlines for all taxes, social security contributions and other mandatory budget payments to 1 June 2020; and
- Suspend to collect overdue taxes, customs duties and social payments³ until 1 June 2020, except for overdue liabilities of taxpayers classified as high-risk rating by the tax authorities.

Kazakhstan's Entrepreneurial Code defines micro enterprises and SMEs as follows:⁴

- A micro enterprise is an individual entrepreneur with an average annual number of employees not exceeding 15 or an average annual income not exceeding 30,000 "MCIs"⁵ (approximately KZT83 million or USD196,000)⁶;

- A small enterprise is an individual entrepreneur or a legal entity with an average annual number of employees not exceeding 100 and an average annual income not exceeding 300,000 MCIs (approximately KZT833 million or USD1.96 million); and
- A medium-sized enterprise is an individual entrepreneur or a legal entity with an average annual number of employees between 100 and 250 and/or an average annual income between 300,000 and 3 million MCIs (the latter being approximately KZT8.33 billion or USD19.6 million).

2.1.1.2 Taxpayers in specific industries

Many businesses operating in Kazakhstan in the tourism and airline, entertainment and retail (cinemas, shopping malls, etc.), hotel and restaurant and agriculture industries have suffered losses due to measures taken by the Kazakhstan government in response to the pandemic, e.g., the introduction of quarantines in some areas of the country, the closure of state borders, and the requirement that employees work remotely.

To support such types of businesses, the government has adopted the following tax relief measures:

- From 27 March 2020 until 30 September 2020, the standard VAT rate is reduced from 12% to 8% on the sale and import of 19 food products designated as "socially significant" under Government Resolution No. 145;
- From 27 March 2020 until 31 December 2020, entities producing vehicle petrol (except for jet fuel) and diesel fuel for export are exempt from excise duties;
- The property tax rate is reduced from 1.5% to 0% for the following properties and tax-

2 Special tax regimes include simplified procedures for tax assessments and tax return filings and are available mainly for individual entrepreneurs and micro and small enterprises.

3 Social payments include contributions to pension funds, obligatory professional pension contributions, social contributions for obligatory social medical insurance (Article 1.3 of the KZ Tax Code).

4 Article 24 of the Code of the Republic of Kazakhstan dated October 29, 2015 No. 375-V.

5 MCI refers to the "monthly calculation index", which is used in Kazakhstan to calculate taxes, pensions and other payments. For 2020, one MCI equals approximately KZT2,651 from 1 January to 30 March, and approximately KZT 2,767 from 1 April to 31 December.

6 Using the exchange rate on 1 May 2020 of USD 1 to KZT424.57.

able periods:

- For calendar year 2020, property of legal entities and individual entrepreneurs used in commercial tourism, catering and hotel services;
- From 1 April 2020 until 30 September 2020, runways at aerodromes and airport terminals;
- From 20 March 2020 until 31 December 2020, property of large retail facilities, shopping and entertainment centres, cinemas, theatres, exhibitions and sports and fitness facilities;
- From 1 April 2020 until 30 September 2020, property of private practitioners (e.g., a private notary, private enforcement agent, attorney, professional mediator, etc.);
- From 20 March 2020 until 31 December 2020, the land tax rate is reduced to 0% on agricultural land and for agricultural producers.

For agricultural producers and taxpayers with business activities in the entertainment sector, interest on late tax payments for all taxes is suspended until 15 August 2020.

2.1.1.3 Individuals

The following tax relief measures have been enacted to help individuals:

- The income tax rate for individual entrepreneurs that are taxed according to the general tax rules (rather than a special tax regime) is reduced to 0% from 20 March 2020 until 31 December 2020; and
- The income of individuals from labour/professional activities is exempt from the following taxes and contributions from 1 April 2020 until 30 September 2020:
 - Personal income tax withheld at source on employment income;
 - Personal income tax paid by private practitioners; and
 - Social tax⁷, contributions to pension funds, contributions for social insurance and medical insurance, except for pay-

ments made by sole proprietors for their own account.

2.1.2 Changes to filing and payment deadlines and tax audits

In addition to the tax rate reductions, the government has extended the deadlines for submitting returns and calculations to the tax authorities and temporarily suspended tax audits.

2.1.2.1 Deadline extensions

Due to the declaration of a state of emergency in Kazakhstan and the requirement to minimize physical contact, the SRC decided to grant a 30-day extension for legal entities and individuals to file their tax returns in cases where the original filing deadline falls during the state of emergency period. The filing extensions apply to most tax returns, including returns for corporate income tax, individual income tax, vehicle tax, land tax, property tax, etc.

In addition, according to information published on the SRC's website, the filing deadline for 2019 tax returns that are filed electronically was automatically extended for 30 days, i.e., until 30 April 2020. As a result, tax returns submitted electronically before 30 April 2020 are deemed filed on time. This administrative exemption applies to all taxpayers, regardless of their assigned risk level.

As from 20 April 2020, VAT taxpayers providing air passenger transport services are granted a deferral until 1 January 2021 to remit VAT for a non-resident relating to maintenance and legal support services for aircraft leasing transactions.

For agricultural producers and taxpayers with business activities in the entertainment sector, the filing deadlines for all first and second quarter tax reports are postponed to the third quarter.

2.1.2.2 Tax audits and other administrative measures

The SRC posted on its website that, during the state of emergency, it would not:

- Issue notifications of audits generated by

⁷ Social tax is an obligatory tax at a flat rate of 9.5% applied to an employee's gross salary (both local and foreign), that is burden of employer.

the automated control system (with certain exceptions);

- Schedule desk audits;
- Deliver notifications by courier; or
- Hold commission meetings, including for the preliminary consideration of cases.

The following additional measures apply to micro enterprises and SMEs:

- The deadlines for appealing notices issued during the state of emergency for tax law violations detected by the automated control system are extended until 1 June 2020, except in the case of high-risk taxpayers; and
- The period for inspections conducted by the tax authorities was suspended during the state of emergency.

2.2 Kazakhstan—Customs Measures

A number of measures relating to the import and/or export of goods across external EEU customs borders have been adopted by the Kazakhstan government and the Eurasian Economic Commission (EEC) to help with economic stability during the COVID-19 pandemic.

2.2.1 Customs duty reductions and exemptions

In agreement with the EEU member countries (i.e., Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia), the EEC has announced an import customs duty exemption for medical products such as personal protective equipment, disinfectants, diagnostic reagents, specific types of medical equipment and materials, and medicine.

Many of the exempt goods are specified by EEU foreign economic activity commodity nomenclature (EEU FEA CN) codes and by name. It is important to note that the customs duty exemptions are available only if the goods have been cleared for domestic release and the declaring party provides a document issued by the Ministry of Health Committee for the Quality Control and Safety of Goods and Services that confirms the intended use of the goods.

The import customs duty exemption for medical products applies from 16 March until

30 September 2020. Although initially some Kazakhstan companies were unable to take advantage of the exemption because they were unable to provide the intended use documentation, the Ministry of Finance has confirmed that the payments will be refunded once the documentation is provided.

EEU member countries also have agreed to exempt several other critical imports from customs duties, such as potatoes, onions, garlic, cabbage, carrots, peppers, rice, buckwheat, prepared foods for young children, juices, specific medicines, endoscopes, thermometers, etc. Special confirmation of intended purpose is not required to obtain a customs duty exemption for these goods.

To support SMEs with overseas activities, the Kazakhstan government has taken the following measures:

- Reduce the import VAT rate to 8% from 27 March 2020 until 1 October 2020 for goods categorized as essential food products such as first-class wheat flour, potatoes, carrots, onions, sunflower oil, beef, chicken meat, cottage cheese, eggs, etc.; and
- Defer the payment of import VAT from 27 March 2020 until 1 June 2020.

The Ministry of Trade and Integration has reduced export customs duties to 0% for petroleum products such as fuel oil, diesel fuel, jet fuel, lubricants, bituminous mixtures and other listed products from 1 April 2020 until 1 January 2021.

2.2.2 Restrictions on exports

According to the agreements reached by EEU member countries, the EEC has imposed a temporary ban on the export of specific personal protective equipment, protective and disinfecting agents, medical products and other goods specified in the approved list from the EEU. The ban applies to the period between 6 April 2020 and 30 September 2020.

In addition, Kazakhstan's Ministry of Agriculture has introduced a ban and restrictions from 2 April 2020 until 30 August 2020 on the export outside the EEU of certain products that support the Kazakhstan population and economy. These goods include buckwheat, white sug-

ar, potatoes, raw refined sunflower oil in original packaging and other goods specified in the Ministry's approved list. Quantitative restrictions (quotas) apply to wheat flour, soft wheat, raw unrefined sunflower oil in original packaging, etc.

For purposes of the export ban and quotas, goods are defined exclusively according to their EEU FEA CN code. Product names are provided for ease of use.

To ensure the safety of "quota goods", the customs authorities will check for phytosanitary or veterinary certificates during the clearance process.

2.2.3 Updates to facilitate use of "Green Corridor" for imported essentials

Customs declaration and clearance procedures in Kazakhstan continued to be carried out during the state of emergency in accordance with the normal procedures, i.e., the submission of an electronic customs declaration with the possibility of the automatic release of the goods. Declarations also continued to proceed through a green, yellow or red "corridor", with the green corridor having the fewest required inspection procedures and the most accelerated clearance process.

However, to accelerate the release of essential goods during the state of emergency, the customs authorities updated their risk management system to shift the clearance process for these goods from the red or yellow corridor to the green corridor, thus reducing or eliminating inspection procedures, customs value controls, etc.

The purpose of this change was to reduce the number of customs clearance inspections, limit the use of vehicle escorts by customs officials for certain high-risk goods, and make sure customs operations at checkpoints were performed based on decisions of the National Security Committee Border Service.

2.2.4 Suspension of field audits

To help prevent the spread of the coronavirus, certain restrictions on customs inspections and verification measures were introduced during the state of emergency for entities with overseas activities. For example, the SRC sus-

pended the requirement to present physical documentation during customs inspections; abolished field (on-site) customs inspections; suspended efforts to recover overdue tax and customs duty; and changed the current reporting periods for certain goods under customs control. These measures were in effect only during the state of emergency and, therefore, have expired.

3. Russia — Response to COVID-19

The Russian government — at the federal, regional and municipal levels — has adopted a variety of measures to help mitigate the economic effects of COVID-19 on businesses and individuals, and generally protect the interests of those affected by COVID-19. These measures aim to bolster the economy, support businesses and preserve jobs and income, and include government-backed loans with preferential terms, a moratorium on bankruptcies, the deferral of compliance obligations, reduced rates of tax, suspension of field tax audits and protection to employees. In addition, the Russian government and the EEC have taken steps to ensure that the relevant supplies are available to combat COVID-19 and to maintain the supply of essential foods and products, by granting exemptions from import duties and restricting the export of critical supplies. More relief measures are likely to be announced as the coronavirus situation evolves in Russia.

3.1 Russia — Measures towards Enterprises

3.1.1 Essential industry enterprises

The federal government has introduced special measures to provide relief to enterprises operating in essential sectors (or industries) identified by the government as being key to economic and social stability (e.g., machinery, shipbuilding, timber, retail and pharmaceutical, oil and gas, mining and energy). The list of such enterprises is updated regularly based on input from the relevant industry ministries.

A new government-backed "soft" loan with a 5% interest rate will be available to essential industry enterprises for the replenishment of working capital. This type of loan provides

more lenient terms than traditional commercial loans. The loans are backed by guarantees from the Ministry of Finance for 50% of the loan amount.

A six-month moratorium on bankruptcy filings beginning on 4 April 2020 is in place for essential industry enterprises.

Deferral and instalment agreement measures for tax payments are expected to be announced in the near future for essential industry enterprises; however, taxpayers in certain industries may apply for a tax payment deferral or an instalment agreement if certain criteria are satisfied (see below under “Sectoral measures”).

3.1.2 Small and medium-sized enterprises

Social security contribution (e.g., social insurance, pension) rates for small and medium-sized enterprises (SMEs), which are based on an employee's earnings, were lowered as from 1 April 2020, resulting in an average rate of 15% (previously the average rate was 30%). This rate reduction is available to all types of SMEs and will continue in effect for an indefinite period of time.

3.1.3 Tax compliance

Like many other governments around the world that are responding to the effects of the global pandemic, the Russian federal government has introduced measures to extend deadlines, ease up on penalties for non-compliance, suspend audits and limit face-to-face interactions, such as the following:

- **Tax audits:** The tax authorities (both federal and regional) have suspended on-site tax and transfer pricing audits, and customs audits, as well as all procedural deadlines, and instituted a moratorium on new audits through 31 May 2020.
- **Tax filing deadlines:** The deadlines for filing tax returns (excluding VAT and social security contribution returns for the first quarter of 2020) and financial reports (including responding to questions and document requests from the tax authorities) have been deferred for three months. The deadline for submitting VAT returns

for the first quarter of 2020 was extended until 15 May 2020. Notably, the deadlines for paying tax have not been extended, although taxpayers in certain industries may apply for a tax payment deferral or instalment agreement if certain conditions are fulfilled (see below under “Sectoral measures”).

- **Tax payment deadlines in notices:** The deadlines stated in payment notices issued to specific taxpayers for taxes, social security contributions, penalties and late payment charges, as well as decisions to charge them, have been extended for six months from the date specified in the relevant notice.
- **Penalties and provisional measures:** No penalties will be imposed for failure to provide any information requested by the tax authorities during the period from 1 March to 31 May 2020. Furthermore, the tax authorities may not issue decisions on freezing corporate bank accounts or electronic transfers until 31 May 2020.
- **Advance payment of corporate income tax:** Taxpayers may make monthly advance payments of corporate income tax based on actual (as opposed to estimated) profits beginning on 1 May 2020 until 31 December 2020. A corresponding note describing this change must be reflected in the company's accounting policies.

3.1.4 Bankruptcy filings

As explained above, a six-month moratorium on bankruptcy filings came into effect on 4 April 2020 for essential industry enterprises; this moratorium also applies to other companies and individuals that conduct business in the industries most affected by the pandemic, the list of which is determined by the Russian government.

In addition, during this period, debtors facing bankruptcy may not:

- Reallocate equity shares of existing shareholders, buy back or acquire outstanding shares, or pay the face value of shareholdings;
- Set-off claims in breach of priority rules; or

- Pay dividends or make other distributions to shareholders.

3.2 Russia—Customs Measures

The Russian government and the EEC have introduced several important changes to customs regulations. These are discussed in section 2.2 as Kazakhstan is an EEC member state.

In addition, the Russian government has introduced the following customs measures:

- Suspension of on-site audits until the end of 2020;
- The allowance of certain imported goods (that have yet to be identified) to be eligible for the “green corridor” system by removing their high-risk designation and allowing the goods to move more easily and quickly through customs inspections; and
- A temporary ban on the export of certain medical supplies, including masks, face masks/respirators, medical gloves, and other products from 1 March until 30 April 2020. The ban did not apply to the export of international humanitarian aid to foreign countries and the export of materials and disposable items by individuals for personal use.

3.3 Russia—Sectoral Measures

The government has identified the sectors most affected by COVID-19. Companies and individual entrepreneurs engaged in the following industries will receive priority support:

Airlines, airports, auto transportation; entertainment; sports; travel agencies and other tourist service providers; hospitality; advanced training and private education; conference and exhibition businesses; catering; consumer services (e.g., repair, washing, dry cleaning, beauty salons) and certain other industries that are being added by the Russian government.

Taxpayers in these industries may apply for a tax payment deferral (except for purposes of mineral extraction tax, excise tax, additional income tax on certain oil and gas companies and (in some cases) VAT) or instalment agreement if certain conditions are fulfilled. The government may decide to extend this relief on a case-by-case basis to essential industry enterprises,

as well as to “company” towns (i.e., residential extensions formed around a single community employer), not operating in industries affected by COVID-19.

Other relief measures have been introduced for industries in the designated sectors (with the most substantial support going to SMEs), such as:

- A six-month automatic deferral for payment of certain taxes, such as corporate income tax, single agricultural tax and tax payable under the simplified tax regime (excluding VAT) applicable to SMEs;
- Subsidies in the amount of one minimum monthly wage (USD160) per employee for SMEs whose employee head count is at least 90% of the total head count as of 31 March 2020. These subsidies, which will be granted in April and May 2020, will not be considered as taxable income;
- Deferral of commercial lease payments until 1 October 2020, along with compensation for landlords; and
- Loan relief for SMEs operating in the designated industries with loans made before 3 April 2020. These SMEs may request a deferral or reduction of loan payments from 1 April to 1 October 2020. During this period, banks may not charge penalties, foreclose on pledged assets, file claims with guarantors, or demand early repayment. Interest charged during this period will be added to the principal and paid pursuant to an extension of the original loan term. SMEs also may request a reduction in the loan payment after 1 October 2020 if the bank participates in the Ministry of Economic Development program.

4. Conclusion

The COVID-19 pandemic has been seriously affecting all businesses and all walks of life. The tax and economic measures implemented by Kazakhstan and Russian governments and the EEC are critical and much needed for businesses and individuals. However, as the impact of COVID-19 continues to evolve, more measures, as well as possible changes to the existing measures, may be expected in the future.

Georgia's Response to COVID-19

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As the vast majority of countries around the globe could not avoid the spread of COVID-19, Georgia, thanks to the government's quick reaction to the potential pandemic threat declared by the WHO, could keep the rate of infection relatively low, compared with its neighbours in the region and many other countries in Europe. This article introduces the countermeasures taken by Georgia from the following aspects.

1. General Preventive Measures Taken by Government

- A recommendation was addressed to the government agencies, including Georgia Revenue Service (GRS), to adopt remote work policies whenever possible. The same recommendation was extended to the private sector as well;
- Georgian nationals returning from countries gravely affected by the disease were subjected to a 14-day mandatory quarantine;
- Foreign nationals were obliged to present PCR¹ certificates confirming that they were tested negative on COVID-19

while crossing the state border. Otherwise, they would be subjected to a 14-day mandatory quarantine;

- Necessary provisions obliging citizens to fully observe self-isolation were enforced;
- Flights and land travel with Iran, later with Italy were suspended; border restriction for Georgian and foreign nationals were introduced;
- All foreign businesses and study visits were suspended; and
- Dedicated web-page and hotline (144) were developed by the Georgian government to assist citizens with addressing problems, concerns and information requests in regard to pandemic.

2. Tax-related Measures

Along with the general preventive measures against spread of the virus, the very first actions that GRS has implemented to ease the negative impact of the pandemic on the taxpayers and tax environment itself, were:

2.1 Extension of Deadlines

Taxpayers who were forced to suspend their business (tourism sector on the

¹ PCR is abbreviation of "polymerase chain reaction", which is done to diagnose the virus.

first place) because of COVID-19 are allowed to defer tax payment until 1 November 2020 for the declared income and property taxes. No tax collection measures shall be applied to the liabilities incurred during the tax privilege period for income and property taxes. Tax privileges are applied to the following types of tax returns:

- Withholding tax return (Income tax);
- Annual income tax return; and
- Annual property tax return for enterprises.

2.2 Remitting Penalty Interests

Penalty interest shall be accrued during the tax privilege period, even for those taxpayers who enjoy tax privilege, but it will be recalculated and written off after the tax privilege period is over (1 November).

2.3 Debt Payment Plans

According to the Tax Code of Georgia², Article 238, paragraph 8 and 8¹ a person can make a payment schedule for the acknowledged outstanding tax liability which is due on 1 November. Now, any taxpayer can file electronic application via taxpayer's portal and request deferment without any guarantees for tax liabil-

ities within 50,000 GEL (appr. 15,000 EUR). GRS is developing technical solution for the electronic signature of the payment schedules by the taxpayers, without them visiting service centres.

2.4 Tax Certainty

As soon as decision on above-mentioned measures was made by the government of Georgia, GRS started working on its implementation. First, incentives were made for the tourism sector-related business activities, after all, other businesses, which have to suspend their business activities due to COVID-19, will benefit from this decision. Official announcements with exact messages were made by the GRS officials, which were spread through the media (including social media). In addition, Q&A and other necessary details are available on www.rs.ge and GRS Facebook page.

2.5 Enhanced Services

GRS has officially urged taxpayers and other persons to use distant and electronic services rather than visiting service-centres, including GRS official web-page, taxpayers' portal, e-mail and call centre for consultation. Vast majority of the services are available online, thus it is possible to fulfil tax obligations and get services with minimal need of physical contact with tax inspectors. Additionally, GRS has allocated additional human resources, in order to address each and every incoming calls through the call centre, to answer e-mails and other.

2.6 Communication

GRS shared information about all the electronic services available on its official web-page and Facebook page (well-used by the taxpayers). Public relation service has very close communication with media and all necessary information is spread immediately. Further, frequently asked questions are analysed on a daily basis and appropriate answers, guidelines are provided electronically.



² Georgian Government's Anti-crisis Plan, http://gov.ge/index.php?lang_id=GEO&sec_id=541&info_id=75972.

2.7 Tax Relief and Tax Exemptions

To address economic challenges brought by the pandemic, Georgian government introduced anti-crisis plan on 24 April.³ As part of the anti-crisis plan, tax relief and tax exemptions for the businesses will be provided over the next 6 months.

- Employees who have lost jobs during the pandemic will receive a monthly allowance amounting to GEL200 for six months (GEL1,200 or USD375 in total);
- Employees who have not been fired during the pandemic and receive less than GEL750 (USD234) salary, will be exempted from income tax for the next six months. For those who earn less than GEL1,500 (USD469), income tax will only apply to a GEL750 (USD234) tax base;
- Self-employed or jobless people who are able to prove they have lost income due to the pandemic will receive GEL300 (USD94) as a one-time payment assistance;
- Automated VAT refund will be allowed, allocating additional GEL600 million (USD189 million) for businesses;
- GEL500 million (USD157 million) will be allocated for businesses, including GEL300 million (USD94 million) for financing lines of credit aimed at small and medium businesses. The government will assume the role of a loan guarantee for 90% of the new credits. Additional funds will be allocated to support farm crediting; and
- Overdue fines will be written off for those individuals and businesses using state irrigation system.

3. Six-stage Plan to Resume the Economy

As announced in the anti-crisis plan on 24 April, restrictions applied to the whole country with regards to the development of COVID-19 will be removed in six different stages, each taking place in every two weeks, while taking into consideration the epidemiological situation in the country. For the whole period, citizens

will be obliged to observe physical distancing guidelines and wear face masks in closed public spaces.

- Stage I (starting from 27 April): to allow driving private vehicles/taxi cabs; to resume online shopping and delivery services; to open air agricultural markets;
- Stage II (starting from 11 May): to ease restrictions on construction businesses, car maintenance services, computer maintenance services, and recreational zones;
- Stage III (starting from appr. 25 May) to lift restrictions on retail and wholesale shops (excluding shopping malls) with separate access from streets; to reopen all types of open-air markets; to resume operation of publishing companies;
- Stage IV (starting from appr. 8 June): to open shopping malls, open-air restaurants and beauty salons; to resume functioning of all kinds of financial services;
- Stage V (starting from appr. 22 June): to open enclosed markets/all types of restaurants; and
- Stage VI (starting from appr. 6 July): to resume operation of gambling businesses, entertainment services, hotels, educational institutions, and all other types of businesses.

As of 18 May, the following have been implemented under the government's 6-stage plan for the resumption of the economy:

- Driving of private vehicles/taxi in and out of Tbilisi has been allowed;
- Restrictions on construction businesses, car maintenance services, computer maintenance services, and recreational zones have been eased;
- Retail and wholesale shops (excluding shopping malls) with separate access from the streets have been reopened;
- Functioning of recreation zones has been resumed;
- Construction and production of construction materials have been allowed; and
- Online shopping and delivery services have been allowed.

3 Georgian Government's Anti-crisis Plan, http://gov.ge/index.php?lang_id=GEO&sec_id=541&info_id=75972.

The Package of Fiscal and Economic Measures to Counter Coronavirus Outbreak: Experience of Indonesia

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1. Overview

Since its first emergency, COVID-19 has spread to over 200 countries and regions. On 22 April 2020, WHO reported 2,471,136 positive cases confirmed and 169,006 deaths¹. While medical data showed that COVID-19 outbreak does not take the first rank of highest death toll pandemic in history, it has shaken the world by bringing the economy to a near-grinding halt. In early March 2020, prediction was that coronavirus outbreak could cost the global economy as much as USD2.7 trillion, which is equal to the entire GDP of the UK².

The identical struggle happens in Indonesia. As of 22 April 2020, 7,418 confirmed cases were spreading along 34 provinces³. In early April 2020, the Minister of Finance of Indonesia conveyed that the

economic forecast estimated the unemployment level in Indonesia could increase by 5.2 million people and the poverty level could increase by 3.78 million people⁴ if the economic impact cannot be controlled in due time and comes to the worst level of prediction.

Directorate General of Taxes (DGT) is at the vital role in the implementation of fiscal and other economic measures, since other than functioning as a revenue authority, DGT is functioning as policy-making body, in terms of taxation, which is indeed impactful to encourage economic activities to run, as well as to help mitigate the drastic addition of unemployment level and poverty level in Indonesia. Therefore, this article is written by focusing on fiscal and economic measures taken in Indonesia in response to COVID-19 pandemic.

- 1 World Health Organization (2020). *Coronavirus Disease 2019 (COVID-19) Situation Report-93*, 22 April 2020, https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200422-sitrep-93-covid-19.pdf?sfvrsn=35cf80d7_4.
- 2 Orlik, Tom et al (2020). *Coronavirus Could Cost the Global Economy \$2.7 Trillion. Here's How*, Bloomberg Economics, <https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/>.
- 3 National Disaster Management Agency (2020). *Update COVID-19*, National Disaster Management Agency Press Conference, 22 April 2020, <https://www.youtube.com/watch?v=ZAnXxRuXAb8>.
- 4 CNN Indonesia (2020). *Sri Mulyani: Skenario Terberat Penduduk Miskin Naik 3,78 Juta*, 14 April 2020, <https://www.cnnindonesia.com/ekonomi/20200414153236-532-493464/sri-mulyani-skenario-terberat-penduduk-miskin-naik-378-juta>.

2. The Package of Fiscal and Economic Measures

2.1 Reallocation of the State Budget 2020 for Combating COVID-19 Outbreak

The government promptly responded to the outbreak by taking several layers of measures. The first of these is creating a legal framework to enable reallocation of the state budget in order to properly facilitate the realisation of all measures. This step is essential, as the State Budget of Indonesia 2020 has been legislatively formalized in the State Budget Law since September 2019, by which the allocation of national revenue into expenditure item is legally locked. Thus, reallocation of the budget as to provide a huge amount of money in relation to the outbreak requires a legitimate legal basis. As a result, Government Regulation in Lieu of Law Number 1 of 2020 is enacted as the underlying legal ground for mitigating COVID-19 impact.

The State Budget reallocation is done by reviewing the previous allocation and assessing less essential expenditure posts, so as to sequentially reallocate the fund for medical expenditure, social safety net, and fiscal and economic stimulus. This resulted in the total fund of 405.1 trillion rupiahs to be reallocated into several grand divisions of expenditures. Those are 75 trillion rupiahs for medical expenditures, 110 trillion rupiahs for Social Safety Net Program, 70.1 trillion rupiahs for economic and fiscal stimulus, and 150 trillion rupiahs for countercyclical measures of national economic recovery⁵.

2.2 Fiscal Measures for Securing Medical Supplies and Essentials

To secure the availability of medical supplies and essentials, the government provides tax incentives in the form of Value-Added Tax (VAT) relief, import tax relief, and import duty relief on the purchase and importation of medical supplies

and materials. The relief also applies to certain services under the same purpose, such as technical, consultation, and construction service to build hospitals and medical facilities.

Those reliefs are stipulated in the Minister of Finance Regulation Number 28 of 2020 and Number 171 of 2019. As of 11 April 2020, the Ministry of Finance reported that 159 billion rupiahs of import taxes and customs duty had been relieved for medical supplies and services⁶.

Tax incentives also take an important role to secure domestic supplies of highly needed goods and services. As the global supply chain has been cluttered by the outbreak, which causes the quantity of goods to decrease and the price to increase, fiscal measure to boost the chain as well as to ease the burden of the suppliers is perceived as a critical strategy. Therefore, the government releases import tax relief for industries that operate on highly needed products, such as food, confection, household necessities, and, education supplies.

2.3 Fiscal Measures for Protecting Business and Workforce

Protecting corporations and the workforce therein is one of the prominent concerns in this period of economic downfall. Government measures for this purpose incorporate several facilities for both the business players and the workforces, namely corporate tax rate cut; borne-by-the-Government income tax; borne-by-the-Government employee's income tax; fast-track VAT refund for certain industries; and, administrative ease, such as the postponement of the annual tax return.

The policy to curtail the corporate tax rate plays dual-role in the context of mitigating the disruptive impact of the outbreak, which is to protect both the business and the workforce therein. Corporate income tax rate is decreased to 22% for the fiscal year 2020 and 2021, and

5 Kompas (2020). *Jokowi Gelontorkan Rp 405,1 Triliun untuk Atasi Covid-19, Ini Rinciannya*, 31 March 2020, <https://nasional.kompas.com/read/2020/03/31/18253871/jokowi-gelontorkan-rp-4051-triliun-untuk-atasi-covid-19-ini-rinciannya>.

6 Kontan (2020). *Kemenkeu Sudah Bebasan Rp 159 Miliar Pajak Impor untuk Tangani Wabah Corona*, <https://nasional.kontan.co.id/news/kemenkeu-sudah-bebasan-rp-159-miliar-pajak-impor-untuk-tangani-wabah-corona>.

20% for the fiscal year 2022⁷, from 25% previously. This is targeted to protect the business liquidity, yet at the same time to protect labour and employees from the possibility of losing their jobs.

Specifically, the government also provides tax incentives for micro, small and medium enterprises with the turnover maximum of 4.8 billion rupiahs, through the enactment of Minister of Finance Regulation Number 44 of 2020. Those who satisfy the turnover threshold and administrative condition could attain borne-by-the-Government income tax. Also, in the event the eligible enterprises carry on importation, they could obtain borne-by-the-Government import tax.

Likewise, the fast-track VAT refund is a protective shield for business liquidity and job vacancy by allowing taxable enterprises with criteria and certain business classification to request for early VAT refund, as regulated by Minister of Finance Regulation Number 44 of 2020. The monetary threshold to attain this incentive is a maximum of 5 billion rupiahs for the requested amount of the VAT refund.

The Minister of Finance Regulation Number 44 of 2020 also contains a protective measure that directly benefits individuals working as an employee. It is the borne-by-the-Government employee's income tax for April 2020 until September 2020, which is applicable to employee who meets certain criteria, such as those whose annual income is not more than 200 million rupiahs. In the event the employer bears the employee tax, such amount must be distributed to the employees' take-home pay. This measure is taken to support households' well-being as individuals' take-home pay will be in its full amount without the liability to pay tax.

The aforementioned incentives of the borne-by-the-Government income tax and import tax require the enterprises, as well as the employers, to file a report in respect of the execution of the obtained incentives to DGT. This

reporting obligation does constitute an element of tax compliance and is subject to DGT supervision.

Sequentially, tax relief is also provided for taxpayers by giving fines relief in connection with the postponement of individual tax return until 30 April 2020, which previously was due on 31 March 2020. Besides, DGT officially states that the postponement of due date also applies to other certain requests filed by taxpayers, for instance, the letter of tax objection and the letter of a fine reduction request. This policy is taken for alleviating the administrative burden that taxpayers embrace during this outbreak.

2.4 Economic Measures for Financial System Stability

Financial system stability is one of the priorities to protect, otherwise, the sideslip of the financial system could lead to an economic crisis which predictably could be worse than that in 2008. Hence the government provides stimulant as a countercyclical measure of COVID-19 disruptive impact.

One of the economic stimulants is by allowing banks to do business loan restructuring, primarily for the borrowers that are categorized as micro, small and medium enterprises. Those with a business turnover less than 10 billion rupiahs may request business incentives from their banks and financial institutions. The reliefs could take form as reduction of debts principal and/or interests, reduction of interest rate, or rearrangement of the debts maturity date.

Importantly, countercyclical measures are not provided merely for business loan but also debts borne by individuals working in the informal sector, such as online drivers and delivery. This is perceived as an important measure to prevent the poverty level to augment since it is predicted that 2.5 million people work as online drivers⁸.

According to the motorcycle loan contract, the borrower is obliged to pay their debt on a monthly basis. Yet, since their source of

⁷ The Government of the Republic of Indonesia (2020), Government Regulation in Lieu of Law Number 1 of 2020.

⁸ Institute for Demographic and Poverty Studies (2020). *Press Conference of IDEAS' Research on Job Vacant in Urban Areas*, 17 March 2020, <https://www.dompetdhuafa.org/id/berita/detail/Ojek-Online-Menjadi-Lapangan-Kerja-Para-Pengangguran>.

income is drastically decreasing during this pandemic, individuals working in the informal sector now are facing considerable financial hardship which makes it more strenuous to pay their motorcycle loan. Thus, the government permits bank and financial institution to do motorcycle loan rearrangement, which enables individuals to pay a less monthly instalment, along with a restriction for the lender not to confiscate the motorcycle under leasing in the event of insolvency.

Other than that, the housing loan is also put in the economic measures package. The government through Financial Services Authority Regulation Number 11 of 2020 facilitates the housing loan restructuring in banks, that is for the benefit of low and medium-income people. Similar with facilities given to micro, small and medium enterprises, the housing loan relief could be a reduction of debts principal and/or interests, a reduction of interest rate, or rearrangement of the loan maturity date.

2.5 Social Safety Net Program for People in Need

2.5.1 Pre-Employment Program

One of the important features of the Social Safety Net Program is the Pre-Employment Card Program, to which the government allocates 20 trillion rupiahs for approximately 5.6 million recipients⁹. This program is released to support the well-being of people in this outbreak hard-times, as well as to encourage human capacity enhancement as to prepare their qualities for the job-seeking process¹⁰.

It contains three-tier benefits for its recipients that are worth 3.5 million rupiahs in total for each cardholder. Those benefits are an allowance for online training, of which could be selected under each person's preference and educational background; living allowance for six months

during the online training term; and another living allowance after the cardholder accomplishes the selected online courses¹¹.

2.5.2 Public housing subsidy

In relation to the protective shield for public housing, other than the loan restructuring program, the government also provides the subsidy of monthly housing loan instalment and the subsidy of housing loan's down-payment, for low-income people. The State Budget allocation on this measure is 1.5 trillion rupiahs, which could cover 175 thousands of eligible households¹².

This measure is under the superintendence of the Ministry of Public Works and Public Housing and is actuated through the coordination of the Ministry with several national banks. These subsidies are provided for people who meet certain prescribed criteria, such as, the natural person is a citizen of Indonesia, the person's monthly income is not above 8 million rupiahs, the person does not own a house yet, and the person has never obtained a similar subsidy¹³.

The subsidy of monthly instalment of housing loan begins with subtracting the monthly payment on the interest rate of 5% from such amount on the actual interest rate. In result, the amount on 5% interest rate is borne by the individual, and the rest is borne by government within a period of 10 years. While for the second kind of housing subsidy, namely the down-payment subsidy, is available for a non-vertical house only, in which the government helps to pay the down payment as much as 4 million rupiahs when the aforementioned eligibility criteria are met¹⁴.

2.5.3 Protection of household purchasing power

In the effort to protect household purchasing power and to avoid the devastation of people's well-being, the government provides several programs under Social Safety Net Program, name-

⁹ Cabinet Secretariat of the Republic of Indonesia (2020), <https://setkab.go.id>.

¹⁰ Ibid.

¹¹ Ibid.

¹² The Ministry of Public Works and Public Housing of Indonesia (2020), <https://www.pu.go.id>.

¹³ Ibid.

¹⁴ Ibid.

ly “Family Hope Program” (Program Keluarga Harapan), “Cash for Work Program” (Program Padat Karya Tunai), “Staple Food Card Program” (Kartu Sembako), “Electricity Subsidy” (Subsidi Listrik), and “Direct Cash Transfer” (Bantuan Langsung Tunai).

The Family Hope Program, as one of Social Safety Net Program for alleviating the outbreak disruptive effect, is actually an upgraded version of the same program that previously was designed as a national program to fight poverty level in Indonesia. This new Family Hope Program will reach people who lost their jobs with more plus factors than the old one. First, the number of benefits receiver is increased, from 9.2 million households to 10 million households. Secondly, the worth of cash benefit for each eligible household is 25% higher than the previous one. Thirdly, the distribution of cash is undertaken monthly, while it was once in three months in the old scheme¹⁵.

For low-income households that have not yet received any benefit from the above programs under Social Safety Net, the Government provides the Direct Cash Transfer Program. This is a monthly cash transfer of 600,000 rupiahs for a 3-month period. The State Budget allocation for this program is 22.48 trillion rupiahs, which is distributable to 12.49 million households, according to Ministry of Finance data. The respective distribution is conducted by the Ministry of Social Affairs¹⁶.

Cash for Work Program is implemented to help people in poverty to afford their basic household needs, especially for those located in villages and remote areas. The program has been released as a national program, of which coverage is expanded to mitigate the disruptive impact of the outbreak this year, in terms of allocation amount, distribution, number of the beneficiary, and realization time. In total, the State Budget al-

location for the Cash for Work Program in 2020 is 72 trillion rupiahs¹⁷.

Staple Food Card Program is also an existing national program of which the benefits and coverage are upgraded for the purpose of mitigating economic hit of the outbreak for the poor. Compared with previous 150,000 rupiahs per month for each cardholder, such amount is now 30% increased, which will be distributed monthly from April 2020 until the next nine months. Also, the number of cardholders is increased as to become 20 million people, from the prior 15.2 million people¹⁸.

Also, the government releases Electricity Subsidy to help people in poverty to afford electricity power for their living. This subsidy is a facility given to people whose monthly electricity subscription is 450 Volt Ampere (VA) and 900 VA. Those on 450 VA subscription, counted as many as 24 million consumers, will receive 100% of monthly bill relief for three-month period. While those on 900 VA subscription, counted as many as 9 million consumers, will obtain 50% of monthly bill relief for 3 month period¹⁹.

3. Outlook

Indonesia has been fighting against the crisis for a period, of which the real impact and the time-length are theoretically unpredictable. Indonesian government is undertaking the best possible measures to protect its people and each aspect of life thereto, taking into account Indonesia's own capacity and specific conditions. The measures taken are subject to continuous evaluation and improvement, given the fact that the impacts of the outbreak are standing on a dynamic line. However the situation is, the government is strongly willing to keep the commitment and the vision to protect its people amidst any rocky situation that we all may encounter.

15 Cabinet Secretariat of the Republic of Indonesia (2020), <https://setkab.go.id>.

16 Ibid.

17 Ibid.

18 Ibid.

19 Ibid.

Fiscal Amenities in Serbia during COVID-19 Pandemic Situation

Dragana Marković

Serbian government enacted the following measures for taxpayers during COVID-19 pandemic situation:

- Deferral of payments of tax on wages and social contributions for private sector is given till 2021. This measure has the goal to enhance liquidity of all the legal entities in Serbia which pay wages to their employees.
- Deferral of paying corporate profit tax in the second quarter of this year. This measure has the goal to enhance the liquidity of legal entities. The taxpayers are obliged to submit their tax returns within the legal deadlines.
- To all the taxpayers who reached an Agreement with the Tax Administration (TA) to pay taxes in installments, during the state of alarm, TA will not suspend the Agreement, nor calculate the interest rate for the installments not paid on time.
- During the state of alarm, interest rate is calculated and paid, and is equal to annual referent rate of the National Bank of Serbia, which amounts to 1.75%.

When it comes to paying tax on wages, social contributions and corporate profit tax, there won't be any interest calculated since their payment is deferred.

- In Serbia, all the tax returns could be submitted electronically, and the



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taxpayers could see the balance on their tax accounts and get tax certificate online.

There are new e-mails introduced for taxpayers to be able to submit any kind of request they want, and not to come to the premises of the TA. Only 4 desk offices can accept written request of the taxpayers, face to face.

Contact center is enhanced by the employees who are working at face-to-face contact points which are closed now, and many new telephone lines are open.

- Direct help to individuals and SMEs — the government will execute payment of minimal wage during the state of alarm — 3 minimal wages for March, April and May 2020.
- Direct help to large taxpayers — the government will execute payment amounting to 50% net mini-

mal wage during the state of alarm for the employees who are fired due to lack of work.

- Donors are free from paying VAT — donors who produce products by themselves and donate them to institutions which are directly fighting the virus.
- The Serbian government introduced Program for grants for retaining liquidity and cash flow for individuals and SMEs, agricultural companies and all those that are registered for producing food.
- There are also guaranty schemes for grants in commercial banks for individuals and SMEs, agricultural companies and all those that are registered for producing food.
- Deferral of payments of installments for credits given by commercial banks and leasing installments lasting 90 days where there is no interest rate calculated.
- Deadlines in legal matters are relaxed in a way that clients won't be punished for not meeting the deadlines during the state of alarm. In court procedures, the deadlines are not calculated during the state of alarm.
- Special measure introduced by the Government of the Republic of Serbia is to provide direct help to all the citizens of the Republic who are 18 years old and older, amounting to €100 per person.

The Response of Italian Revenue Agency to COVID-19 Outbreak

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1. Introduction

Italy is one of the countries around the world that is suffering the serious consequences of the epidemic spread of COVID-19. The Italian government has then adopted a number of measures to address the current challenges with a view at supporting citizens' health and ensuring a quick recovery.

The Italian Revenue Agency (Agenzia delle Entrate) has developed and executed an immediate strategy with full awareness of the unique challenges of health emergency. The ultimate goal of this strategy is to keep the continuity of critical services to taxpayers and safety of the staff and citizens in general during the likely prolonged duration of the pandemic.

A package of measures has therefore been adopted to pursue these goals. The three pillars of the package are:

- 1) Supporting taxpayers and businesses;
- 2) Maintaining administration's services; and
- 3) Protecting staff and citizens' health.

2. Supporting Taxpayers and Business

The Italian government has suspended a large number of tax payments to help

taxpayers, and introduced tax incentives and credits to support the economy.

The Revenue Agency is taking all appropriate measures to apply relevant decrees in a flexible and timely way. The Agency has also taken organisational measures to support the legal measures.

It should be noted that the situation is constantly and rapidly changing due to the evolution of the emergency. Information provided in this document is updated as of 8 April 2020 but in the next few days other measures might be taken.

2.1 Enhancing Services

Enhancing taxpayer services is an important part of the first pillar. The Revenue Agency has immediately increased the use of digital means and channels, dedicated hotlines and longer opening hours of call-centres where feasible and appropriate.

In relation to the health emergency, the Italian Revenue Agency invited taxpayers to use the (already existing) electronic channels for requesting services.

In particular, taxpayers have been invited:

- To use certified e-mail for the submission and filing of requests and documents. These documents are processed

in back-office and the outcome of the process is notified by the office via e-mail;

- To use already existing communication channels such as “Civis”, a dedicated channel for individuals and intermediaries;
- To use non-certified e-mail and telephone contacts according to instructions available on the Agency’s website for other requests.

For general assistance services, the Agency also invites taxpayers to use the dedicated toll-free phone number.

2.2 Providing Tax Certainty

Measures have been taken to provide early tax certainty where appropriate.

In recent weeks, due to the worsening of the emergency situation, various decrees have been issued by the government or by the Prime Minister. The Italian Revenue Agency has been following up shortly each decree by issuing specific circular notes. The notes are published on the homepage of the website and represent important administrative guidance for taxpayers.

Legal opinions and rulings may be issued but all deadlines affecting taxpayers (e.g. for providing additional documentation) are suspended until the 31 May 2020. Requests for opinions or rulings by taxpayers to the administration must be submitted exclusively via certified e-mail.

2.3 Extension of Deadlines and Deferral of Payments

Taxpayers (e.g. individuals, SMEs and large businesses) affected by COVID-19 have been given additional time to file tax returns as well as to make tax payments.

Initially, for individuals, businesses and professional residents in the so-called Red Zone (11 Municipalities with around 50,000 inhabitants of the area initially hit by the virus and subject to a complete lockdown), the tax fulfilments due until 30 April 2020 have been suspended. For taxpayers who do not apply other provision of suspension, the deadline for all tax payments due to be paid by 16 March 2020 has been extended to 20 March 2020 without penalties or interests.

With subsequent provisions, the tax fulfilments due by all taxpayers between 8 March and 31 May 2020 have been suspended, except

for the issuing of e-invoices.

Finally, for all taxpayers the deadlines for all tax fulfilments have been postponed, without penalties, by 30 June 2020 (see also below).

Tax payments, which are due in instalments, have been deferred in order to ease cash flow.

The deferral of payments was diversified:

- On the basis of the fiscal residence: for individual, business and professional resident in the aforementioned Red Zone or resident in a “new” Red Zone (Bergamo, Cremona, Lodi, Piacenza provincial), all payments due until 30 April 2020 are suspended;
- On the basis of level of turnover: for businesses and professionals with a turnover not exceeding EUR50 million in the previous fiscal year, with a decrease in March 2020 turnover of at least 33% compared with that of March 2019 and for businesses and professionals with a turnover exceeding EUR50 million in the previous fiscal year, with a decrease in March 2020 turnover of at least 50% compared with that of March 2019, VAT payments, withholding taxes and social contributions payments whose deadline falls between the 8 March and 31 May 2020 are suspended; and
- On the basis of the activity carried out: for new businesses, non-commercial entities and for businesses and professionals that have been closed down for the health crisis such as shops, theatres, cinemas, restaurants, hotels, travel agencies and tour operators, VAT payments due until 30 April 2020 are suspended.

2.4 Remitting Penalties and Interest

Penalties and interest for late filing or payment have been suspended or possibly refunded, depending on circumstances. For all taxpayers the tax fulfilments are due, without penalties, by 30 June 2020. The deferral payments are due, without interests or penalties, to be paid within 31 May 2020 in one solution or in no more than 5 monthly instalments of the same amounts to be paid starting from 31 May 2020.

2.5 Audit Policies

Auditing of taxpayers or types of taxpayers has been postponed or suspended (with the ex-

ception of anti-fraud activities).

Audits and all assessment activities are suspended except for those whose terms of expiration fall in this period. In particular, the terms for audit, processing of tax return, assessment and collection are suspended until 31 May 2020.

2.6 Suspending Debt Recovery

Debt recovery has been suspended or postponed.

New debt recovery activities are currently suspended. For recovery activities that have already been initiated, a payment deferral applies for all payments due by 31 May 2020. The new deadline is 30 June 2020; the payment is currently due in one instalment.

2.7 Providing Tax Incentives for Workers and Businesses

- Tax credit for sanitation. A tax credit, equal to 50% of the expenses paid, is recognised to entrepreneurs/professionals that sanitise the working places (up to a maximum of EUR20,000).
- Tax credit for commercial rents. A tax credit, equal to 60% of the rental fee due for the month of March, is recognised to retailers and shops.
- Tax credits and deductions for COVID-19 donations. Donations to the State, Re-

gions, Municipalities or to public entities, associations or institutions involved in the limitation and management of the health crisis are tax deductible up to the amount of EUR30,000 and within the limit of 30% of their amount.

- A Minister's Decree will regulate the forms of "public mention of honour" for taxpayers who decide not to take advantage of the suspension of payments, with the aim of improving their reputation.

3. Maintaining Tax Administration's Services

The COVID-19 emergency led the Italian government to cope with the economic impact of the coronavirus on individual taxpayers, businesses, employees and bolster the hard-pressed health system. The last decree "Cure Italy" entered into effect on 18 March 2020, which was one of the governmental measures that have been transposed by the Italian Revenue Agency, including the lockdown of the whole Italian territory.

A new government lockdown, linked to the coronavirus emergency, was signed on 22 March 2020.

The Prime Minister's decree contains an updated list (80 items) of public utility services and activities considered essential which there-



fore may remain open, including essential activities like supermarkets, banking, financial and postal services, medical and health devices and pharmaceuticals. The activities of the aerospace and defense industry and those of national strategic importance are allowed, subject to authorization by the Prefect. All non-essential services are closed. The activities suspended “can still continue if organized in remote working”.

Same requirements apply also to the Revenue Agency.

The Italian Revenue Agency has identified essential activities that cannot be postponed, and among them, those requesting the presence in the premises of managers and executives in compliance with health protocols, safety distances and further restrictive measures related to the pandemic.

Other activities are considered essential and undeferrable but likely to be carried out remotely, such as: activities related to the emergency management (including those performed by COVID-19 Crisis Unit); paper and (certified) email reception; support activities to the Ministry of Economy and Finance in urgent law-making procedures; litigation, assessment, recovery and ruling activities where terms of prescriptions are not deferred by the Law; IT security and maintenance of tax registers and other computer-based applications; release of

fiscal codes/health care insurance card; procurements and agreements in order to guarantee supplies for properties (energy and water); replies to requests of the judicial authorities; real estate formalities; cash contribution for families and companies; tax refund; property valuation and technical services provided to prefectures and support to smart working.

Smart working (i.e. remote working) is considered as the ordinary method of carrying out the work performance, in accordance with the provisions of the “Cure Italy” decree¹ of 17 March 2020. The main principle reiterated in several instances both in the government’s provisions and in the Agency’s directives (the latest of 20 March 2020) is to reduce the movement and permanence of staff in the office. These provisions are valid until the state of health emergency continues. Remote working can also be carried out through personal IT tools owned by employees, in case the administration is not able to provide them.

Staff of the Italian Revenue Agency in remote working use remote access and video-conference tools for participating in business meetings.

According to the decree, public administrations may “exempt” workers (without any salary cut) if they are unable to work remotely or take previous holidays leave, or compensate working time or other similar situation, in compliance with collective bargaining.

The Revenue Agency is fully aware of the need for good communication between different parts of the organisation and the public on measures taken and implications.

A special section, dedicated to COVID-19, is available on the Agency’s intranet portal with the regulatory provisions adopted to deal with the current emergency, directives, internal circulars, adopted measures and intervention procedures, information material by the Ministry of Health and Civil Protection (e.g. updated map on the epidemiological situation) and FAQs. The regulatory provisions and directives of the Agency are also forwarded to employees



1 <https://www.gazzettaufficiale.it/eli/id/2020/03/17/20G00034/sg>.

via email, especially those concerning remote working regulation. The COVID-19 special units (at central and regional level) are constantly in contact with the Human Resources and with the Media department.

On the Italian Revenue Agency website², a special section dedicated to COVID-19 was set up to inform taxpayers of the emergency. The communication strategy has used press releases, news on the institutional website and on the Revenue Agency's official accounts on Facebook, Twitter and LinkedIn. The Agency has also published a *vademecum on the COVID-19 Emergency Tax Measures*.

4. Protecting Staff Health

The Italian Revenue Agency has adopted a wide range of prevention and protection measures to ensure employees' safety at the workplace, such as general measures to protect workers' health and measures to reduce physical access by customers to offices. All these measures are contained in the Risk Assessment Document that is subject to continuous update, in close coordination with the Prevention and Protection Services.

As for information on general risks regarding health and safety, information on risks is usually delivered via emails and identifies the general and specific risks connected with specific working activities. Managers are required to protect the health and safety of their employees even when they are working remotely. To this end, employers are required to deliver information on risks regarding health and safety at work to employees working remotely.

Under the current health emergency, such information notice has been implemented with a provision stating that the employee should refrain from carrying out his/her working activity in places where there is a risk of infection (e.g. public or crowded places). This additional information is available on the website of the National Institute for Insurance against Accidents (INAIL).³

Several measures have been implemented limiting the access to common areas and reduc-

ing the spread of the virus in workplace, including keeping a social distance and using protective apparel. The aim is to contain the risk associated with the spread of the COVID-19 and reduce at minimum the attendance to the front office of the territorial offices, open to taxpayers only for the delivery of documents to be processed in back office. Taxpayers are encouraged to use telephone or/and telematic channels.

Sanitization procedures have been ensured in working places.

Missions have been cancelled and meetings are held remotely, since, as highlighted above, remote working is currently the ordinary way of working, in order to reduce the risk of infection.

The Italian Revenue Agency has issued additional guidelines and answers to FAQs to cope with safety procedures for remote working activities (use of passwords, access procedures for recognition, working with a trusted private Internet). Moreover, safety instructions have been issued in order to guarantee standard conditions of working at home (for example, in terms of lighting, protection from fire accidents, correct position of the body and the electronical devices, such as tablets or PC, used for working). The IT experts are gradually ensuring access from home to tax registers or other internal networks and software of the Italian Revenue Agency whilst complying with the highest levels of safety and privacy legislation.

The Revenue Agency is fully aware of the importance of maintaining a balanced environment among the staff, especially during health emergency, including the update of personal details and mechanisms for reporting sickness. For this purpose, each employee keeps his contact numbers and email details updated through a self-service portal.

Clear guidelines were issued on how to spot symptoms of the coronavirus and on how to report this to the Office. Sickness, medical quarantine or mandatory quarantine, parental leave following the closure of schools, kindergartens and nurseries, and other absences (caring) may be reported with a simplified procedure by email.

² <https://www.agenziaentrate.gov.it/portale/>.

³ <https://www.inail.it/cs/internet/comunicazione/avvisi-e-scadenze/avviso-coronavirus-informativa.html>.

Financial and Tax Measures of South Korea Tackling COVID-19

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On 18 March 2020, President Moon Jae-in of South Korea said the COVID-19 outbreak is simultaneously impacting supply and demand and causing a multi-crisis for the real economy and finance. In trying to overcome the downturn by utilizing both fiscal and monetary policies, the government of South Korea has so far introduced a total of KRW141 trillion (USD115 billion, 7.4% of GDP) support measures to mitigate the impact of the COVID-19 including liquidity provisions and credit guarantees.

1. Key Financial Measures

South Korea's economic policies against the COVID-19 can be summarized into four financial support packages, which include a supplementary budget and the lowering of the base rate. In addition, the government raised forex futures trading limits and signed currency swaps with other countries to manage foreign exchange rate.

1.1 Support Package of over KRW20 Trillion (USD16 billion) Including Supplementary Budget

- KRW4 trillion including government reserve funds and policy financing is provided to support disease prevention, local governments, imports of

manufacturing supplies and small merchants.

- KRW7 trillion is used to provide financial and tax support for families and businesses affected, including 50% income tax cuts given to landlords for rent reduction and individual consumption tax cuts for car purchases to boost consumption.
- KRW9 trillion of loans, guarantees and investment through financial institutions and public institutions.
- Supplementary budget to support local economies, as well as disease control.

1.2 Supplementary Budget of KRW11.7 Trillion (USD10 billion) Consisting of KRW10.9 Trillion for New Spending and KRW0.8 Trillion for Revenue Adjustment

- KRW2.1 trillion to be spent on disease prevention and treatment.
- KRW4.1 trillion to be spent on small business loans.
- KRW3.5 trillion to be spent on household support, including day-care vouchers and emergency livelihood support.
- KRW1.2 trillion to be spent on the local economies which are severely af-



ected by the pandemic.

1.3 An Additional Financial Support Package of KRW100 Trillion (USD80 billion) to Boost Local Business and Ease the Financial Burden on Households and Businesses

- KRW58 trillion to be spent on the expansion of financial loans and guarantees for SMEs and affected households and businesses.
- KRW20 trillion to be spent on the creation of a bond market stabilisation fund.
- KRW10.7 trillion to be spent on the creation of a stock market stabilisation fund.
- Rolling over debt of SMEs and self-employed people to financial institutions.

1.4 An Emergency Relief Payment Plan of KRW9.1 Trillion (USD7.4 billion) to Address the Virus Outbreak

South Korean government plans to pay relief checks to households in the bottom 70% income bracket, of up to KRW1 million (USD820) per household.

1.5 Lowering the Base Rate

The monetary policy board of the Bank of Korea decided to lower the base rate by 50 basis points from 1.25% to 0.75%, as of 17 March 2020. In a related set of actions, the board has decided to lower the interest rate on the bank intermediated lending support facility from 0.50%–0.75% to 0.25%. To manage the liquidity in the financial market at a sufficient level, the board will also broaden the eligible collateral for open market operations to include debentures issued by banking institutions.

1.6 Raising Forex Futures Trading Limits

Although banks have maintained a relatively high level of forex liquidity, South Korea aims to be prepared for a sudden volatility in the forex swap market. South Korean government has decided to raise the forex futures trading limit by 25%, to 50% for local banks and 250% for foreign bank branches since 19 March 2020.

1.7 Bilateral Currency Swap with the Federal Reserve

The Bank of Korea and the Federal Reserve established a temporary bilateral currency swap arrangement to provide US dollar liquidity. The new facility between the Bank of Korea and the Federal Reserve will support the provision of US dollar liquidity of up to USD60 billion in exchange for KRW, and will be in place for at least six months. The facility is designed to help lessen strains in US dollar funding markets, thereby mitigating the effects of these strains on the supply of credit to households and businesses.

The Bank of Korea has extended some USD17 billion to local banks using its currency swap line with the U.S. by the end of April 2020.

2. Key Tax Measures

South Korean government also enacted several tax measures tackling the COVID-19 and boosting the economy.

2.1 Tax Measures for Workers or Consumers

- Increasing tax deduction for individuals for the use of debit and credit cards for the period from March to June 2020.
- Giving a 70% individual consumption tax cut for car purchase, and a 10% refund for the purchase of high energy-efficiency home appliances.
- Giving an 80% tax deduction for dining out and accommodation costs, and spending on leisure activities.
- Extending the period of VAT refund targeting hotels accommodating foreign tourists.

2.2 Tax Measures for SMEs and Micro-business Owners

- Providing a 50% tax relief if building owners reduce rental fees for micro-business owner tenants, and rental fees cut for buildings owned by the government and public organizations.
- Extending the deadline of filing and pay-

ing national and local tax returns, postponing tax audit, and applying a grace period for collecting taxes and any arrears. SMEs and micro-business owners are granted up to a 9-month extension for filing of the tax return, and up to 1-year extension for filing and paying local taxes.

- Reducing VAT payable by SMEs with less than KRW80 million in annual sales until the end of 2020.
- Raising VAT exemption threshold temporarily from KRW30 million to KRW48 million until the end of 2020.
- Introducing temporary special tax reduction for SMEs located in special disaster areas until the end of 2020.

2.3 Tax Measures for Tourism, Restaurant and Service Industries

- Cutting asset taxes imposed on accommodation facilities.
- Extending the due date of patent rights payments from duty free shops and permitting instalment payments.

2.4 Tax Measures for Local Economy

- Suspending tax investigations in local areas.
- Helping to pay local taxes in instalments and postponing due dates for tax payments.

2.5 Set up the COVID-19 Tax Support System

The National Tax Service (NTS) of South Korea has established the “COVID-19 Taxation Support Task Force” in NTS, involving 7 regional offices, and 125 district tax offices across the country to provide tax support to taxpayers.

District tax offices are responsible for responding to the tax needs of taxpayers affected by the COVID-19 in real time, and collecting taxpayers’ needs and difficulties. The regional offices are closely cooperating with the district tax offices and communicating relevant tax assistance matters to NTS. NTS will excavate targeted tax support programs and actively provide tax support to industries and enterprises that may be affected by the COVID-19.



A Protective Shield for German Employees and Companies: Package of Measures to Mitigate the Impact of the Coronavirus

Germany's Federal Ministry of Finance and
Germany's Federal Ministry for Economic Affairs and Energy



Bundesministerium
der Finanzen



Bundesministerium
für Wirtschaft
und Energie

The German government is taking decisive and forceful action against the economic impact of the coronavirus. Olaf Scholz (SPD), Federal Minister of Finance, and Peter Altmaier (CDU), Federal Minister for Economic Affairs and Energy, have agreed on a far-reaching package of measures to protect jobs and support companies. The government is setting up a protective shield for employees and companies. The goal is to equip businesses with sufficient liquidity that they will be able to make it through the crisis in good shape.

The government's central message is that there is enough money available to tackle the crisis and it is going to use this

money now. We will take all the necessary measures. That is something everyone can rely on.

1. Context

The coronavirus is a serious challenge for our whole society. Not only citizens but also companies are becoming increasingly concerned. Due to the economy's close international ties, German companies are also affected by the impact of the pandemic in other parts of the world. It is not yet possible to accurately identify the effects that the pandemic will have on the German economy, because meaningful economic indicators will not be available until later, due to their inherent time lag.

Nevertheless, many companies have already felt the initial impact of the virus. Cancellations of trade fairs and large-scale events and the decline in travel are affecting the service sector, especially in the areas of logistics, trade, gastronomy and tourism. At the same time, foreign demand is dropping and international supply chains are being disrupted, which impacts production in Germany.

The German government is confronting these problems with decisive economic and fiscal policy measures. Ministers Scholz and Altmaier will make liquidity available to businesses, thus securing growth and employment.

The conditions are in place to swiftly stabilise the German economy. Targeted, fast-acting measures will immediately be taken to counter the economic impact of the coronavirus, in order to bring the economy back onto a growth path as quickly as possible. This is happening in close coordination with the German Länder and with our European and international partners.

The Federal Ministry of Health has already been swiftly provided around €1 billion to fight the coronavirus, including the procurement of protective equipment such as face masks and protective suits, to support WHO in the international fight against the coronavirus, and the provision of additional funds for the Robert Koch Institute, Germany's leading public health institution. In addition, the Federal Ministry of Education and Research has received €145 million to develop a vaccine and for treatment-related measures.

2. A Protective Shield for Employees and Companies

The government is creating a protective shield for employees and companies who are affected by the impact of the coronavirus. It consists of **four pillars**:

2.1 Making Reduced Hours Compensation Benefit (Kurzarbeitertgelt) More Flexible

Germany has a strong social security system. The automatic stabilisers are part of this system

and they support the economy. The German government will ensure that these stabilisers take full effect. Uncertainty and short-term disruptions to trade flows cannot be allowed to cause people to lose their jobs. In this respect, the government can take advantage of tried-and-tested tools. By the beginning of April, the rules on reduced hours compensation benefit will be adapted to suit current needs. As part of this, eligibility requirements will be loosened:

- Reduction of the minimum ratio of the employees in a company affected by shorter working hours to 10%;
- Partial or complete waiver of the need to build up a negative balance in working hours;
- Reduced hours compensation benefit will also be available to temporary/agency workers;
- Complete reimbursement of social security contributions by the Federal Labour Office.

2.2 Tax-related Liquidity Assistance for Businesses

In order to improve companies' liquidity situation, the options for deferring tax payments and reducing prepayments will be enhanced, and enforcement rules will be adopted.

Overall, businesses will be able to defer billions of euros in tax payments. The Federal Ministry of Finance has already initiated the necessary coordination process with the Länder. The measures are described in detail below:

- It will be easier to grant tax deferrals. Revenue authorities will be able to defer taxes if their collection would lead to significant hardship. The revenue authorities will be instructed not to impose strict conditions in this respect. This will support taxpayers' liquidity, because the timing of tax payments will be delayed.
- It will be easier to adapt tax prepayments. As soon as it becomes clear that a taxpayer's income in the current year is expected to be lower than in the previous year, tax prepayments will be reduced in a swift and straightforward manner. This will improve

the liquidity situation.

- Enforcement measures (e.g. attachment of bank accounts) and late-payment penalties will be waived until 31 December 2020 if the debtor of a pending tax payment is directly affected by the coronavirus.

With regard to taxes that are administered by the customs administration (e.g. energy duty and aviation tax), the Central Customs Authority (Generalzolldirektion) has been instructed to make appropriate concessions to taxpayers. The same applies to the Federal Central Tax Office (Bundeszentralamt für Steuern), which will proceed accordingly with regard to insurance tax and value-added tax, which fall within its remit.

2.3 A Protective Shield Worth Billions for Businesses

Many businesses are currently suffering from declines in turnover that are not their fault, either because of disruptions to supply chains or significant drops in demand in many sectors of the German economy. At the same time, operating costs often cannot be reduced, or can be reduced only slowly. This can lead to a situation where healthy companies land in financial difficulties through no fault of their own, particularly with regard to their liquidity. The German government will protect businesses with new measures to provide liquidity, the volume of which is unlimited. Due to the high degree of uncertainty in the current situation, the government has very deliberately decided not to set any limits on the volume of these measures. This is a very significant decision which is supported by the entire federal government.

In a first step, existing liquidity assistance programmes will be expanded to make it easier for companies to access cheap loans. This can mobilise a large volume of liquidity-enhancing loans from commercial banks. To this end, our established instruments complementing loans offered by private banks will be extended and made available to a greater number of companies:

- Conditions for the KfW-Unternehmerkredit (business loan for existing companies) and the ERP-Gründerkredit-Universell (start-up loan for companies that are less than 5 years old) will be loosened by raising the level of risk assumptions (indemnity) for operating loans and extending these instruments to large enterprises with a turnover of up to €2 billion (previously, the limit was €500 million). Higher risk assumptions of up to 80% for operating loans of up to €200 million will increase banks' willingness to extend credit.
- In the case of the "KfW Loan for Growth", the programme aimed at larger companies, the current turnover threshold of €2 billion will be raised to €5 billion. In future, these loans will take the form of syndicated loans and will not be restricted to projects in one particular field (in the past, only innovation and digitalisation projects were eligible). Risk assumption will be increased to up to 70% (from 50%). This will improve larger companies' access to syndicated loans.
- For companies with a turnover of more than €5 billion, support will continue to be provided on a case-by-case basis.

For guarantee banks (Bürgschaftsbanken), the guarantee limit will be doubled to €2.5 million. The Federation will increase its risk share in guarantee banks by 10% to make it easier to shoulder risks, which are difficult to assess in times of crisis. The upper limit of 35% of operating resources in guarantee banks' total exposure will be increased to 50%. To accelerate liquidity provision, the Federation is giving guarantee banks the freedom to make guarantee decisions up to €250,000 independently and within a period of three days.

The large guarantee programme (parallel guarantees from the Federation) and the Länder, which was previously limited to companies in structurally weak regions, will be opened up to companies in other regions as well. In this programme, the Federation covers operating loans and investments with a surety requirement up-



wards of €50 million and a guarantee rate of up to 80%.

We are in close contact with the Länder development banks and the guarantee banks. These measures are covered by existing state aid rules.

For companies that have temporarily got into serious financial difficulties because of the crisis and therefore do not have easy access to existing support programmes, we will launch additional special KfW programmes. This will be achieved by increasing the KfW's risk tolerance in a way that is appropriate given the crisis. Risk assumptions for investment funds (indemnity) will be improved significantly and will total up to 80% in the case of operating resources and up to 90% in the case of investments. In addition, consortium structures will be offered for these companies.

These special programmes are now being submitted to the European Commission for approval. The Commission President has already indicated that, in light of the coronavirus crisis, she will ensure that state aid rules are applied in a flexible way. The EU and Eurogroup finance ministers will advocate the necessary flexibility on the part of the European Commission.

The German government will put the KfW in a position to fund these programmes by making the necessary guarantee volumes available. This is not a problem, because the federal budget includes a guarantee framework of approximately €460 billion. If necessary, this can be increased by up to €93 billion at short notice.

With its export credit guarantees (known as Hermes covers), the Federation offers companies flexible, effective and comprehensive support that is sufficient for managing serious situations comparable to the years following the 2009 financial crisis. These instruments proved their worth at the time, and the funds available in the 2020 budget are sufficient for a similar increase in the funding volume. This is supported by a well-equipped KfW programme for the refinancing of export business. If there is a need for additional export cover and refinancing, the authorised amount can be increased very quickly.

2.4 Strengthening European Cohesion

At the European level, German Finance Minister Olaf Scholz and German Economic Affairs and Energy Minister Peter Altmaier are advocating coordinated and decisive action.

Germany is well aware of its responsibility to Europe. In close consultation with its European partners, the German government will dovetail its coronavirus response with those of other countries.

The German government welcomes the European Commission's idea of the Corona Response Investment Initiative with a volume of €25 billion.

It also welcomes European Central Bank (ECB) banking supervision's announcement that it will utilise existing leeway to ensure that banks can continue to fulfil their role in funding the real economy, as well as the measures for providing liquidity to banks that were announced by the ECB on 12 March 2020.

It is good that the European Investment Bank (EIB) Group is supporting companies across Europe that are experiencing liquidity shortfalls due to the coronavirus, using instruments that proved their worth during past crises. In particular, the European Investment Fund's well-established portfolio guarantees to safeguard companies' liquidity should be used.

3. Outlook

All these measures show that the German government is committed to countering the effects of the coronavirus with economic and fiscal policy stimuli in order to protect companies and their employees and mitigate the impact of the crisis. The full economic effects of the crisis cannot be predicted at this stage. If there are any signs of a serious disruption to the economy, the German government, in consultation with the Länder and with our European partners, will use all resources available to counter this forcefully.

The German state is well prepared for such a scenario: thanks to the general government surpluses generated in recent years, it is in a position to boost the economy over a sustained period and bring it back to its previous growth path.

Polish Government's Tax Response to COVID-19 Pandemic

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1. Introduction

The rapid spread of COVID-19 is the challenge for all the countries and their economies. The suggestions presented in media show that the COVID-19 pandemic will result in recession. This seems a fairly obvious observation resulting from the growing number of infections in most countries, closing schools and workplaces and promoting social distancing measures, as well as sharp declines on global stock exchanges¹. Undoubtedly, the impact of the pandemic on economy will be very significant, given the scale of the pandemic and the vulnerability of economy².

Poland declared its first case of a person infected with COVID-19 on 4 March 2020. As of 5 May 2020, 14,431 people in Poland were infected, among which 716

people died, and 4,280 people recovered³. The Polish government has introduced containment measures including closure of schools, universities, restaurants (with the exception of take-out and delivery services), and all non-essential retail trade and service outlets; bans on large gatherings; border controls; and travel restrictions. Staff of public sector institutions are working remotely⁴.

Probably, the recession in Poland will not be as deep as that in other European countries, but it will cause a slower growth anyway, especially in the first half of the year⁵. Poland, like other countries, has adopted a number of measures that can stop the negative consequences of the pandemic and ensure a quick economic recovery.

- 1 Ramelli S. & Wagner, A. F. (2020). *Feverish Stock Price Reactions to the Novel Coronavirus*. Swiss Finance Institute Research Paper No. 20-12. Available at SSRN 3550274. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3550274 (Accessed 7 May 2020).
- 2 Leiva-Leon D., Pérez-Quirós, G. & Rots E. (2020). *Real-Time Weakness of the Global Economy: A First Assessment of the Coronavirus Crisis*. London: Centre for Economic Policy Research. https://cepr.org/active/publications/discussion_papers/dp.php?dpno=14484 (Accessed 7 May 2020).
- 3 https://en.wikipedia.org/wiki/COVID-19_pandemic_in_Europe#Poland (Accessed 7 May 2020).
- 4 <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P> (Accessed 7 May 2020).
- 5 <https://uni.wroc.pl/en/will-the-covid-19-pandemic-cause-a-breakdown-of-the-global-economy/> (Accessed 7 May 2020).

2. The “Anti-crisis Shield”

The special Anti-crisis Shield (Tarcza antykryzysowa in Polish) Act implemented by the Polish Parliament, which came into force on 1 April 2020, offered a wide range of possible measures provided as counter-measures to the COVID-19 pandemic. Also, some additional package of legislative laws related to protective shield act was adopted later. The special Anti-crisis Shield program consists primarily of the following five areas: financial safety of employees and protection of jobs, finance of business, healthcare, enhancing financial market soundness, as well as public investment plan.

The protective shield act includes special measures like tax measures (e.g. payment deferrals, rate reductions), economic stimulus measures (e.g. loans, moratorium on debt repayments), as well as employment-related measures (e.g. state compensation schemes). The primary objectives of the Anti-crisis Shield are concerned with the purpose on support for companies to enhance business cash-flow and save jobs.

2.1 Postponing Certain Tax-related Obligations

Postponing certain tax-related obligations is caused mostly by logistic and operational difficulties due to the pandemic. No new obligations should apply in that period, especially such requiring implementing new procedures within a company⁶. These solutions respond to problems, e.g. the need to adapt activities to the new situation and the lack of employees (holidays and remote work). It is also connected with reducing the financial burden, which will help ensure the liquidity of companies and save jobs.

- Deadlines for filing Corporate Income Tax (CIT) return and making final payments for 2019 are postponed till 31 May 2020 (for CIT taxpayers), and till 31 July 2020 (for non-governmental organizations: taxpayers achieving only tax-exempt income, as well as taxpayers operating in the public benefit sphere, if their revenues from this

activity account for at least 80% of all revenues).

- The deadline for advance payments of Personal Income Tax (PIT) advances on employment salary for March and April 2020 is postponed to 1 June 2020.
- Filing the annual PIT return and settling the related tax liability after the statutory deadline, but no later than 31 May 2020, will be treated as filing a voluntary disclosure statement. Tax authorities will not initiate any legal proceedings against individual taxpayers and will discontinue any pending ones.
- Extension of the deadline to 30 September 2020, for submitting a statement on the preparation of local transfer pricing documentation for entities whose tax year or financial year started after 31 December 2018 and ended before 31 December 2019.
- The implementation of the new Value-added Tax (VAT) matrix is postponed to 1 July 2020.
- Selected domestic supplies that contribute to combating COVID-19 will be temporarily VAT zero rated.
- Extension of the deadline for submitting a payment notification to an account will not be included in the VAT register (from three days to fourteen).
- Postponing of the obligation to file the new Single Audit File⁷ (SAF; declaration and records) from 1 April to 1 July 2020 for all taxpayers (voluntary filing available from May 2020). Employers have more time to work on adjusting accounting and IT systems to the SAF; and IT experts — to do their clients' work related to its implementation.
- Extension of deadlines for tax schemes reporting, including the suspension of ongoing deadlines, but no later than 30 June 2020.
- The implementation of Retail Sales Tax is

⁶ https://www.garrigues.com/en_GB/new/polish-governments-tax-response-fight-covid-19-pandemic.

⁷ Single Audit File is the standard by which the data is submitted to the tax authorities, including price of goods, unit of measurement, consignees of goods, invoice numbers, etc.

postponed to 31 December 2020.

- Postponing of the deadline to pay tax on revenues from buildings from March to May 2020 till 20 July 2020. Reducing the current financial burden by taxpayers who meet certain conditions will be possible, by postponing the deadline for payment of tax on building revenues (the so-called minimum tax on commercial real estate). This action is dedicated to entrepreneurs, who pay PIT and CIT.
- Extension of the deadline for financial reporting — depending on the type of businesses. The deadlines for private and public sector entities as well as non-governmental organizations will be extended by 2 or 3 months, with the preparation of financial statements, the audit by audit firms, approval and making those reports public.
- Tax exemption from 1 July 2020 for transactions of sale and conversion of virtual currencies (within the meaning of Article 2, clause 2, point 26 of the Act of 1 March 2018 on counteracting money laundering and terrorist financing).
- Postponement by three months (to 13 July 2020) of the deadline for reporting the information to the Central Register of Beneficial Owners.

The Minister of Finance will be able to (during the pandemic) issue a regulation implementing different deadlines in relation to: transmission of data, information, declarations, reports, statements, requests, applications, contributions, fees and charges, as well as other deadlines for fulfilling the obligations to register and to draw up, approve, make available and transmit to the competent register, unit or body certain reports or information to assist operators in fulfilling their information and reporting obligations.

Furthermore, taxpayers may apply for deferral of payment of VAT liabilities, including possible payment in instalments and waiver of arrears. Enterprises which are unable to pay taxes on time due to the COVID-19 outbreak can apply for a tax relief or forgiveness of arrears.

2.2 Loss Carryback

Companies are entitled to carry back tax losses incurred in 2020 and set them off against 2019 income, if the company's turnover dropped by more than 50%. It should be noted that only the maximum of PLN⁸5 million loss incurred may be carried back. This solution can help to ensure increasing the liquidity of entrepreneurs.

2.3 COVID-19 Donations Deduction

Donations made to health care providers, the Material Reserves Agency and the Central Sanitary and Anti-Epidemic Reserve Base, related to COVID-19 from 1 January to 30 September 2020, are the subject to an extraordinary deduction. The deductible amount will depend on the timing of the donation, as follows:

- By 30 April 2020 — deductible amount shall be equal to 200% of the donation;
- In May 2020 — deductible amount shall be equal to 150% of the donation; and
- From 1 June to 30 September 2020 — deductible amount shall be equal to 100% of the donation.

2.4 Bad Debts

To tackle with the current financial situation and to reduce the current financial burden, one of the measures is the suspension of application of the provisions in PIT and CIT, concerning so-called "bad debts" to taxpayers whose income is at least 50% lower compared with the previous year, so that the debtor is not obliged to adjust tax deductible costs and input VAT in case of payment delays.

2.5 Real Estate Tax

The municipal councils have the possibility to introduce an exemption from the property tax for the indicated groups of entrepreneurs for part of 2020, whose liquidity has deteriorated due to negative economic consequences caused by COVID-19. Their second possibility concerns extending, by order of the executive bodies, the deadlines for payment of property tax instalments payable in April, May and June 2020 — but no later than 30 September 2020.

⁸ The abbreviation of Poland's currency unit.

2.6 Suspension of Tax Proceedings/ Inspections

It's possible to apply for suspension of any opened and ongoing tax proceedings on the grounds of personal or public interest. However, the nationwide state of epidemic should be sufficient for suspension, as most tax proceedings are not active currently due to the quarantine.

2.7 Exemption from Social Security Contributions

Exempting from the obligation to pay social security contributions due for the period from 1 March to 31 May 2020 on certain conditions, among others, for entrepreneurs and/or their employees. The aim of the exemption from social security contributions is to enhance business cash-flow.

2.8 Wage Subsidy Paid to Employers for the Payment of Employee Remuneration

For qualifying companies that meet the criterion of recorded losses and decrease in turnover, the government will subsidize employees' salaries up to 40% of the average statutory wage. Employers must pay the same percentage of the employees' salaries whereas employees must agree to decrease their salaries by one fifth. The subsidy will be provided on condition that employers will not make any employees redundant.

2.9 Subsidies for the Self-employed

The Polish government will subsidize remunerations of people employed on commission and specific-task contracts, as well as self-employed people, up to 80% of the minimum statutory wage, if their income has fallen by at least 15% compared with the previous month, provided that the income in the previous month was less than PLN15,681 (300% average salary).

2.10 Deduction of R&D Costs from Income

R&D costs can be deducted from income, which are aimed, among others, at development

of products to counteract COVID-19. The deduction from the income of such eligible costs incurred in 2020 is already available during the payment of income tax advances this year. The solution is intended for CIT and PIT taxpayers who achieve revenues from business activities applying the uniform tax rate of 19% and conduct R&D activity used to counteract COVID-19. These are available for large enterprises, sole proprietorships, and small and medium enterprises.

3. Process of Building the Future

What is more, the Polish government has announced the plan of "defrosting" the economy. On 20 April 2020, Poland entered the first of the four stages of the government's planned return to a "new normality" and the defrosting of the Polish economy. It means an increase in the number of people allowed to do groceries, visit churches, and participate in recreational activities, and also the re-opening parks and forests, loosening restrictions on the movement of minors above 13 years old without their parents⁹. From 4 May 2020, shopping malls, furniture and construction stores as well as hotels are open with certain limitations. This is the second phase of "defrosting" the economy. The next phases will depend on the number of infections.

The Polish government presented also the idea of introducing the Estonian CIT into the Polish tax system. Under the Estonian CIT model, an enterprise's profit is not taxed when it is generated, but when it is distributed to the owners. Because it is charged on profit that leaves the enterprise, and can finance shareholders' consumption, this is an incentive to keep profit within the company¹⁰. Deferral of tax payment until the moment of distribution of profits is a highly investment-friendly approach¹¹. This solution may be effective in encouraging the entrepreneurs to invest and develop their businesses.

Additionally, Ministry of Finance of Poland has created the "Głos podatnika" (taxpayers' vote) portal. By using this portal, taxpayers and enterprises can propose changes in law.

⁹ More information see, <https://poland.in.com/47727754/economic-defrost-planned-postmay-holiday-govt>.

¹⁰ Leszczyłowska A., Łożykowski A. (2020). *Could the Estonian CIT model be a lesson for Poland?*, mBank – CASE Seminar Proceedings No. 163/2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3586509, 7.5.2020.

¹¹ Ibid.

Economic and Tax Policies Carried out in Austria in Response to the COVID-19 Crisis

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Austria was one of the first countries in Europe to introduce invasive governmental measures against the spreading of the coronavirus. As of 16 March, the government implemented a nationwide lockdown which stipulated that homes may be left for specific reasons only. However, the measures taken by the Austrian government obviously proved to be successful. As of 30 April, a total of 256,399 coronavirus tests had been carried out in Austria, with 15,369 con-



firmed cases¹. The basic infection index R_0 has dropped from 3.5 in March to currently 0.23².

As of May, Austria will enter the so-called second stage of prevention and control to cope with the coronavirus which is aimed at keeping newly confirmed cases at a low level while gradually returning to work and production, without risking a second wave outbreak. In a third stage (proposed for mid and end of May), Austria plans to re-open restaurants and hotels while still maintaining certain restrictions, strict health and safety regulations and social distancing.

The Austrian government took several measures, aimed at mitigating the negative economic impacts resulting from the lockdown caused by the COVID-19 pandemic. In the following the main measures shall be summarized and commented.

1. Crisis Management Fund

Austria has adopted a number of measures to cope with the economic effects triggered by the restrictions imposed in order to mitigate the spread of the coronavirus. The measures taken and the funds to be provided will be financed by the COVID-19 crisis management fund (“COVID-19-Krisenbewältigungsfonds”), which was initially endowed with EUR4 billion, but has been increased almost EUR50 billion in the meantime. Emergency aid for particularly affected sectors has been increased to EUR15 billion, EUR10 billion are budgeted for tax deferrals and EUR9 billion are planned for credit guarantees.

2. Employment-related Measures — Short-time Work

In order to reduce labour costs during statutory shut-downs of selected businesses, an employer may temporarily (with retroactive

effect from 1 March 2020; from 1 April 2020 for applications after 20 April 2020) apply a short-time working scheme for his employees. The scheme aimed to avoid a termination of employment relationships by reducing normal working hours and provides for significant benefits:

- Short application periods;
- High level of funding;
- Simplified application process.

During the relevant period for which the short-time work scheme is applied, the employee is working and remunerated part-time by his employer. In addition, the employer is entitled to state subsidy, which is equivalent to unemployment benefits payable pro-rata for the number of reduced hours. The exact amount of the subsidy depends on the remuneration payable to the employee and ranges between 80% and 90% of the net salary as payable prior to the coronavirus crisis (“net remuneration guarantee”). The subsidy shall be initially granted for a period of three months; however, it may be extended for another three months should this be necessary in order to stabilize the Austrian labour market.

The working hours can be reduced from 90% to 10% of the normal working time and may, in certain times during the calculation period, even amount to 0%. However, the short-time working model excludes the possibility to terminate the employment relationship; in fact, the employment agreement must be maintained for the period of applying the short-time work scheme and for one additional month after its end. In addition, deadlines for legal actions related to the termination of the employment agreement or (premature) dismissal of employees have been suspended until 30 April 2020. The suspension equally applies in the context of discrimination-based termination or dismissal

1 Number of Tests and Confirmed Illness Cases for the Coronavirus (COVID-19) in Austria in 2020, <https://www.statista.com/statistics/1109136/coronavirus-covid-19-tests-and-confirmed-cases-austria/>.

2 R_0 is a mathematical term that indicates how contagious an infectious disease is. It specifically applies to a population of people who were previously free of infection and haven't been vaccinated.

of the employment agreement. The short-time work scheme is widely used by Austrian employers. Currently the scheme is claimed for 1.1 million employees.

From a practical standpoint it has to be noted that enterprises applying for the scheme as well as their tax advisors faced several challenges with regard to its implementation, as the Ministry of Finance's interface and the different payroll applications used by tax advisors are not yet adopted to this new scheme. In coordination with the Ministry of Finance it was decided that ongoing payrolls of employees benefitting from the short-time working scheme shall be regarded as being of a preliminary nature and will be corrected as soon as the necessary adaptations to the Ministry's interface are carried out.

3. Economic Stimulus Measures

The following economic stimulus measures have been implemented:

3.1 Loan Guarantees for SMEs

- The Austria Wirtschaftsservice (AWS) and Österreichische Hotel- und Tourismusbank (ÖHT) are providing guarantees for SMEs in the amount of almost EUR4 billion. Various loan guarantee models with different conditions are available. By utilizing these guarantees, a company may quickly secure the additional liquidity required during the crisis.
- Guarantee for 80% of a loan amount of up to EUR2.5 million for 5 years. No processing fees and no guarantee fees will be charged for the guarantees.
- Guarantee for 90% of a loan amount of up to EUR27.7 million for 5 years. The guarantee will be linked with a guarantee fee starting from 0.25% up to 1% per annum, depending on the respective credit period. However, the interest rate is limited to 1% per annum maximum.
- Guarantee for 100% of a loan amount of

up to EUR500,000 for 5 years. Again, neither processing fees nor guarantee fees will be charged for providing the guarantees. The interest rate amounts to 0% for 2 years, and a markup of 0.75% to the 3-month-Euribor³ for subsequent periods.

Applicants for the guarantees of 90% and 100% have to consider numerous additional restrictions, e.g. profit distribution must be stopped until 16 March 2021 and limited during the loan period; moreover, bonuses for directors have to be limited.

3.2 Loan Guarantees for Large Companies

- OeKB Group (Österreichische Kontrollbank) is providing guarantees for large companies worth EUR15 billion.
- Guarantee for 90% of the loan amount of up to EUR120 million for a period of 5 years is granted. A guarantee fee will be charged starting from 0.5% per annum up to 2% per annum, depending on the respective credit period. The interest rate is limited to a maximum of 1% per annum. Applicants for this guarantee have to consider the same conditions as mentioned above for SMEs.

3.3 Government Grants

- The Austrian government has announced direct grants for companies (SMEs and large companies), that are heavily affected by the COVID-19 crisis, of up to EUR90 million per company (or group of companies).
- The grants shall cover up to 75% of fixed costs incurred and of impairments of stock triggered by the COVID-19 crisis (caused by the statutory shut-down in particular of the retail sector).
- The detailed regulations applicable to the direct grants will be published at the be-

³ Euribor is an abbreviation of "Euro Interbank Offered Rate".

ginning of May and companies will presumably make extensive use of this grant.

4. Tax Relief Measures

Austria's Federal Ministry of Finance introduced various tax relief measures in response to the COVID-19 pandemic. The tax relief measures may be outlined as follows:

- A reduction regarding advance (corporate) income tax payments in 2020 may be applied; the advance payments may even be reduced to zero in industries which face a significant economic decline due to the current situation. Applications may be submitted until 31 October 2020; however, most businesses have filed the application within short notice.
- If the (corporate) income tax advance payment is not reduced to zero anyway, the advance payment is assessed with the amount of (corporate) income tax expected for the respective financial year. However, provided that the taxpayer's liquidity is severely affected by the COVID-19 crisis in a way that he cannot pay the advance payment, he can request a partial or total non-assessment of the advance payments.
- The payment of taxes can be, upon request, deferred or made in instalments until 30 September 2020. This possibility is not restricted to specific taxes and may therefore be requested for all taxes (for instance also for VAT payments). Until an application for deferral is provided by the tax office, no payment obligation and no collection measures may be taken by the tax authorities. There are, however, no changes with respect to the obligation of the taxpayer to submitting tax returns (e.g. monthly or quarterly VAT returns) such that legal obligations must be met in time.
- Suspension of tax audits if the taxpayer is

affected by the COVID-19 in its operating activities and is therefore unable to provide the appropriate resources for the cooperation with the tax authorities. However, if the emergency ceases to exist, the tax authority or the respective tax auditor should be informed in order to be able to resume the tax audit.

- Relief from interest or late-payment penalties is available for taxpayers provided, however, that the taxpayer can substantiate that he has faced an (acute) liquidity shortage.
- The deadline for submission of the annual tax returns for 2018 for (corporate) income tax and VAT has been extended until 31 August 2020.⁴

5. Social Security Contributions

In case of a lockdown of the business ordered by the authority and closing or limitation of business activities, the payment of social security contributions for February, March and April 2020 may be delayed automatically without interest.

Other businesses are eligible for payment deferral upon request only and must, in this context, prove that their liquidity has been (negatively) affected by the coronavirus crisis.

6. Measures on Federal State Level

There are state-level relief measures in addition to these at federal level, namely an emergency fund of the Vienna Chamber of Commerce for Viennese one-person businesses and micro-enterprises, a COVID-19 package of measures of the Federal State of Tyrol and a support package for small and medium-sized enterprises in Lower Austria. Additional support packages, loan guarantees and direct grants are prepared in all federal states of Austria.

⁴ Generally, the CIT return has to be submitted electronically by 30 June of the calendar year following the year in which the fiscal year of the company ends. However, if the company is represented by an Austrian certified tax advisor, the tax return can be submitted by 31 March of the second following year at the latest (if the company will not be formally requested by the tax office to file it earlier).

Tax Responses to a Pandemic: An Australian Case Study

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1. Tax Responses to a Crisis

Not surprisingly, when a global pandemic has threatened all aspects of every nation's social and economic fabric, governments have looked to every possible tool available to confront the consequences of the unfolding crisis. Equally unsurprising is that among the tools considered has been taxation, an economic lever with a long history of success as an instrument of economic management. The progressive personal income tax has proved unequalled as a mechanism to achieve income re-distribution goals, while raising tax rates has helped temper overheated economies, and reducing tax rates has helped free funds for discretionary spending to help revive economies heading towards the bottom of the trough

in an economic cycle. More significantly, reforms to remove concessions and tax-induced distortions have proved surprisingly effective at creating more neutral and unbiased investment environments that have encouraged more efficient market-driven allocations of capital, yielding higher growth rates.

Coinciding with searches by governments for economic levers to rebuild economies hammered by COVID-19 quarantines, the business community saw the economic crisis as an opportunity to leverage tax concessions from the government. Following past precedents — never let a good crisis go to waste — the business community led by businesses that remained profitable during the crisis and those envisaging quick returns to profit as

lockdowns end, sought new tax subsidies by way of rate reductions and concessions such as accelerated depreciation.

Buffeted by unprecedented pressures from all sides, the Australian government canvassed all options before settling on its responses, ultimately settling on a narrow and carefully targeted set of tax measures. The important lessons from the Australian response may be not what the government did, but what it deliberately chose not to do.

2. The Australian Tax System

Australia is a federal country, formed from a federation of colonies more than a century ago. The constitution allocates powers, including taxing rights, to the central government and the six state governments. In addition, the central government granted two federal territories the same taxing rights as states.

The main source of tax revenue in Australia is the income tax levied on individuals and companies. Prior to the Second World War, income taxes were levied concurrently by both the state governments and federal government. Compliance costs were particularly high for businesses operating in more than one state as the state income taxes differed from one another and from that of the central government. An agreement by the states and central government to adopt uniform income tax laws in each jurisdiction solved this problem in 1936, but the harmony was short-lived as the central government effectively

appropriated the income tax field as a temporary war-time emergency measure in 1942 following the Japanese bombing of Darwin, in the north of the country. Following the war, the central government retained its exclusive control over income taxation with state actions to restrain the central government's appropriation over the field failing in the courts.

Australia's adoption of a VAT (called the goods and services tax or GST in Australia) was rather late — the tax did not come into effect until 2000. The VAT replaced a narrower wholesale sales tax levied by the central government. State governments impose no sales taxes in Australia as a consequence of judicial rulings that the constitutional prohibition on state excise taxes extends to sales taxes. However, when the central government replaced the wholesale sales tax with the GST, it pledged to distribute all revenues from the tax to the states. It is divided between the states using a re-distributive equalization formula that provides a higher share to states with low revenues per capita, and lower shares to wealthier states.

3. What the Government Did Not Do

3.1 Income Tax Concessions

Since the first imposition of income taxation by the central government in 1915, in the midst of the First World War, governments have used income tax concessions as a means



of biasing investment decisions in the hope of stimulating investment in preferred sectors. The concessions include measures to defer recognition of gain in takeover arrangements when shareholders with interests in a target company exchange their shares for shares in the company acquiring their firm, measures to defer recognition of gain in the case of involuntary disposals (due to disaster, farm animal disease, and similar catastrophic events), usually when proceeds are used to acquire replacement assets, and a number of depreciation measures.

Over the years, depreciation concessions have included front-end loading (much higher depreciation in the first years), accelerated depreciation over a short period, and depreciation loadings that allow taxpayers to depreciate more than the actual cost of assets. Almost all concessions of this type were eliminated in 2000, when the government opted for a broad and neutral company tax base to encourage more efficient and unbiased allocation of investment capital, supporting what became the longest period of continuous economic growth in Australian history. Concessions were retained for small business, however, which was entitled to use simplified, and somewhat concessional, depreciation rules.

Apart from the recently contentious issue of charitable activities, exemptions have not been included in Australian income tax concessions with one exception. Prior to 1971, the price of gold around the world was fixed at USD35 an ounce, the rate at which it could be exchanged into US dollars. When the exchange mechanism was scrapped by President Richard Nixon in 1971, the price of gold climbed until it reached a market price and has fluctuated in value since then, along with all other mineral resources. When the price of gold was fixed, gold miners were unable to sell for more, even as their costs rose. Since the Australian government had no say over the price of gold, which was controlled globally by the US government, it resorted to an income tax exemption for income from gold

mining to provide assistance to that mining sector. The enormous influence of the gold mining lobby on government is reflected by the fact that the exemption was not removed until January 1991, twenty years after the price of gold was deregulated.¹

When the economic implications of the COVID-19 disaster became obvious, both the state and central governments quickly began modifying their tax rules. Most of the changes provided deferred payment schedules and some states reduced immovable property tax liabilities for landlords no longer receiving full rents for their property. Also, many states did not include central government wage supplements (described below) in the salary base subject to state payroll taxes imposed on employers. The most significant response by the central government was not a tax measure but rather a spending program with the adoption of what was labelled the “JobKeeper” program, which provided employers with funding to continue paying workers when the businesses were shut down. The program has proved very effective at preventing economic hardship by workers and business closures for affected businesses.

What the government did not do was adopting any of the concessional measures advocated by those hoping to use the crisis as a means of reducing company tax liabilities. It was clear to the government that the most significant challenge facing businesses was cash-flow — businesses had most of their ongoing costs but no revenue to pay the costs or invest in changes needed to accommodate changes needed for post-quarantine commerce. It was recognized by the government and largely conceded by the business community that tax concessions provided no benefit to businesses that needed it most. Tax concessions were of value to profitable companies, but provided no assistance to those in loss positions. As a result, the government dismissed suggestions for tax concessions as a response to the economic difficulties faced

1 The political history of removal of the exemption is documented in Reza Mohammed Monem (1999). *Economic Prosperity of the Gold-mining Industry in Australia and the Consequent Gold Tax*. 9 *Accounting, Business & Financial History* 3, pp 307–323.

by businesses in Australia.

The deliberate decision to eschew tax concessions as a response to the economic downturn followed lessons learned from the Australian government's response to the Global Financial Crisis of 2008–2009. At that time, the government adopted a generous investment allowance for taxpayers acquiring new depreciable assets. An investment allowance is a deduction for the purchase of capital assets over and above the actual cost of the item. Subsequent regression analysis of investment patterns suggested there was higher investment in the post-crisis period when the allowance was available, and further that this investment was not simply taxpayers bringing forward planned future investment to take advantage of the temporary concession.² However, the concession was only of value to profitable firms and thus had no benefit for businesses most in need of capital to invest in the post-crisis period. It is probable that profitable companies seeking to expand in the post-crisis business environment would have made the investments without the concession.

While tax concessions appear not to be a desirable response to an economic crisis, there are some tax reforms that are clearly appropriate and arguably necessary to aid post-crisis recovery. The first of these is reform of loss carry-forward rules, and the second is reform of foreign exchange gain and loss rules. Fortunately, the Australian government had already acted some time ago to implement these two reforms.

3.2 Carried Forward Losses

An inevitable consequence of the COVID-19 calamity is a period of losses for many businesses. It is clearly in society's interest for companies facing difficulties in an economic crisis to trade their way out of losses, rather than simply declare bankruptcy and leave employees and creditors to bear the losses. However, if the crisis is severe, the

losses may be substantial and it may take many years for the losses to be fully absorbed by future profits. Limitations on loss carry-forward may prejudice businesses that have continued to operate after the crisis, and recovered the losses over a period longer than that recognized in loss carry-forward rules.

Until 1990, Australia had a loss carry-forward limit of seven years (the limit for farmers had been removed in 1966). A reform in 1990 abolished the limitation rule, allowing taxpayers to carry forward losses indefinitely. No policy reasons for the limit of carry forward losses had been advanced, and the primary reason for the rule was to simplify tax administration. However, with the shift to a full self-assessment tax system, taxpayers were responsible for proving entitlement to use carried-forward losses and the government agreed that there was no logical reason to retain the restriction.

A better reform would have eliminated the loss carry-forward limitation and allowed a limited carry-back of losses to be offset against gains prior to the crisis. This reform would provide immediate cash infusions (refunds of taxes paid in previous years) to businesses at a time when they needed it most and in 2012, in the wake of the global financial crisis, a working group appointed by the government to investigate the rules applying to business losses recommended adoption of loss carry-back rules.³ The Labor government in power at the time subsequently introduced loss carry-back rules, but the measure proved short-lived and was repealed in 2013 when the Conservative Coalition returned to government.

A related reform to the loss carry-forward rules was the refinement of anti-avoidance measures to prevent the exploitation of loss companies. A company is allowed to carry forward its losses indefinitely, even if there is a change of ownership of the company. This potentially

2 David Rodgers & Jonathan Hambur (2018). *Do Investment Tax Breaks Increase Investment? New Study of GFC Data Shows Substantial Investment Growth*. Austaxpolicy Blog, <https://www.austaxpolicy.com/investment-tax-breaks-increase-investment-new-study-gfc-data-shows-substantial-investment-growth/>.

3 Business Tax Working Group (2012). *Final Report on the Tax Treatment of Losses* (Australian Treasury), <https://treasury.gov.au/publication/business-tax-working-group-final-report-on-the-tax-treatment-of-losses/final-report-on-the-tax-treatment-of-losses>.

opens a door to abuse, if the company is bought only to access its accumulated losses with the new owners diverting other profit-making activities to the loss company they have purchased. To prevent this abuse, loss carry-forward rules commonly have a condition that a company can only use carried-forward losses following a change in ownership, if it continues to carry on the same type of business it operated prior to the change in ownership. Australia relaxed the same business test in 2015 and now applies a similar business condition for companies to use carried-forward losses.

3.3 Foreign Exchange Gains and Losses

A second reform that had already been completed was the comprehensive overhaul of Australia's tax rules for recognizing foreign exchange gains and losses. A pandemic affects different countries at different levels and different times, adding to the causes of currency fluctuations which in turn lead to foreign exchange gains and losses. All tax systems require taxpayers to calculate net income in national currency, which means amounts shown in a foreign currency on an invoice received or issued by a business must be translated into local currency for tax purposes. There may be a lag between the time an invoice is received or issued and the time it is actually paid, with the foreign currency higher or lower than it was when the invoice was generated. The translation of the actual amount received or paid will virtually always differ from that calculated at the time the invoice was created, and a gain is recognized as income for tax purposes and a loss is treated as a deductible expense.

Foreign exchange gains and losses can also be realized on loans denominated in a foreign currency, if the principal amount received or paid at the end of the loan period ends up being more or less than the amount lent or borrowed. Previous reforms of the Australian foreign exchange gain and loss rules ensure that all currency gains and losses are fully recognized for tax purposes. At the same time, comprehensive rules for the taxation of "financial arrangements" provide detailed guidance on recognizing the loan element of complex financial instruments with

loan and equity elements.

Like most modern economies, Australia has adopted "thin capitalization" rules to discourage foreign investors from using excessive debt to fund their subsidiaries in the country. Thin capitalization is a technique commonly used by multinational enterprises to reduce the taxes of subsidiaries by enabling them to repatriate profits as deductible interest on loans from the parent or a related party instead of paying non-deductible dividends.

Thin capitalization rules deny subsidiaries deductions for interest payments where the debt to equity ratio exceeds a prescribed threshold. If the debt of a subsidiary is denominated in a foreign currency, there is a risk that the debt to equity ratio could rise and trigger the thin capitalization rules only because the local currency has been devalued as a result of the economic downturn. While this potential problem has been discussed in some jurisdictions, to date this has not proved to be a problem in Australia and there has been no discussion in the country of possible changes to the thin capitalization rules.

3.4 GST Rates

Australia's GST is an example of a "modern" VAT, the type of VAT which has generally been adopted since 1985 in countries outside the EU and potential EU expansion zone. A defining feature of the modern VAT is the use of a single rate to avoid distorting consumption decisions, and to reduce compliance costs arising from many borderlines between similar supplies in older VAT systems (often labelled "traditional" VAT systems). The Australian rate is relatively low, a 10% rate applied to supplies of goods and services. Moreover, no tax is applied in Australia to three major sectors — food, education and health, leaving the base narrower than that in many countries. Rental apartments are subject to the tax but only in respect of inputs used by the landlord, not on the full cost of rent. There has been no discussion of possible reduction of the rate due to the COVID-19 economic downturn, reflecting both the need of state governments for revenues to provide social services and the fact that necessities are exempt from the tax.

4. The Retirement Savings Measure

While the Australian government made no changes directly to the tax law in response to the COVID-19 economic downturn, it did modify the rules for one particular tax-driven program, making a change that may have significant economic consequences at some point in the future. Australia, like many advanced economies, provides tax concessions for retirement savings. With perfect foresight, all workers would set aside some of their incomes for their retirement when they can no longer draw a salary. People are myopic, however, and experience shows that without compulsion or additional incentive, workers are unlikely to save sufficiently.

Australia uses a combination of compulsion and incentive by way of tax concessions to support retirement savings. The compulsion is a mandatory contribution by all employers of an amount equal to at least 9.5% of each employee's salary to a retirement savings fund, called a "superannuation fund" in Australia, nominated by the employee. The compulsory contribution is scheduled to gradually rise to 12%.

Prior to 1988, the Australian tax concession for retirement savings was similar to that used in many countries — no tax was payable on employer's contributions to a retirement savings fund, no tax was payable on income earned by the fund, and distributions from the fund after retirement were taxed. In 1988, the government reversed the pattern, treating employers' contributions to a retirement savings fund as taxable income, subjecting income earned by the fund to tax, and exempting from tax all distributions from the fund after retirement. In effect, the savings were treated similarly to ordinary savings outside of a retirement fund. However, the incentive to induce taxpayers to use retirement savings funds rather than other savings vehicles was a lower tax rate on contributions to the fund and on income earned by the fund. The highest individual marginal tax rate in Australia

is 47% (including a 2% national health insurance charge), while the rate imposed on contributions to a retirement savings fund and investment earnings of the fund is 15%.

The condition imposed on the funds as a trade-off for the reduced rate of taxation was that the contributions and earnings had to remain "preserved" in the fund until the employee reached retirement age of 65. However, aware that many persons in the community were suffering financial hardship as COVID-19 quarantine shut down economic activity, the government modified the retirement savings rules and allowed members of a retirement savings fund to withdraw up to AUD10,000 (approximately RMB45,700) prior to 30 June 2020 and a further AUD10,000 after 30 June.

Because the withdrawals are made before retirement age, they will not qualify for the exemption from taxation of retirement fund distributions and will therefore be taxable when received by a fund member. Had the funds remained in retirement savings accounts, they may have grown in value many times by the fund member's retirement age with the aid of compounding. The impact on retirement savings of allowing these early withdrawals has, consequently, stimulated some debate in the community.⁴ The prevailing consensus, however, appears to be that allowing access to savings that had enjoyed a tax concession was sensible in the circumstances.

5. The Wrap-up

The COVID-19 pandemic has upended the economies of all nations. Governments have scrambled to find ways to relieve hardship of individuals and to assist businesses to reboot and rebuild. Some business figures have also sought to use the economic downturn as an excuse to extract income tax concessions from the central government. Australia is unlikely to adopt measures of this sort, recognizing that concessions are of no value to the businesses in loss positions and most in need of assistance.

4 It should also be noted that the early release scheme was "paused" on 8 May 2020 to allow federal government authorities to investigate possible fraud in the claims process through identity theft. See, <https://www.theguardian.com/australia-news/2020/may/08/early-access-to-superannuation-paused-as-police-freeze-120000-in-allegedly-stolen-funds>.

COVID-19 and Tax Law: A Current View from the United States

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The effects of the worldwide epidemic of COVID-19 insofar as U.S. tax law is concerned are very real, very large, and grasped for the most part only by tax professionals. But there is one exception: all Americans now see the Internal Revenue Service (IRS) not only as a tax collector but also the agency sending \$1,200 to almost every American adult, plus \$500 for most children.

These payments, variously called stimulus payments or recovery rebates or something else, are a cornerstone of the U.S. effort to keep the economy afloat while most residents are urged to stay home to combat the spread of COVID-19. The IRS is the most appropriate agency to handle these payments, since it has the best database of intended recipients. Furthermore, the payments are notionally a credit against income taxes due for 2020. Still, this extra duty for the IRS has strained its resources while, perhaps, improving the IRS's image in the minds of taxpayers.

Developments in the United States with respect to COVID-19 and the tax law generally fall into three categories:

- The challenge of dealing fairly and appropriately with individuals and their employers when the individuals are “trapped” in the United States because of travel restrictions

or health fears arising from the pandemic. There is a concern that these individuals could trigger individual and corporate taxes that were not intended or expected.

- Tax-specific provisions included in the enormous statute enacted by the United States on March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act. These provisions are complex on their own and the complexity is multiplied for many taxpayers because of the interaction of the favorable new rules with international provisions in the 2017 Tax Cuts and Jobs Act (TCJA).
- Institutional strains on the IRS and taxpayers from social changes — in particular, the mandated “sheltering in place” orders that apply to most residents — necessary to minimize the health risks posed by the pandemic.

We will address all three of these developments.

1. Accidental Presence

1.1 Inbound Individuals

Like most countries, the United States has numerous statutes and some treaty tests that trigger tax consequenc-

es based on the number of days that an individual is physically present in the country. The leading example is the “substantial presence” test for U.S. residence of a non-resident alien, contained in section 7701(b) of the Internal Revenue Code.

Under this test, a non-resident alien is considered a U.S. statutory resident for tax purposes (and therefore subject to tax on worldwide income) if the individual is present in the United States for at least 31 days in this year and for 183 days under a formula that counts 100 percent of the days in the current year, one-third of the days in the immediately preceding year, and one-sixth of the days in the year before that.

There are various exceptions, but the exceptions did not contemplate a global pandemic and do not cover many now common situations. For instance, there is no exception for someone who remains in the United States as a caregiver for a close family member. And although there is an exception for full-time students, who is a full-time student when the individual is forbidden to be on campus and all learning is remote?

On Tuesday April 21, the IRS issued guidance in Revenue Procedure 202020 to address such concerns. Affected individuals may elect to exclude from the “substantial presence” calculation any 60-day period beginning on or after February 1, 2020 through April 1, 2020.

This guidance builds on recommendations from the OECD Secretariat, which urged countries to be lenient in seeking to tax individuals who would not ordinarily be subject to tax but trigger tax nexus because of the unusual travel limitations related to COVID-19. Although a 60-day period may well be insufficient, at least the tax authorities have evinced awareness of the problem and a willingness to take positive steps to resolve it.

1.2 Outbound U.S. Individuals

The United States offers special tax benefits for U.S. citizens and residents who live and work outside the United States for an extended period. Generally, these individuals must have a *bona fide* tax home in another country, or be


present in another country for 11 months in a 12-month period. Under section 911 of the Internal Revenue Code, qualifying individuals may exclude approximately \$100,000 of earned income and certain housing expenses from U.S. taxation.

COVID-19 travel limitations affected some of these individuals, just as the pandemic affected non-residents temporarily present in the United States. For instance, a person expecting to be present in Germany for 11 months of the year may have been temporarily in the United States and unable to return to Germany, or to go to any other foreign country. In Revenue Procedure 202027, the IRS granted relief for individuals who otherwise would have qualified for tax benefits under section 911 but could not fully satisfy its requirements because of travel restrictions. The relief applies to individuals who were physically present in China or established residency in China before December 1, 2019 but left China after that date, and for individuals who were physically present in other countries or established residency in other countries before February 1, 2020, but left the other country after February 1. The relief expires on July 15, 2020, unless extended by the U.S. Treasury Department and the IRS.

1.3 Corporate Taxation

Individuals whose work lives are disrupted by COVID-19 might also trigger corporate taxation for their employers. For instance, a citizen and resident of Singapore who traveled to the United States on March 1, 2020, for a short business trip might be limited in his or her ability to return home because of illness or travel restrictions. If the individual continues to work in the United States for an extended period, that work could create a U.S. trade or business for the employer that would cause the employer to be taxable in the United States. Under treaties, the same consequence could arise if an individual's activity created a taxable permanent establishment.

As with individual taxation, and consistent with the recommendations of the OECD, the IRS has granted relief. In a release on April 21,



2020, the IRS allowed foreign corporations to exclude activities of an employee for a 60-day period in determining whether the foreign corporation has created a U.S. trade or business or a U.S. permanent establishment. The 60-day period must begin on or after February 1, 2020 and on or before April 1, 2020.

These relief provisions — for foreign individuals inbound to the United States, for US persons outbound to other countries, and for foreign entities with employees whose travel plans have been disrupted — should mitigate the unintended tax consequences for most taxpayers affected by COVID-19.

2. The CARES Act

The CARES Act is sweeping legislation assembled in rapid fashion to address concerns that the U.S. economy (and the global economy) is falling into a deep recession. The Act contains new and important statutory provisions designed to use the tax system to counter adverse economic effects of the health crisis. The details are technical but, as a general matter, the major tax provisions are intended to put money in the hands of taxpayers by removing limitations on deductions that had been imposed by the TCJA. Affected taxpayers can claim tax refunds for past years and reduce tax payments in the future that would otherwise be required.

2.1 Net Operating Losses

The TCJA eliminated all carrybacks of net operating losses (NOLs) as of 2018 and provided that such losses, when carried forward, could eliminate no more than 80 percent of taxable income in a carry-forward year. The TCJA restrictions were consistent with similar rules enacted in some other jurisdictions (*e.g.*, Japan) and were a revenue raiser that helped limit the projected cost of the TCJA.

In the face of COVID-19, Congress decided to lift the restrictions, at least temporarily. The CARES Act eliminated the 80 percent limitation for years beginning after December 31, 2017 and before January 1, 2021 and allowed carrybacks for up to five years.

The CARES Act included a special provision — beneficial to taxpayers but likely to prove complex in effect — that addresses the coordination of the new, more generous NOL carryback rule and an international tax provision in the TCJA. As part of the TCJA, U.S. taxpayers who owned foreign entities classified as “controlled foreign corporations” and certain other foreign corporations were required to take into income amounts earned by the foreign corporations but not yet distributed to the United States. The income subject to this repatriation rule was calculated as of the end of 2017 and reported on U.S. returns for that year; taxpayers could elect to pay U.S. tax, at reduced rates, over a period of eight years.

The special provision in the CARES Act allows taxpayers who claim a loss carryback (and many large taxpayers will have losses in 2020) to skip over a year in which the taxpayer has repatriation income. This rule permits taxpayers to avoid using loss carrybacks against this low-taxed income.

The intersection of the CARES Act rule on NOLs and other complex international provisions in the TCJA will require most taxpayers to engage in detailed modeling to determine how best to apply their NOLs. Corporate taxpayers may have low-taxed income not only from the repatriation provision but also from the rules for global intangible low-taxed income (GILTI, subject to a 10.5 percent effective rate of tax) and for foreign derived intangible income (FDII, subject to a 13.125 percent effective tax rate). On the other hand, a carryback of 5 years will bring losses to years in which the general corporate tax rate was 35 percent, so the losses have considerably more value than if their only use was a carryforward for use against income taxed at 21 percent.

Once a taxpayer decides which year will be the first year for a carryback, losses not used in that year roll forward year after year to subsequent years (except for years with repatriation income, if the taxpayer so elects) until the losses are absorbed. With multiple considerations — lower tax rates on repatriation income, GILTI, and FDII, and income that may be sheltered by

foreign tax credits, and higher tax rates in earlier years to which losses may now be carried — taxpayers face difficult choices. Furthermore, most corporate taxpayers have not finished calculating their income for 2019, and the 2020 tax year is far from over.

2.2 Interest Deductions

The CARES Act also relaxed limits on interest deductions that were imposed by the TCJA. Like the NOL rules, these limitations were imposed to raise revenue for the 2017 act.

The TCJA reduced the amount of the allowable interest deduction from 50 percent of a taxpayer's income to 30 percent, and expanded the types of interest payments subject to the lower limit. Formerly, the rule only applied to related party interest exempt from tax in the hands of the recipient. The TCJA applied the rule to all interest.

The CARES Act restores the limitation to 50 percent for taxable years beginning in 2019 or 2020. Taxpayers may elect to continue to apply the lower limitation, and some taxpayers will do so, because greater interest deductions may have adverse consequences under the Base Erosion and Anti-Abuse Tax (BEAT), also enacted in the 2017 legislation. Once again, taxpayers will have challenging modeling exercises to determine the approach that is the best.

In addition, taxpayers are allowed to use their 2019 taxable income as the base for the deduction in 2020, in anticipation that many taxpayers will have very low income in 2020. And there is an interesting relationship between allowance of greater interest deductions under the CARES Act and the new NOL rules, since for some taxpayers the additional interest deductions will increase losses that are then subject to the five-year carryback provision.

These CARES Act provisions may come with a large price tag, although gauging just how large is impossible to judge until more information is available from taxpayers' 2019 and 2020 tax returns. The high price is not unexpected; the purpose of these rules is to provide liquidity to taxpayers that will reduce the risk of bankruptcy and further dislocation



of the economy. On the other hand, it is fair to ask how effective the CARES Act will be in achieving that purpose, since most taxpayers have yet to file returns (and compute losses) for 2019 and filings for 2020 are well off in the future. Losses from 2018 and 2019, moreover, cannot be attributed to the pandemic.

3. Impact of COVID-19 on the IRS

Simply reciting recent statutory changes to U.S. tax law grossly understates the impact of COVID-19 on the IRS and on taxpayers. The entire U.S. tax system has been upended, just as the virus has dramatically impacted other areas of life.

3.1 Tax Administration

In order to minimize the risks of COVID-19 to IRS workers, and to help limit the spread of the virus generally, the IRS has followed the “shelter-in-place” rules imposed by almost every jurisdiction in the United States. This means that IRS employees are working from home and not staffing IRS service centers.

Filing deadlines — and, perhaps more importantly, payment deadlines — for personal income tax returns for the tax year 2019 have been extended from the usual April 15 to July 15. Deadlines for many other tax returns

(such as trust returns and gift tax returns) are likewise extended to July 15.

The extension is necessary because there are no IRS workers available to handle paper returns. Returns filed electronically can be processed but returns that have been mailed in are being warehoused in trailers, unopened, until IRS staff can return to their duty stations.

This gives rise to many problems, such as the inability of U.S. persons to obtain certificates of U.S. residence from the IRS. The tax authority unit in Philadelphia that issues such certificates has been disbanded with no fixed date for a resumption of duty.

In addition, the U.S. Tax Court has no one on the premises to receive and process new filings. Tax cases in other courts are being delayed in most situations, because of the difficulty of courts operating on a “virtual” basis.

IRS staff — like many government workers and, indeed, private sector workers — are making their best efforts to continue working, but from home. Significantly, the IRS continues to issue guidance in the form of rulings and regulations. The obstacles to efficient operation are challenging.

In general, ongoing tax audits are continuing, but there are few new audits being initiated. The IRS has announced that it will proceed with audits when that is necessary in order to preserve the government’s rights under a statute of limitations. Since taxpayers are handicapped in responding to tax audits, they are usually willing to extend the statute when requested to do so.

Similar disruptions have affected tax administration at state and local levels, though unevenly throughout the country.

3.2 Recovery Rebates

The most visible work of the IRS right now is distributing to U.S. citizens approximately \$292 billion in recovery rebates authorized by the Congress. These rebates, generally \$1,200 to each adult and \$500 for each child, are intended to help citizens with rent, food, and other necessities while much of the economy is shut down.

The IRS has been tasked with similar responsibilities in the past, following the economic stress caused by the September 11, 2001, attacks and the recession caused by the financial crisis in 2008–2009. But that prior experience does not mean the exercise is easy. Not all U.S. citizens who qualify for payments also pay taxes, so that the IRS has a current address; sending checks to some citizens requires IRS to obtain addresses from other government agencies, such as the Social Security Administration. Furthermore, some citizens have died since the most recent tax returns were filed. More than \$2.5 billion in payments have already been returned because of wrong addresses, wrong bank accounts or other errors.

4. What Is Next?

As almost everyone in the world is aware, the COVID-19 crisis is far from over. As of this writing, most states of the United States generally still impose severe restrictions on how many people can gather in one place and which stores can operate; almost all schools are closed and many public services such as transportation are curtailed. Furthermore, the public is hesitant to return to a “normal” life even in places where businesses are permitted to reopen.

The U.S. Congress is actively debating whether additional legislation is needed to keep the U.S. economy from falling further into recession. Such legislation would likely include additional cash support payments to U.S. persons and further changes of the tax laws. The CARES Act liberalized the tax deduction for charitable contributions by individuals who do not itemize deductions; charities and their supporters in Congress are pushing for additional opportunities for taxpayers to deduct such contributions.

Other legislation being considered would extend certain tax benefits that will phase out in future years, such as a rule allowing taxpayers to deduct capital expenditures currently or at least more rapidly. Any report at this time on the tax-related provisions of the U.S. response to COVID-19 is only an interim accounting.

Finding Opportunity in Adversity: Tax-focused COVID-19 Support in BRITACOM Members

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Abstract: In this article, we show that, in common with the 2008-2009 global financial crisis, tax administration is already playing and will continue to play an important role in securing a safe and expeditious exit from the COVID-19 crisis, and the lessons learned from globally are crucial for the Belt and Road Initiative (BRI) crisis response. We look at the types of measures being utilized both globally and by BRITACOM Members' governments, the added burden being placed on tax administrators as a result of the need to oversee new programs and change existing ones, and the potential longer-term effects on tax administration as the world learns to live in what may need to be a "new normal". We conclude that there is an opportunity to use this experience to "build better" as we look beyond the support phase and to the future of tax administration.

Keywords: Belt and Road Initiative; Tax administration; COVID-19 stimulus; COVID-19 tax response

1. Introduction

By the date at which this article was drafted¹, EY's 132-jurisdiction Global Stimulus Response Tracker², a tool made available on the ey.com public website³, estimated that fiscal support in response to the COVID-19 crisis had reached more than USD15 trillion across the 15 largest economies alone, and such support had been unveiled by governments from Albania to Zambia.

Over and above that seemingly simple, yet totally unprecedented figure, consideration of the level of taxpayer support as a portion of Gross Domestic Product (GDP) highlights the sheer scale of the activities undertaken by governments. The International Monetary Fund (IMF) data indicate that total global support issued so far represent about 20% of Global GDP — more than ten times as much as during the Global Financial Crisis (GFC), when the figure was 2%^{4,5}. And while we don't yet know how much of the current support is being delivered via tax systems, the OECD stated that 56% of stimulus measures during the GFC were delivered in this way⁶. It can therefore be expected that tax systems — including tax administration processes and those who own them — will play a major role in helping the world through this crisis. Indeed, EY's Tracker notes that there are already well over 2,000 tax-focused support measures in place across the 132 jurisdictions, and that number continues to grow rapidly. Among these, 27 are BRITACOM Members⁷. The 27 jurisdictions have (so far) issued about 293 tax-focused

support measures according to EY data, an average of almost 11 measures per jurisdiction. In addition, all jurisdictions have pursued numerous additional non-tax support measures, including central bank interest rate reductions, loans, loan guarantee programs, employee retention support programs, export and trade-related measures and cash grants to, in particular, micro, small and medium-sized businesses.

Looking to the Belt and Road Initiative (BRI), this seismic disruption of the global economy translates into a very different environment for its development than even six months ago. The BRI was already one of the most audacious projects to ever be undertaken, being the largest set of infrastructure and investment projects in history, covering more than 143 jurisdictions⁸ including more than 70% of the world's population and at least 60% of the global GDP, as of 2019.⁹

Addressed ineffectively, the COVID-19 crisis has the potential to create confusion and delay for many national tax authorities and for the BRI itself. It is important that tax authorities learn from each other's experience and the BRITACOM has a role to play in achieving such a shared understanding.

In this article, we discuss how, in common with the GFC of 2008–2009, tax administration is already playing and will continue to play an important role in securing a safe and expeditious exit from the COVID-19 crisis. We will look at the types of measures being utilized both globally and by BRITACOM Members, the added bur-

1 7 May 2020.

2 The Global Stimulus Response Tracker is part of a global suite of related Trackers. These include Trackers addressing the force majeure clause; global mobility-related issues; global trade considerations; global immigration policies; labor and employment law; tax controversy issue; transfer pricing, and U.S. state and local stimulus responses.

3 https://www.ey.com/en_gl/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus--.

4 <https://blogs.imf.org/2020/03/16/policy-action-for-a-healthy-global-economy/>.

5 International Monetary Fund. *Policy Responses to COVID-19*, www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19. (Data as of 30 April 2020)

6 EY, *Worldwide Fiscal Stimulus – Tax Policy Plays a Major Role, 2009 and OECD Economic Outlook – Interim Report*, 31 March 2009.

7 Algeria, Angola, Armenia, Cyprus, Georgia, Greece, Hong Kong (China), Hungary, Indonesia, Italy, Ivory Coast, Kazakhstan, People's Republic of China, Morocco, New Zealand, Nigeria, Peru, Qatar, Rwanda, Saudi Arabia, Serbia, Singapore, Slovakia, South Korea, Ukraine, United Arab Emirates and Uruguay.

8 https://eng.yidaiyilu.gov.cn/info/iList.jsp?cat_id=10076 (as of 7 May 2020).

9 <https://eng.yidaiyilu.gov.cn/>.

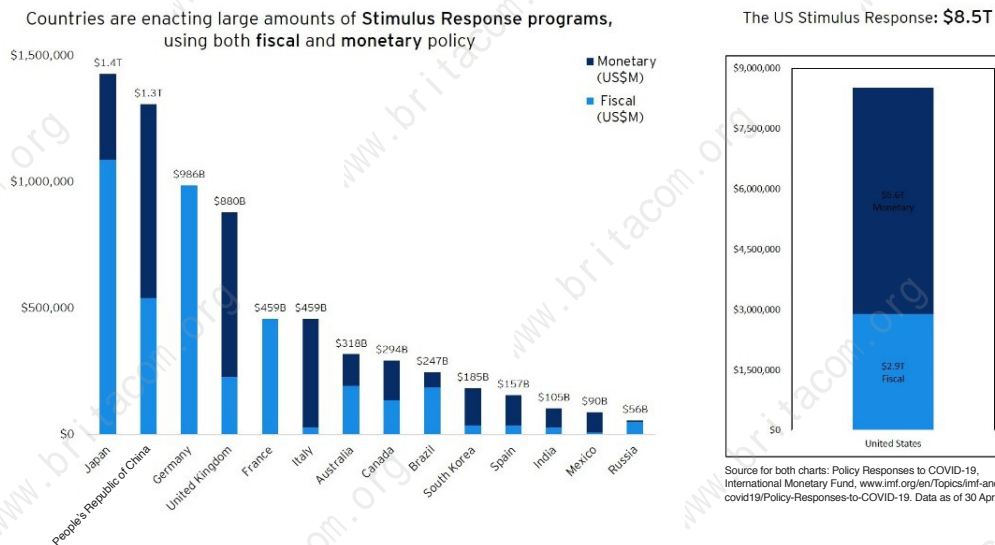


Figure 1.15 Largest economies' stimulus responses to COVID-19

den being placed on tax administrators as a result of the need to oversee new programs and change existing ones, and the potential longer-term effects on tax administration as the world learns to live in what may need to be a “new normal”.

2. The Economic Backdrop against Which Governments Are Tackling COVID-19

Any tax administration or policy change needs to be considered within the context of the economic position of the jurisdiction itself. Prior to the crisis, many forecasters had projected real GDP growth of 3% globally. But with near universality, economic forecasters have now lowered their predictions to below zero, with the most pronounced effects expected in the second quarter of 2020. These forecasts vary widely across jurisdictions, though, and depend, amongst other factors, on the spread of the virus, the speed and efficacy of jurisdictions' fiscal and monetary policy responses, and the willingness of public to re-enter economic activities. Looking forward — a challenging enough task in any time — there is little consensus on what to expect in economic data over the next several months, with almost complete uncertainty over the global recession's intensity and duration.

Globally, the IMF estimates that recovery

is still expected in the second half of 2020 and into 2021, but at a slower pace than previously expected, and assumes that there is not a second round of infection/lockdown in the later part of the year. Hopes for a V-shaped recovery, characterized by a sharp upturn at the trough, have faded, with similar doubt growing over the width of a U-shaped recovery, which would reflect more time at the base and hence a more gradual turnaround.

Positive growth is expected in the third and fourth quarters, and into 2021, but with significant variability in estimates, driven in part by the uncertain duration around social distancing policies. China may be a possible template for recovery, but weak consumer spending and frail foreign demand have been identified as factors that may slow recovery. With the lockdowns in China now largely lifted, the economy is restarting, but the rebound may be impacted by soft consumer demand and weak foreign demand. A difficult first quarter followed by a slow recovery is expected by National Bureau of Statistics (NBS) of China, which forecast first quarter contraction at 6.8%, and reported that retail sales dropped 15.8% in March 2020 (year on year) following a 20.5% drop in both January and February (year on year)¹⁰. According to government statistics, 80% of workers who returned home for

10 http://www.gov.cn/xinwen/2020-04/17/content_5503416.htm.

Table 1: Annual GDP growth rates, BRITACOM members, %

	Historical			Forecast				
	2017	2018	2019	2020	2021	2022	2023	2024
Post-COVID-19	3.10	3.41	3.56	0.06	4.85	4.39	4.22	4.00
Pre-COVID-19	3.10	3.41	3.56	2.12	4.39	4.19	4.25	4.01

Source: International Monetary Fund

the Chinese New Year were back at work by 19 March 2020. The Purchasing Managers' Index (PMI), a key gauge for manufacturing activity, rose to 52.0 in March, from 35.7 in February and above expectations of 45.0¹¹.

Looking across BRITACOM Members more broadly, pre-COVID-19 GDP growth projections exceeded average global growth rates, securing 3.56% growth in 2019. As illustrated in Table 1¹², a pre-COVID-19 growth forecast of 2.12% for 2020 is brought to near zero (0.06%) as a result of the global pandemic. For many BRI nations, such weakness will find its genesis not only in weaker domestic demand, but also in the weaker growth of trading partners. Interestingly, post-COVID-19 growth expectations (which are naturally at risk of significant revision) actu-

ally exceed pre-COVID-19 expectations: 4.39% growth forecast for 2021 has been revised upward to 4.85%, while figures for 2022 are upgraded from 4.19% to 4.39%.

Figure 2¹³ provides a clear visual picture of current expectations, illustrating the strong presence of emerging markets among BRITACOM Members.

As with any crisis, any policy decisions that are supportive or stimulatory in nature must be considered with a broader view of gross sovereign debt in mind. Here the impacts of the COVID-19 crisis as shown in Figure 3¹⁴ are starkly apparent; debt¹⁵ that was previously forecast to run at 1.43% of GDP in 2020 is now increased by almost five percentage points, to 6.29% among BRITACOM Members.

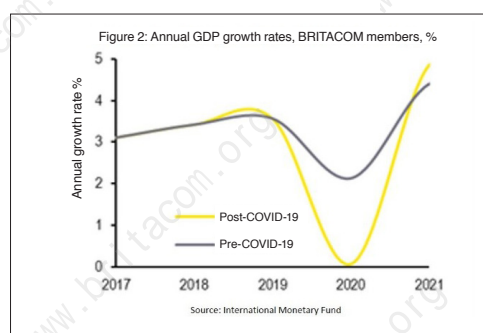


Figure 2. Annual GDP growth rates of BRITACOM Members

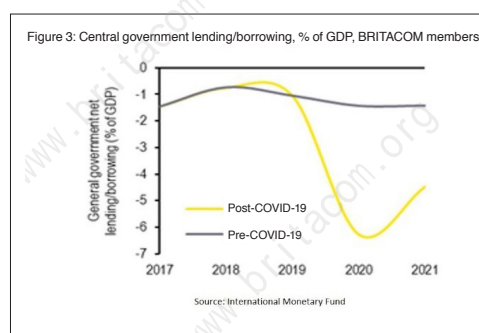


Figure 3. Central government lending/borrowing of BRITACOM Members

¹¹ A value below 50 signifies contraction.

¹² See <https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx> for full data.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ For Figure 3, negatives denote debt/borrowing.

3. The Different Phases of Crisis Response

With a clear view of the economic position, the different phases of the crisis come to the fore. As the COVID-19 pandemic moves from a humanitarian and healthcare crisis to a financial and then economic crisis — often hitting multiple of those points simultaneously — the world is in uncharted waters, and governments' expectations have had to flex and change accordingly.

The need for such flexibility is also being experienced in the private sector. In a poll in the recent EY COVID-19-related Webcast, attended by more than 4,000 private company representatives in almost 100 jurisdictions, about 39% of respondents expected business disruption from the COVID-19 pandemic would last between 6 and 12 months, up from 23% in a poll in a similar webcast just four weeks earlier. In fact, almost a quarter of respondents (23%) believed the impacts will stretch over 12 months — more than three times those who thought so in the previous webcast (7%).¹⁶

With only a handful of months since the World Health Organization (WHO) first classified the crisis as a full pandemic, we already saw existing government responses falling into three broad categories of activities:

- **Public health measures:** designed to help “flatten the curve” — these include the cancellation of events and gatherings, closures of schools and non-essential workplaces, public information campaigns and emergency investment in the health system and vaccine development.
- **Monetary policy to address immediate solvency threats:** echoing the measures taken during the GFC, these include interest rate cuts (often multiple in succession), quantitative easing, easing of lending restrictions, mortgage and rent reliefs, and loans/loan-guarantee programs.
- **Fiscal measures to maintain and sup-**

port the economy: often delivered via the tax system, which is probably the broadest category of measures, and potentially the most important to corporate entities.

The approaches of different jurisdictions vary massively, and are driven in part by the nature of their existing tax regime, infection rates, and existing levels of sovereign debt. And of course, unprecedented swings in the price of oil are adding to the negative impacts for many jurisdictions.

The fourth phase of the response to the crisis is also likely to play out: while not at the top of any government's agenda at present, the USD15 trillion monetary and fiscal stimulus by the 15 largest economies (see Figure 1) shows just how costly is such widespread support, and this will need to be paid for at some point. That in turn is likely to trigger calls for tax reform and, given this, the chances of a flat sea for tax administration in the years to come seem remote.

4. The Role of Tax Policy in Tackling the COVID-19 Crisis

Faced with the need to deliver support to individuals and businesses, it is not surprising that many governments have turned to the tax system and tax administration. However, in contrast to usual tax policy formation, these interventions have had to be delivered in a very short time, both in terms of the development of the policy and the delivery of tax administration. Indeed, tax administration has been called on to deliver more than tax policies, with economic support for employers being delivered through tax administration due to the strong and established connections between taxpayers and tax authorities. This once again reinforces the fundamental role of tax administration in delivering on the aims of the government.

In contrast to the global financial crisis, many of the policies seen to date have been focused on baseline support (liquidity, solvency and

16 EY. *Global Tax Policy in Response to COVID-19 – An Update for Businesses: 28 April 2020*. https://www.ey.com/en_gl/webcasts/2020/04/global-tax-policy-in-response-to-covid-19-an-update-for-businesses.

income support) rather than seeking to stimulate more activities. This reflects the urgency of the crisis and the fact that many larger high-level tax policy moves take time to engender the behavioral changes at which they are targeted.

Nevertheless, we have seen some jurisdictions providing fiscal stimulus by implementing policy changes now, providing the right environment to encourage growth in the future. Across the BRITACOM jurisdictions covered in EY's Tracker, we have seen 14 cuts in tax rates, from corporate taxes through to value-added tax (VAT), the latter of which represent stimulus measures to the extent that they are passed onto customers. Such tax rate reductions may increase in the future, should the economic impacts of COVID-19 worsen. VAT rate cuts, for example, were widely employed in the GFC as a way to put more money into the public's pockets. It is possible that similar support may be required as COVID-19 phases play out, as a way of encouraging the general population out of their houses and into the shops. Elsewhere, certain taxes — especially those levied in either the healthcare or tourism sectors — have been waived altogether, albeit temporarily. For example, Hungary has waived a series of taxes typically levied on the tourism, hospitality, entertainment, sport and cultural services (e.g. theaters, cinemas) up to 30 June 2020.

We have also seen expansions in tax policy, such as research and development tax credits, with the tax system being used in some cases to reinforce the incentives given by government grants. This shows the benefit of having a system in place that can be adapted easily to the required task, and the flexibility that is required by tax administration to enable such policy shifts.

As we move out of the support phase of the crisis, we are likely to see a far greater role for tax policy, as more jurisdictions move to the “fiscal stimulus” phase of the cycle and then onto what the OECD has labelled the “Revenue” phase. In both of these phases, there are likely to be new challenges that will require new ways of tax administration and, again, a clear opportunity for BRITACOM Members to learn from each other's experiences.

But today, the story is not about high policy but about successful administration and the adaptation of operational policy (i.e. administration) to fit the needs of governments.

5. The Role of Tax Administration in Tackling the COVID-19 Crisis

Broadly, taxpayer support in relation to COVID-19 can be organized into three main categories of tax administration activity:

- New policy-driven support that will require new administration programs and processes to be created, as well as effective mechanisms for taxpayer service and information dissemination;
- Existing tax administration processes that are experiencing change; and
- Impacts to existing tax administration programs that may have halted or, at a minimum, been dramatically impacted by the COVID-19 crisis and its impacts.

Across these three categories, study of the EY Tracker data illustrates the dramatic scope of change that has occurred across a short number of weeks and months. This change is all the more challenging (and to be congratulated) given that much of it will have been designed, implemented and deployed to taxpayers via teams who are not able to work in close physical proximity to each other, and who have had to build or adapt complex Information Technology (IT) systems remotely.

In overview, the EY Tracker identifies that, of the 293 measures listed in the covered BRITACOM jurisdictions, 29% of the measures are in the area of corporate income taxes, 20% in the area of indirect taxes (including trade measures), and 18% in the personal income tax (PIT) area (see Figure 4).

5.1 Tax Deferment

Data also illustrate how much jurisdictions are relying on tax administration to support their COVID-19 mitigation strategies; allowing taxpayers (of corporate, indirect and personal taxes) the opportunity to defer the payment of taxes is far and away the leading tax-related support measure being adopted by BRITACOM jurisdic-

tions, being employed in 62 instances (i.e. 21% of all 293 measures), such as Peru, Cyprus, Italy, etc.

5.2 Postponement of Filing Deadlines

Postponement of tax return filing deadlines has also been one of the most prevalent changes put in place by tax authorities in the BRITACOM network. Forty-eight tax-related support measures (16%) by the 27 BRITACOM jurisdictions tracked fall into this category of support, including but not limited to Peru, Italy and Algeria.

Postponement of filing deadlines also extends beyond the most common tax types. Changes to transfer pricing and country-by-country reporting obligations have also occurred in many jurisdictions, while the United States Internal Revenue Service (IRS) is providing an extension for Model 1 intergovernmental agreement (IGA) jurisdictions to provide their 2019 Foreign Account Tax Compliance Act (FATCA) data.

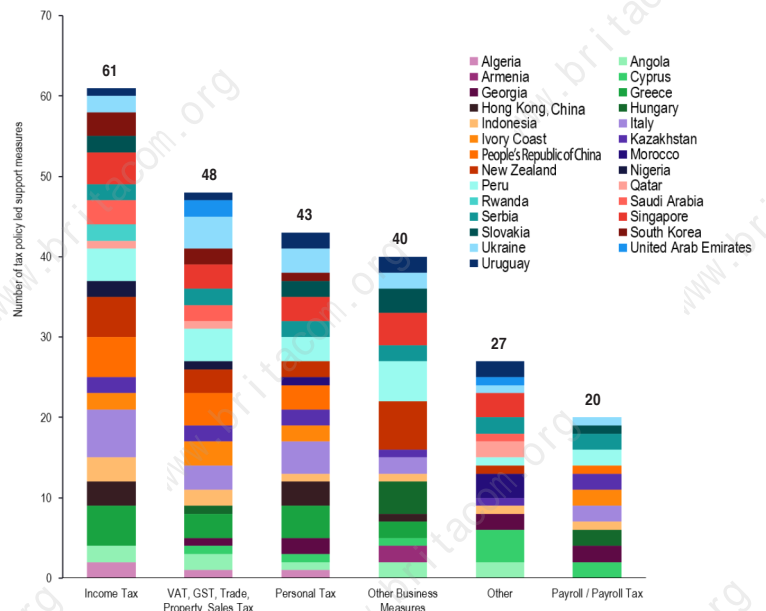


Figure 4. BRITACOM support measures by tax type

5.3 Waivers of Penalties or Interest Payments

Temporary waivers of penalties or interest payments are currently being employed in 37 instances (12% of all BRITACOM tax-related measures), such as Peru, Serbia, Kazakhstan, etc.

Together, these three tax administration-focused categories of support represent almost half of all tax-related measures currently in place among the BRITACOM network¹⁷ (see Figure 5).

5.4 Expediting Tax Refunds

Many BRITACOM jurisdictions, mirroring global activities, are also expediting tax refunds to taxpayers, especially in VAT and Goods and Services Tax (GST) space. In Greece, income taxes and VAT up to EUR30,000 per tax category and the taxpayer pending a refund shall be refunded immediately¹⁸; other jurisdictions, including New Zealand, have changed their rules that allow the R&D tax credit refunds to be made more accessible for businesses. Meanwhile, within BRITACOM, certain cities in China have gone

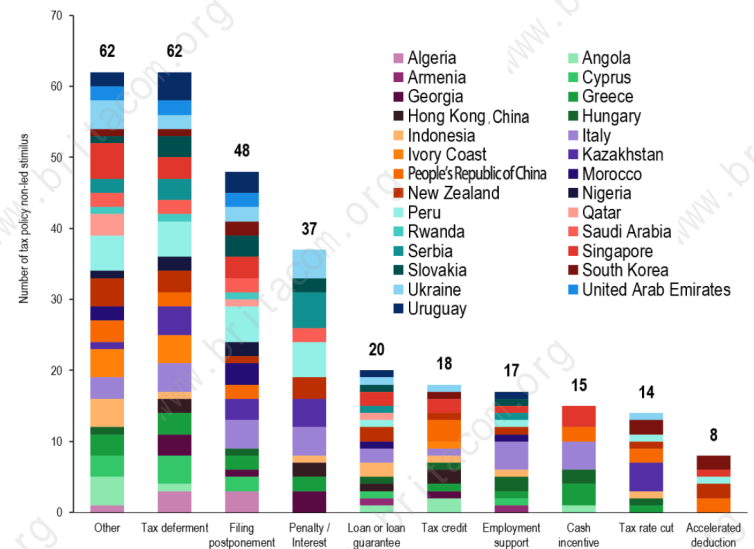


Figure 5. Tax relief measures by type — BRITACOM Member jurisdictions

17 Tax deferment, postponement of filing deadlines, and waivers of penalties or interest payments, $(62+48+37)/301 \times 100\% = 48.84\%$.

18 https://www.ey.com/en_gl/tax/track-covid-19s-effects-on-tax-deadlines-collections-and-enforce.

one step further during the lockdown, finding an opportunity among the adversity to maintain the tax filing routines, broaden the application of the blockchain-based general VAT invoice system which has been piloted since 2018.

5.5 Debt Management

Changes are also being made to interest rates on tax debt balances outstanding, as well as the timing of such collections, as tax authorities look for ways to help taxpayers weather the current storm. China is waiving late tax payment interest on domestic sales from bonded materials. In Italy, taxpayers may rely on the forecast method to pay personal tax advance payments in financial year (FY) 2020 (in contrast to the historical method based on previous FY incomes). In the case of an underestimation of the forecast advance payments within a range of 20%, no penalties and interest will apply. And in Kazakhstan, the interest that would typically accrue on the late payment of taxes is suspended until 15 August 2020.¹⁹ These examples are widely replicated elsewhere.

5.6 Tax Audits

Alongside distinct compliance process changes, many broader tax authority programs have also had to be delayed in order to relieve the burden on taxpayers. Partly due to the inability of convening physical groups of people under current social distancing rules, tax audits are one area where EY data in a separate Tax Controversy Response Tracker show high levels of change. In Slovakia, all tax audits and other tax proceedings may be postponed upon request of taxpayers, while the statute of limitations for tax purposes has also been put on hold. In South Korea, tax audits of small and medium sized enterprises (SMEs) and sole proprietors affected by COVID-19 have been suspended. And in Malaysia, a blanket extension of time until 31 May 2020 for all submission of information and documents for ongoing tax audits or investigation cases has been granted. Again, these are but a limited number of examples of changes that are

common elsewhere.

5.7 Tax Disputes

New and ongoing tax litigation activity is receiving much the same approach, reflecting the inability of courts to convene in person. In Laos, the Government has instructed officials to avoid meetings and perform duties at office only if necessary, while non-necessary work can be performed from home. Hence, it is not expected to see progress in tax litigation during the COVID-19 period. More widely, in Malaysia, all litigation proceedings are suspended during a Mandatory Control Order period.

5.8 Pre-COVID-19, Cross-border Taxpayer Services are Likely to be Under Pressure

Given the abruptness with which in-person contact has had to stop and virtual communication methods are adopted, it is perhaps not surprising to hear reports suggesting that many cross-border administrative processes have slowed considerably. This is compounded as already scarce tax authority resources need to be applied to more urgent change management projects elsewhere within the tax authority. As a result, it may be expected that processes around the provision of tax rulings, advance pricing agreements (APA), mutual agreement procedure (MAP) and automatic exchange of taxpayer information (AEOI) will all be running more slowly during the intensive part of responding to the crisis.

6. Opportunities in Adversity — Lessons to Take Forward from the COVID-19 Crisis

The sheer pressure to meet new demands while also delivering existing taxpayer services will have been challenging every tax authority. The speed and flexibility of the responses however can be instructive and identify opportunities for new ways of working after the crisis.

Indeed, those tax authorities which had already invested heavily in digitizing end-to-end tax compliance processes, and taxpayer service

¹⁹ https://www.ey.com/en_gl/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus--.

activities, seem likely to best weather the current storm. Natural systems, portals, tax apps and chatbots will all be working to plug the gaps left by an absence of human interaction. And those which have invested in the technology to deliver voice-activated authentication and on-demand scalability of customer call centers, may find that they are best placed to re-assign resources to critically important taxpayer support projects.

Looking forward, it is likely that the COVID-19 crisis will have a catalytic effect towards even greater levels of tax authority digitalization. This includes greater digital data submission requirements, higher levels of digital auditing and increased digitalization of the entire tax compliance and reporting process, including areas such as rulings and appeals, hitherto untouched by technology.

The deployment of digitized solutions to tax administration functions will be critical in adapting to the structural changes in the way people work, following the crisis. As people moved to working remotely during the crisis, the nature of business processes changed and tax authorities are similarly affected. Therefore, the post-COVID-19 tax administration will need to ensure that all of its processes can work whether or not an administrator is in the office, meaning that judicious deployment of digitalized processes and functions is vitally important.

These changes may provide opportunities to further foster multilateralism in tax and to apply digital skills honed during the crisis to programs, such as the nascent International Compliance Assurance Program (ICAP). Supporting tax certainty will be even more important given the significant changes identified in this article and those that will follow as we move beyond the support phase.

7. Conclusion

In conclusion, the COVID-19 response has once again shown that tax administration is at the heart of the government/citizen interface and has demonstrated the importance of this role. There is an opportunity to use this experience to “build better” as we look beyond the support phase and to the future of tax administration. This points to the following five key elements:

- Building on the strategies adopted in response to the crisis, tax authorities can reflect on what worked well and adopt those processes into their everyday routines, where they prove to be more efficient. The old adage “necessity is the mother of invention” has shown itself to be true and we should benefit from that.
- The delivery of policy at pace has required even closer working between tax policy-makers and tax administrators. This should be reinforced for future developments.
- The innovative methods to develop ideas and plans to respond to COVID-19 should be applied to the rest of the tax administration environment, to identify other areas of improvement.
- The opportunity should not be lost to share the different experiences of each tax authority, and there is a role from organizations such as BRITACOM to ensure that the advances made by some members can be shared and used to benefit all members.
- Finally, the crisis has brought tax authorities even closer to taxpayers. Building and maintaining this cooperation, insight and engagement can help develop a better tax administration environment in the future. Such improvements will benefit all and put jurisdictions in an even better position to deal with any future challenges.²⁰

²⁰ The views reflected in this article are the views of the authors and do not necessarily reflect the views of the global EY organization or its member firms. This publication contains information in summary form and is therefore intended for general reference only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Member firms of the global EY organization cannot accept responsibility for loss to any person relying on this article.

Tax Policies and Measures to Tackle the Impact of COVID-19 in BRI Jurisdictions and Related Challenges

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Abstract: The COVID-19 pandemic has presented significant challenges to businesses and households around the globe. In response to the outbreak of the pandemic, governments are using tax policies and tax administrative measures to alleviate corporates and individuals from cash flow pressures. This article summarizes the tax policy measures taken by a few BRI jurisdictions, provides an overview of the cross-border issues arising from exceptional and temporary work location changes due to the pandemic and briefly discusses the challenges faced by governments and corporates and how tax can play a role to deal with these challenges.

Keywords: COVID-19; Tax measures; BRI jurisdictions; Cross-border tax issue; Role of taxation

1. Introduction

The unprecedented COVID-19 pandemic has hit nearly all of the world economies. It has presented significant challenges to people and organisations around the globe. Governments have had to put into place different types of containment and mitigation measures. It is inevitable that business operation has been disrupted and people in all walks of life, whether in advanced or emerging/developing economies, have been adversely affected.

According to the *World Economic Outlook* released by International Monetary Fund (IMF) in April 2020, the global economy is projected to contract sharply to -3% in 2020 and grow by 5.8% in 2021 based on the baseline scenario assumption that the pandemic fades in the 2nd half of 2020 and containment efforts can be gradually unwound.¹ According to this projection, the recovery will be uneven, with a few emerging economies picking up a faster growth rate and the others being slower.

Governments of almost all countries have been making tremendous efforts to battle the pandemic and economic downturn via various fiscal, economic and monetary measures in order to strengthen their healthcare system, fund scientific research, support business and prevent job loss, protect citizens especially the most vulnerable low-income households and the unemployed.

Amongst the different types of relief measures, tax policies and administration measures are part of the essential instruments in the hands of governments to tackle the challenges, in a twofold way: the short-term tax relief measures can be used to alleviate corporates and individuals from their immediate tax burden and cash flow challenges during and for some time after the containment period. In the long run, the massive government spending on relief measures

will have to be replenished with future revenues, tax undoubtedly being one major source.

This article addresses the policy measures taken and challenges faced by governments and businesses with a focus on tax. Part 2 is a summary of tax policies and tax administration measures in response to the COVID-19 pandemic announced by some Belt and Road Initiative (BRI) jurisdictions. Part 3 is an overview of cross-border tax issues arising from exceptional and temporary work location changes due to the COVID-19 pandemic, with a focus on the OECD guidance on the application of international tax treaty rules and tax guidance issued at country level (taking Singapore as an example). Part 4 is a brief discussion of a few other challenges faced by governments and corporates and how tax can play a role to deal with these challenges.

2. Tax Measures Issued by Governments

Since COVID-19 presents significant challenges to businesses and households around the globe, and the disruption continues to evolve, many countries are responding rapidly by implementing emergency fiscal and tax measures to support their economies.

During this difficult time, the major purpose of fiscal and tax policies is to help businesses maintain cash flow, to protect employment, to stabilise supply of pandemic prevention materials, and then to recover the business after the pandemic.

To help businesses and individuals in BRI jurisdictions cut through the complexity, this part analyses various tax measures that some BRI jurisdictions announced up to mid-April 2020², covering Corporate Income Tax (CIT), turnover tax, individual and employment taxes, and tax administration, but they may not be comprehensive.

1 IMF (2020). *World Economic Outlook: The Great Lockdown*, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.

2 See also our global overview of the latest COVID-19 tax, legal and economic response information by territory. Please refer to the link, <https://www.pwc.com/gx/en/services/tax/navigate-the-tax-measures-in-response-to-Covid-19.html>, to explore more.

2.1 CIT Measures

Various jurisdictions design special CIT measures to alleviate income tax burdens, so as to release sufficient cash flow for enterprises to meet the most important obligations in paying their staff, rental and tax liability. For instance, tax credit or lenient tax deduction treatment is allowed for rental cost in Italy and Malaysia, and for employees' wages in Thailand. Singapore even proposed a CIT refund policy to help enterprises carry on their business operation without paying cuts and layoffs in COVID-19 pandemic situations.

COVID-19 also greatly affected companies' profitability. Some countries such as Singapore intend to allow loss carryback. This would be impactful to enterprises that cannot enjoy the aforementioned tax relief measures and help them improve their cash flow. For countries with no loss carryback regime, such as China, to avoid net operating loss (NOL) being wasted if the crisis continues, the loss carry-forward period for NOL incurred in 2020 could be extended.

Another objective of special CIT measures is to facilitate investment to support swift recovery. Hence, accelerated tax deduction and depreciation allowances are put forward by the Chinese and Singaporean tax authorities, especially for manufacturers of COVID-19 prevention supplies.

In addition, special CIT policies are developed for the healthcare sector in certain BRI jurisdictions. For example, a full CIT deduction is allowed in China and Malaysia for donations in relation to COVID-19. In Italy, tax exemption or credit, as the case may be, is available for free transfer of medicines and drugs, sanitation costs and personal protective equipment.

2.2 Turnover Tax Measures

Since CIT measures are mostly relevant to profitable companies, a number of countries also launched turnover tax relief to help business keep rolling in a lower cost and maintain cash flow.

BRI jurisdictions have similar approaches in formulating turnover tax measures. At this

stage, the special measures mainly focus on certain products, sectors and donation.

As the first priority during this special period, tax exemption treatment is granted to manufacturers of hand sanitizer, masks, medical devices, as well as related service industries in China, Malaysia and Pakistan, in order to maintain the pandemic prevention supplies.

To further relieve enterprises' cash-flow pressure, exemption or reductions in VAT rates targeted to the hardest hit sectors, such as tourism and transportation, and/or for service providers of essential consumer supplies are available in most countries.

Another policy focus is to encourage charity donation. For this purpose, we observe countries, such as Italy, not only exclude the donation from VAT taxable income, but also allow a full credit of the input VAT for the relevant donated goods, further reducing the tax cost for donation.

Moreover, many enterprises experienced a plunge in sales due to the COVID-19 crisis, which may result in a decreased output VAT, and finally an excess input VAT balance. In this case, similar to the CIT loss carryback measures to refund cash to taxpayers, some countries also introduced policies to allow excess input VAT refund or accelerate the refund procedure to help reduce taxpayers' financial burden, such as China and Thailand.

2.3 Individual and Employment Taxes Measures

While small and medium-sized enterprises are at risk due to the lockdown, individual entrepreneurs face even huge pressure in operation. Compared with large enterprises, these taxpayers might be less able to withstand liquidity and solvency risks. China and Kazakhstan specifically provide Personal Income Tax (PIT)/ Individual Income Tax (IIT) reduction and exemption policies to support individual entrepreneurs.

In addition to payroll tax cut and exemption, the most common type of waiver relates to social security contributions, which occurs in China, Malaysia and Kazakhstan. Since social

security payments are fixed costs, the exemption, reduction or deferral in social security contributions might help corporates maintain talents.

2.4 Tax Administration Measures

Apart from the tax policies to help alleviate corporates', individuals' and households' tax burden, almost all BRI jurisdictions have introduced extension of tax filing deadlines and deferral of tax payments. These measures generally apply to taxes that require frequent payments, such as CIT, VAT/GST and social security contributions. Some countries' extension or deferral treatment is constrained to particular conditions and needs a special application, while others allow an automatic extension.

Also, it is welcome to taxpayers that some countries clarify the deferred tax filing or payment should not be subject to late payment charges or penalties. To some extent, it is economically equivalent to interest-free loans from state treasuries to support businesses.

2.5 Summary

Different countries have their own tax options at this stage based on the impact of the pandemic. Most countries defer tax filing and payment to keep social distance and help business tackle imminent cash flow problem. Turn-over tax relief is also popular and helpful given its nature and frequency of payment. As to income taxes, not all countries adopted CIT/IIT measures. But it is likely that some severely-affected industries or households will need income tax support to recover later in a post-crisis era.

It should also be noted that preferences on tax measures relate to countries' fiscal position, revenue profile and tax system as well. For instance, United Arab Emirates (UAE) does not introduce income tax policies as it does not have a federal CIT or IIT regime at all.

In addition, tax measures need to be coordinated with other measures, including immi-

gration measures, economic measures, labour market measures, trade support, etc. For example, apart from the tax measures summarised in Part 2, we also observe some BRI jurisdictions provide special allowances/wage subsidies, aiming to help businesses retain their employees, so as to quickly ramp up once the economic conditions recover. In fact, countries may have to consider a broader range of policy tools, in order to select the most effective responses.

In all, these short-term tax measures are temporary. When the economic activities gradually resume, they will be phased out due to the fiscal pressure faced by the governments.

3. Cross-border Tax Issues Arising from the COVID-19 Pandemic

Domestically operating companies face challenges with respect to recovering business, retaining human resources, and managing cash flow. Multinational companies (MNEs) have more issues to grapple with given their global mobility and supply chain.

Under the tax treaties or domestic tax laws, where an employee works or renders service in a jurisdiction other than that of the employer's, it may create a permanent establishment (PE) if certain conditions are met. It may even change the tax residence status of the relevant corporations or individuals. In response to COVID-19, governments implemented different levels of travel restrictions and quarantine measures. This may give rise to a temporary change of work location of travelling employees, bringing about PE concerns.

On 3 April 2020, the Organisation for Economic Co-operation and Development (OECD) published an analysis entitled "OECD Secretariat Analysis of Tax Treaties and the Impact of the COVID-19 Crisis"³ (hereinafter referred to as "OECD Analysis"), providing guidance on such cross-border tax issues based on an analysis of the current international tax treaty rules.

3 OECD (2020). *OECD Secretariat Analysis of Tax Treaties and the Impact of the COVID-19 Crisis*, https://read.oecd-ilibrary.org/view/?ref=127_127237-vsdagpp2t3&title=OECD-Secretariat-analysis-of-tax-treaties-and-the-impact-of-the-COVID-19-Crisis.

3.1 The OECD Analysis

The OECD Analysis provides guidance on the application of international tax treaty rules in the following four areas:

3.1.1 The creation of a PE

- **Fixed place PE** — The exceptional and temporary change of the location where employees exercise their employment because of the COVID-19 pandemic, such as working from home or in a jurisdiction other than the one in which they regularly work, should not create a PE for the employer. This is because a PE must have certain degree of permanency and be at the disposal of an enterprise in order for that place to be considered a fixed place of business through which the business of that enterprise is wholly or partly carried on.
- **Dependent agent PE** — Employees or agents working temporarily from home and concluding contracts in their home jurisdictions on behalf of their non-resident employers or principals for a short period of time (rather than as the normal routine) because of force majeure and/or government directives are unlikely to be regarded as “habitually concluding contracts on behalf of the enterprise” and therefore should not create an agency PE for the enterprises.
- **Construction site PE** — On the other hand, the period of temporary interruption of activities on a construction site (e.g. due to a shortage of material or labour difficulties) should be included in determining the duration of the site for the purpose of ascertaining whether the site constitutes a PE. In other words, temporary interruption of activities on a construction site due to COVID-19 should not be excluded.

3.1.2 The residence status (place of effective management) of a company

Temporary relocation or inability to travel of chief executive officers or other senior executives of an entity should not trigger a change in the tax residency (place of effective management) of the entity under a tax treaty or create the issue of dual residency, especially when the

tie-breaker rule for dual residency in tax treaties is applied. Under tie-breaker rule as it exists in most tax treaties in force, the place of effective management will be used to determine the residence of a dual-resident entity for tax treaty purposes. The OECD Analysis points out that all relevant facts and circumstances should be considered to determine the “usual” and “ordinary” place of effective management and not only those that pertain to an exceptional and temporary period.

3.1.3 The residence status of individuals

A temporary dislocation of an individual by reason of the COVID-19 pandemic will unlikely change the individual’s tax residency when the tie-breaker rules for dual residency in tax treaties are applied. If the person is resident in both countries, the tie-breaker tests will consider his permanent home available, centre of vital interests, place of habitual abode, and nationality when assessing the person’s resident status. The OECD Analysis states that the COVID-19 crisis is an exceptional circumstance, and tax administrations should consider a more normal period of time when using the tie-breaker rule.

3.1.4 Subsidised employment income of temporarily dislocated cross-border workers

The OECD takes the view that the employment income of a cross-border worker (i.e. an individual who is a resident of one state but commutes to work in another state) who is temporarily dislocated and working in his/her state of residence but with his/her salaries subsidised by the government in the country of the employer (i.e. the state of source) should be attributable to the place where the employment used to be exercised by that individual before the COVID-19, as the employment income in such scenario most closely resembles a termination payment. As such, the state of source should have taxing right over such subsidised employment income.

3.1.5 Observation

The OECD Analysis does not contain any new rules or changes of the existing rules under the OECD Model Tax Convention. It

simply provides an analysis of how the existing OECD rules and commentaries on applying a tax treaty should be applied in the exceptional COVID-19 context.

Besides, the OECD Analysis only represents the OECD's views, although it is influential, it is not legally binding on tax authorities of various countries/regions. It is up to various countries/regions to decide whether to follow these views in applying the tax treaties.

Other than the OECD, we see only a limited number of countries, such as Australia, Ireland, Singapore, the U.S. and the UK, have issued their own guidance and/or relief measures to address the potential double taxation or unintended tax exposure up to now.

3.2 Singapore Tax Guidance for Cross-border Employers and Employees

The Inland Revenue Authority of Singapore (IRAS) has provided guidance⁴ on the determination of corporate tax residence and PE exposure in view of travel restrictions and quarantine requirements. Subject to certain conditions, the IRAS has clarified that changes due to these unforeseen circumstances will not result in a change in tax residence status and PE exposure.

For example, where a company is not a tax resident of Singapore for Year of Assessment (YA) 2020, IRAS will continue to consider the company as a non-resident for YA 2021, provided it meets all the following conditions:

- The company has to hold its Board of Directors meeting in Singapore due to the travel restrictions relating to COVID-19; and
- There are no other changes to the economic circumstances of the company.

To support the claim that the company should continue to be treated as a tax resident or non-resident of Singapore, the company should keep relevant documentations and records (e.g.

board minutes stating why the directors were attending board meetings from their respective locations), and to provide the relevant information to IRAS upon request.

For an individual who has been exercising overseas employment but is now working remotely from Singapore due to COVID-19, IRAS is prepared to treat him/her as not exercising an employment in Singapore, subject to certain conditions.

As an example, if a Singaporean is now working from Singapore remotely for his/her overseas employer, the IRAS will continue to consider him/her as not exercising an employment in Singapore for his/her stay in Singapore up to 30 September 2020, provided the following conditions are met:

- There is no change in the contractual terms governing the employment overseas before and after the worker's return to Singapore; and
- This is a temporary work arrangement due to COVID-19.

Eligible employees will not be subject to individual income tax for the duration they are stranded in Singapore due to COVID-19.

3.3 Summary

MNEs are facing the risk that unexpected cross-border working arrangement due to the pandemic could create complex international tax issues. We observe that the announcements made by the UK, the U.S., Ireland, Singapore, etc. are generally in line with the principle set out in the OECD Analysis paper, i.e. exceptional cases should be excluded when assessing PE or residency status. These clarifications would help cross-border operating companies manage their international tax risk. We also suggest that more BRI jurisdictions could express their views with respect to situations arising from exceptional and temporarily changes in working arrangement due to COVID-19.

4 Inland Revenue Authority of Singapore (2020). *COVID-19 Support Measures and Tax Guidance: For Companies*, <https://www.iras.gov.sg/irashome/COVID-19-Support-Measures-and-Tax-Guidance/Tax-Guidance/For-Companies/>; Inland Revenue Authority of Singapore (2020). *COVID-19 Support Measures and Tax Guidance: For Individuals*, <https://www.iras.gov.sg/irashome/COVID-19-Support-Measures-and-Tax-Guidance/Tax-Guidance/For-Individuals/>.

4. Other Considerations and Challenges

4.1 How Can Tax Play a Role to Stimulate Economy

As discussed in Part 2, short-term tax policies and measures introduced by governments to reduce the adverse effect of the pandemic will be gradually phased out. It is also necessary to discuss the role of tax policies and explore the options for governments to stimulate economy in the recovery period.

It is expected that the post-pandemic priority of governments will be to boost investment and consumption. Accelerated depreciation and investment credit are amongst the traditional options to boost investment. For the worst hit industries in the great lockdown, the industry players may have to go through debt restructuring, corporate restructuring, merger or acquisition and a relaxation of the M&A tax-related rules may be needed.

Governments may also consider a few types of options to encourage domestic consumption:

- Turnover taxes: reduced VAT and consumption tax rate; tax-refund for international tourists;
- IIT: tax credit on household expenditures; and
- A sound and strengthened social welfare system to boost consumption confidence.

Not all these options are suitable to all economies and governments do not have to implement all types of tax incentive measures. Instead, specific tax measures targeted at specific sectors and group of taxpayers may be more effective and affordable especially for the developing economies. Similar to the short-term relief measures, it is more realistic to grant temporary (instead of permanent) measures considering fiscal constraint of the governments.

4.2 How Can Tax Play a Role to Restore Fiscal Position

The pandemic has dramatically slowed down the economy, disrupted businesses and households. Most of the governments are either experiencing or expecting a decline of tax revenue

in 2020 and even during a few years to come. The loss of tax revenue and the massive spending on the relief measures/tax incentives during the epidemic and recovery periods will adversely impact government budget. All the money that has been spent ultimately has to be replenished with future tax and non-tax revenue sources. The question is: How?

In the post-pandemic period, some of the economies may be able to gain a steadier growth momentum and will be able to collect sufficient revenue to restore their fiscal position from the existing revenue sources. But for others, it may be necessary for their policymakers to revisit the tax structure and explore other options, including increasing the tax rate, broadening the tax base of an existing tax and even introducing new types of taxes. Some options that can be considered include but are not limited to:

- Turnover tax: VAT (GST or sales tax in some countries) is traditionally used by governments to build a resilient tax base to finance public spending. Most of the world economies already have VAT in their tax structure. The standard VAT rates range from as low as 5% (e.g. Bahrain, Saudi Arabia, UAE, etc.) and 7% (e.g. Singapore) to 27% (Hungary) with many countries offering lower/zero VAT rates on certain goods/services. It is worth exploring whether an increment of the standard or preferential VAT rates is feasible for strengthening the government's fiscal resilience. Currently, only a few of the smaller economies (e.g. Hong Kong SAR, Kuwait, Libya, Macao SAR, Oman, Qatar, etc.) do not levy VAT/sales tax. There has been debate over whether VAT should be introduced into Hong Kong SAR's tax structure in recent years;
- Withholding income tax on passive income: many emerging economies don't impose withholding income tax on dividend, interest or royalty derived by non-residents in order to attract foreign investment;
- Property tax is popular in many developed economies and is often a major and effective source of local government revenue; and
- Other options that can be studied include:

capital gains tax, net wealth tax, inheritance tax, gift tax, carbon tax, etc.

There has been a trend of a fall in CIT rates in many countries in the recent years thus an increment of CIT rate appears to be less desirable to many policymakers. Likewise, an increment of IIT rate (especially on employment income) may not be receptive to their citizens.

The direction for the reform of a tax structure is a choice of the policymakers who would carefully assess the pros and cons of each option against the other policy objectives of the government (e.g. whether the tax system will be competitive enough to attract foreign investment, whether an increment of VAT rate will discourage consumption, etc.), the fiscal resilience of the economy and most importantly, the receptiveness of their citizens.

For many emerging BRI jurisdictions, it is also necessary to enhance the capacity of their tax administration, especially by investing in digitalised tax systems. A modernised tax administration will facilitate to strengthen the enforceability of tax laws, deliver better taxpayer services, improve taxpayer behaviour and voluntary compliance, automate data processing for tax assessment and tax audit, and efficiently manage tax sources and debt collection. The investment in capacity building and technology will in turn strengthen revenue raising.

4.3 The Impact on the OECD Project on the Digitalisation of the Economy

According to OECD's preliminary findings on economic analysis of Pillar One and Pillar Two of the digitalising economy project released in February 2020, it is estimated that the combined revenue gain of Pillar One and Pillar Two equals about 4% of present-law CIT revenue on a global basis, or approximately \$100 billion each year. In general, the Pillar Two revenue effects are estimated to be larger than the Pillar One effects, with low-income countries gaining relatively more revenue from Pillar One and high-income countries gaining relatively more revenue from Pillar Two. Based on this estimation, the project may benefit many economies which are facing fiscal challenges as a result of the COVID-19

pandemic.

According to a statement of the OECD/G20 Inclusive Framework released at the end of January 2020, they are still committed to the timeline for publication of the final report by the end of 2020. Closer international cooperation is even more important in light of the challenges brought about by COVID-19 and unilateral measures should be avoided.

4.4 The Long-term Impact on Supply Chain

The spread of COVID-19 is being felt globally across operations in ways that are difficult to model and assess. The affected regions are at the heart of many global supply chains. Concerns are mounting over depleting (or idling) stock; and companies fear they cannot meet contractual obligations on time. Impact in many companies across many industries seems inevitable. Global manufacturers are managing through disruptions to their supply chains and exploring alternative sourcing strategies. Will all these have a long-term impact on the global supply chain? If that happens, how will the companies adjust their transfer pricing policies? Is there any other tax cost they need to be aware of? What does this mean to the revenue structure of the world economies and how should their governments respond to these changes? All these questions deserve a separate in-depth research.

5. Concluding Remarks

It is clear that in a very short period many jurisdictions, including the BRI jurisdictions, have taken dramatic and far-reaching measures to alleviate the hardship caused by the COVID-19 pandemic and to save the economies from total collapse. Once the worst of the crisis is left behind, countries will have to assess the way back to normal and decide how taxation would help them support economic recovery, but at a later stage certainly also how the fiscal deficits can be brought back to normal as well. These are all challenges of sizeable proportions and with the interdependence of many countries' economies international coordination will continue to be of utmost importance.

Mastering the COVID-19 Crisis from a Tax Perspective

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Abstract: The COVID-19 crisis confronts governments and business with unparalleled challenges. It raises the question how tax measures can help to quickly relieve the stress put on business by the lockdowns and corresponding decrease in business volume and cash-flow. The article covers various options that mostly have already been implemented or are about to be implemented in various jurisdictions including BRI jurisdictions. It also addresses some more indirect effects of the crisis including increasing visibility of the apparent flaws in the international tax system as well as the need to recover the current financial investments by governments in the future.

Keywords: Taxation of digital economy; International tax system; COVID-19

The novel coronavirus (COVID-19) pandemic is an unprecedented health and economic crisis, affecting the lives and livelihoods of workers, as well as the continued operations of businesses globally. Micro-, small- and medium-sized enterprises (MSMEs) and their workers, as well as entrepreneurs and the self-employed, are among the hardest hit. Similarly, multinational enterprises (MNEs) are also faced with severe challenges, depending on the area of their business operations. It is imperative that urgent and decisive action is taken by all stakeholders to combat the economic repercussions of this pandemic and safeguard the current and future functioning of the global economy.

The International Chamber of Commerce (ICC) has released a call to ac-

tion, as part of a campaign to “Save Our SMEs”, encouraging governments to ensure that stimulus efforts flow rapidly into the real economy and provide direct and immediate support to MSMEs and their workers to ensure their continued operation. Given the cross-border nature of supply chains, such stimulus and safeguard measures should be taken in a coordinated manner at both national and international levels. Countries around the world are implementing economic and fiscal policy stimuli, including emergency tax measures to support their economies under the COVID-19 pandemic.

In this respect, a number of key tax measures governments can take to “Save Our SMEs” as well as relieve the cash flow stress of international groups, during

the crisis period are highlighted below (Part 1). Most of the recommendations are already being implemented by some of the BRI jurisdictions. However, it is not only the immediate response to the COVID-19 crisis that requires attention. The crisis at hand illustrates some of the flaws in the international tax system, which need to be overcome (Part 2). Furthermore, the question will arise as to who will cover the cost of the necessary but extensive aid programmes (Part 3).

1. Helping Business to Cope with the COVID-19 Crisis

Generally, in every crisis, one of the largest concerns is ensuring the necessary cash flow. This is due to the fact that most costs are fixed costs, such as wages and the rent for immovable property that cannot be adjusted in due time easily, while sales are concurrently dropping. In addition, as a result of applicable civil or public law, businesses that are not able to fulfil their payment obligations will be forced to introduce insolvency procedures which could lead to their final dissolution thereby impacting the level of employment the respective company provided. At the same time, the cash shortage at some companies can create an “avalanche” effect which would impact other companies: creating a vicious circle. It is for this reason that tax related measures should predominantly focus on securing the necessary cash flow for companies. Moreover, businesses are faced with circumstances where their employees are working remotely, from home or stranded in another country, which unavoidably has an impact on certain business processes and which raises particular tax questions. Tax related measures in this regard should relieve certain compliance related stress, taking into account the unique nature of the COVID-19 crisis which creates an unparalleled stress for governments, businesses and citizens.

1.1 Deferral or Waiving of Tax Payments

While deferrals of payments are used by many countries both for direct (corporate income tax, CIT) and indirect (value-added tax,

VAT) taxes, a waiver (or exemption) is mostly discussed for indirect taxes.

- Deferral of VAT payments at least two to three months without penalties (e.g. Chile, Cyprus, Peru);
- Exemption of VAT payments for businesses within a determined turnover threshold (e.g. South Korea);
- Postponement of CIT payments (e.g. Brazil, Peru, Morocco: three-month deferral of tax payments);
- Deferral of all taxes and social security contributions (e.g. Kazakhstan);
- Deferral of the payment of property taxes, with 0% interest rate, applicable to businesses with turnover below a determined amount. Option for the delayed payment to be paid in instalments (e.g. Chile);
- Deferral of payment of withholding taxes on personal income and suspension of utility expenses (e.g. France).

The extent to which businesses and consumers will benefit from such relief measures will depend on the current structure of a country's VAT, including VAT exemption thresholds, standard and reduced VAT rates and the VAT base. By exempting certain goods and services from VAT or other indirect taxes, businesses and consumers stand to benefit: goods or services are less expensive and therefore more affordable to consumers as well as allowing businesses to maintain a certain level of sales. It should be noted that governments should consider waiving certain tax obligations particularly where businesses risk being obliged to introduce insolvency procedures as a result of the COVID-19 crisis. ICC recommends that all deferrals should be interest and penalty free, or at least bear interest which is significantly lower than the available refinancing rates for the respective business. If withholding taxes are deferred, it should be taken into account that this might shift the default risk of the person having the withholding obligation to the taxpayer (the person on whose account the taxes should be withheld). Any such measures should therefore include the rules that avoid this risk-shifting and balance the different interests involved.

1.2 Flexibility Measures for Tax Debt Payments

Instead of fixed deferrals, governments may decide to allow for flexible payment agreements with no interest or penalties, such as an option to pay the VAT payments in 6–12 monthly instalments at 0% interest, applicable to small businesses with turnover not exceeding a determined threshold of sales (e.g. Chile, Cyprus, Peru). The flexible terms can create a certain degree of uncertainty for governments as it is not clear when the taxes can be collected. However, it is clear that currently the duration of the COVID-19 crisis is also uncertain. In this respect, a flexible payment term solely reflects the unique situation of this crisis.

1.3 Expedited/Enhanced Tax Refunds and Improved Loss Carryback Rules

Obtaining a tax refund is positive for cash flow; any shortening of the time to refund therefore relieves cash stress from impacted businesses. It should not be ignored that before the crisis, particularly in the area of VAT refunds, there were instances of VAT fraud as a result of incorrect applications. In this case, an expedited/enhanced refund procedure could therefore be considered for well-established long-term taxpayers. Loss carrybacks are essentially nothing more than having the taxes paid in prior years refunded — which is why some countries have allowed for such a carryback or extended the carryback period. The measure is not necessarily ideal as the losses that can be carried back are usually not COVID-19 related losses — the latter will only reflect on the tax return for the 2020 calendar year, which will only be issued after 2020.

- Accelerated tax refund for MSMEs (e.g. Chile, tax refund in April 2020 instead of May 2020);
- Provision to claim back preliminary taxes paid, or set it off against future losses (e.g. Sweden);
- Extension of loss carryback periods (e.g. carryback for 5 years allowed by the U.S.).

1.4 Temporary Tax Reductions

Especially for smaller and medium-sized companies which do not exceed certain thresholds, tax rates might be reduced temporarily. In this way, businesses in scope can apply for a refund of their prepayments. In the event that there have been no such prepayments due to the reduction of CIT, this would only help businesses at the point in time when they have to pay the CIT for the 2020 calendar year which would only be the case in 2021, after tax returns have been filed.

- Reduction in the VAT payable by small businesses within a determined threshold of turnover (e.g. South Korea);
- Reduced CIT rate for small businesses (e.g. Bosnia and Herzegovina, South Korea);
- VAT rates could be reduced to zero rate on essential products such as medical goods and hospital supplies for the duration of the crisis period, to lower the cost in critical areas (e.g. Brazil).

1.5 Expense Deductions on CIT

- Possibility for MSMEs to claim a deduction on salary payments (e.g. Thailand);
- Possibility for MSMEs to claim a deduction of interest expenses incurred (e.g. Thailand);
- Possibility for MSMEs that have less than a determined number of employees to reclaim Statutory Sick Pay (SSP) paid for sickness absence of employees in relation to COVID-19 (e.g. the United Kingdom).

1.6 Flexibility in Extending Deadlines for Tax Filing/Payments

Many jurisdictions extend deadlines for tax filings and/or tax payments, such as South Korea which granted an extension of up to 9 months for filing a tax return and up to 1 year for filing and paying local taxes, or India which allowed deferred filings with no interest or penalties charged. These measures take into account that many businesses struggle as a result of the difficulties presented due to lockdowns and extended remote working with likely is-

sues related to reduced access to data, information and systems needed to fully comply with applicable law.

1.7 Break on Tax Audits

Having field audits during a lockdown or shortly thereafter is almost impossible. However, even tax auditors working from home or from the premises of the financial authorities sending out information and data requests to taxpayers under audit, currently impose additional pressure on taxpayers whose personnel are working from home with limited access to systems and company information. For this reason, another proposed relief measure could be to issue a temporary break on tax audits or at least not to start any new tax audits for the time being.

1.8 New Reporting Obligations

With businesses focusing primarily on surviving the crisis, it does not seem timely to implement new reporting obligations which put further stress on the businesses system. As a result, many businesses in the European Union, including business organizations such as the Federation of German Industries (BDI), request that the application of the DAC-6 reporting, which would require European-based taxpayers to report a multitude of cross-border arrangements as of July 2020, should be deferred for a year. The same would be recommended for any other new reporting obligations, particularly to the extent that these new obligations force taxpayers to report online and to invest their resources into setting up new systems and interfaces.

2. Dealing with Existing Flaws in the International Tax System

It is the premise of the UN's Committee of Experts in International Tax Matters and the OECD's work on the taxation of digitalized economy, that traditional international tax system is no longer fit for purpose in dealing with "new economy" in a way which a majority of countries consider to be a fair distribution of taxing rights. Many businesses and

business organizations requested that the work of OECD on "digital tax" be deferred due to COVID-19. It is understandable that businesses wish to be involved in the process of designing a digital tax or, in a broader sense, a new international tax system and that in times of the COVID-19 crisis, the focus is on many areas other than potential OECD initiatives. On the other hand, the crisis illustrates remarkably the degree to which digital business models and digital means are growing. Web-based trading platforms have thrived, smartphone companies declared increased earnings in the first quarter of 2020 while many other businesses were already showing material impacts of the crisis. Most businesses transitioned to almost entire virtual cooperation during the lockdown with white collar staff working remotely from their home offices. It is therefore clear that a solution for taxing digital activities is still necessary and that a deferral should be understood in that the additional time gained needs to be invested in developing a thorough taxation model.

Bearing in mind some issues arising from the crisis, it is evident that the tax system is not able to deliver the correct results in many situations. For example, considering employees stranded on business trips abroad, who have no option but to work from a hotel due to lockdowns and borders being closed, thereby preventing their return travel for many weeks. In this case, should it be considered that they are creating a permanent establishment for the employer? Should there be personal income tax consequences for those employees in the countries where they are stranded? Similarly, for many employees working from home for their employers as a result of the lockdown — if their home is in a country different from that of the tax residence of their employer, should this instance necessarily create a permanent establishment for their employers? It is increasingly clear that the permanent establishment was a justified approach in times when there was no "remote working" but business activities always entailed physical touchpoints with a jurisdiction. However, this dynamic has changed dramatically over the last couple of years. The



same holds true for the determination of the place of effective management of a company. Almost all management meetings have become virtual during the crisis with the participants oftentimes present in different countries. The application of this concept will therefore be almost impossible.

The key takeaway is that tax authorities should consider the extraordinary situation of the crisis into account when dealing with stranded employees, home offices abroad and virtual management meetings for the time being. Furthermore, there needs to be a systematic approach which is able to deliver justifiable, foreseeable and consistent results for the digital era.

3. Further Tax Measures Aimed at Bolstering the Economy Post COVID-19 and Refinancing the Governmental Budget Stress

Assistance for businesses may be required for some time after the health effects of the pandemic have subsided, dependent on how quickly the economy returns to normal. Even with such measures, personal savings and corporate reserves are likely to have taken a hit, levels of personal and corporate debt are likely to be higher, which will inevitably have consequences for small and medium-sized enterprises in particular. Some governments may

consider raising corporate tax rates after the crisis in order to recuperate the investments currently needed to counter the imminent economic downturn. However, it is imperative that governments should recognise that this will inevitably influence the competitiveness of local businesses at a time when it is of utmost importance to re-establish business operations as quickly as possible. Refinancing measures therefore need sound preparation and should be done in concert with the approaches of other countries.

An important lesson to be learned from the COVID-19 pandemic is that countries should not operate in isolation but should rather align themselves for better coordination globally. The crisis is one that is being faced globally and can only be mastered effectively by global cooperation and coordination. The BRI countries and regions will play a crucial role in this regard, showing that growth and prosperity are a result of trade and cross-border cooperation. ICC remains committed to providing expertise and leveraging its broad network of 45 million businesses to support measures to enable a coordinated global response to effectively contain the potential human and economic toll of the COVID-19 pandemic and to work on our joint mission of making this planet a better place.

Fiscal Stimulus Measures in Response to COVID-19: A Comparative Analysis and Future Approaches for Key BRI Jurisdictions¹

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Abstract: The COVID-19 virus has rapidly escalated from a localized health emergency to a global pandemic at an unprecedented speed, with a global footprint expanding at an exponential rate. This paper focuses on a review of the tax measures taken and seeks to identify the most effective steps. It commences with a brief look at the measures taken in the financial crisis of 2008/09, and then narrows the comparison down to tax policy measures with particular emphasis on China and key BRI jurisdictions. The paper concludes with recommendations for BRI jurisdictions. The most effective tax measures at this stage of the coronavirus crisis are those that can help businesses to improve their cash flow and stay in business. At a later point, it may be necessary to introduce further measures to stimulate the economies. BRITACOM has an important role to play in coordinating the tax policy responses to the crisis in BRI jurisdictions.

Keywords: Fiscal stimulus measures; Tax policy; COVID-19; BRI jurisdictions; OECD

1. Introduction

The COVID-19 virus has rapidly escalated from a localized health emergency to a global pandemic at an unprecedented speed, with a global footprint expanding at an exponential rate.² Measures taken

by public health authorities to prevent further spread of the virus have had an economic impact with potentially serious consequences, rivalling or even exceeding the Great Depression. Governments around the world, including many BRI

- ¹ This paper was originally published in Tax Notes International on 11 May 2020 and there are some deletions in the original paper, the Belt and Road Initiative Tax Journal has exclusive right to publish it outside the USA.
- ² As of 20 April 2020, there were more than 2,470,000 confirmed cases and 170,000+ fatalities, and the virus has spread to over 200 countries.



jurisdictions, have been considering, or have already announced a range of fiscal and monetary policy measures to deal with the economic impact of the crisis.

Many governments have also announced expenditure measures, and G7 is discussing global measures to protect the global economy. Further, many developing and middle-income countries, including those within the BRI, urgently require billions of dollars to scale up their public health response. BRI could play a role in fostering an insurance-based mechanism to raise money for pandemic responses in low-income countries through “catastrophe bonds” and derivatives in a manner similar to the World Bank Pandemic Emergency Financing Facility (PEF).

This paper focuses on a review of the tax measures taken and seeks to identify the most effective steps. It commences with a brief review of the measures taken in the financial crisis of 2008/09, and then narrows the comparison to tax policy measures with particular emphasis on China and other major BRI jurisdictions.

2. Measures Taken in the Global Financial Crisis

The financial crisis of 2008/09 was preceded by a squeeze on credit and was precipitated by a banking crisis as financial assets held by banks lost their value after a fall in the prices of

assets on which they were based. The economic measures taken in the crisis focused firstly on saving the banks and the financial system. In some countries, including some OECD countries and China, there was also increased spending on infrastructure projects.³

The OECD was concerned with the potential unemployment of skilled workers during the crisis and the possible depletion of human capital. The OECD thus urged member countries to make provision for education and training of workers laid off in the crisis, to ensure that they kept their skills up to date and where necessary adapted their skills so they could subsequently work in newer sectors.

The economic measures taken during the financial crisis were primarily aimed to stimulate demand in the short term by providing cash where needed and protecting employment. Measures were also taken to promote medium-to long-term growth by means of investments and incentives to stimulate research and development and innovation.

Measures taken by OECD countries in the crisis fell into the following categories:

- i. Measures to rescue the banks and financial system;
- ii. Support for business through tax cuts, short-term credit guarantees, reduction of labor costs and incentives to retain staff;
- iii. Support for particular industrial sectors such as the automobile and construction industries;
- iv. Measures to support individuals and households including tax cuts, cash pay-outs, unemployment benefit or reduced healthcare costs;
- v. Promotion of innovation and long-term growth by means of incentives and investment;
- vi. Spending on longer term growth devoted to investments in infrastructure, education and training and developing innovative

3 OECD (2009). *Policy Responses to the Economic Crisis: Investing in Innovation for Long-Term Growth*, https://www.researchgate.net/publication/254439574_Policy_Responses_to_the_Economic_Crisis_Investing_in_Innovation_for_Long-Term_Growth.

Table 1: A list of measures taken by OECD countries

Tax relief and exemptions	Tax changes and other measures were also taken to support businesses and individuals, including support for key industries. The emphasis was on measures that would provide fast relief, so a VAT reduction or exemption was implemented in some countries as the effect on prices would be immediate
Tax administration measures	Tax administrative measures were also implemented, such as deferred tax filing deadlines and payment dates to help taxpayers with cash flow problems. Measures taken by OECD countries also aimed to lay the basis for longer term growth by encouraging innovation and research and development in areas such as clean energy and other green technologies
Special measures for SMEs	The importance of SMEs in providing employment and promoting economic growth was recognized by governments during the financial crisis. One of the main problems for small and medium-sized enterprises (SMEs) was the lack of access to credit and governments therefore put forward schemes involving guarantees to encourage banks to lend and to help SMEs access funds more easily

areas such as green technology.

A more detailed look at the tax measures taken during that time is as shown in the table 1.

3. Current Coronavirus Crisis

The economic crisis resulting from the coronavirus pandemic is currently expected by many countries to be relatively short in duration compared to the effects of the financial crisis; and the aim is to take targeted measures in a timely manner to help businesses and individuals through the crisis. This view may change, as the OECD has warned that the economic effects of the crisis may continue for some time. Economic forecasts are being revised, and it is quite possible that a number of countries will fall back into a recession. If this is the case, countries should be looking at measures to stimulate the economy, such as support for research and development, innovation and training, rather than merely stop-gap measures to keep businesses going in the short term.

The economic measures being taken during the coronavirus are tending to focus less on helping banks and more on ensuring the survival of businesses that have severe cash flow and other problems through no fault of their own. The measures also aim to protect employ-

ees and self-employed individuals from the consequences of a temporary halt in production in many industries. Immediate help is being provided for businesses and individuals in hardship.

The measures taken by key OECD and BRI jurisdictions to combat the economic effects of the coronavirus crisis were analyzed for this paper. The countries were selected for the sample based on (a) their relative impact in the global economy or (b) their role as representing different categories of BRI jurisdictions. A more detailed list, covering measures taken by 96 jurisdictions is available at www.regfollower.com.

4. Measures Taken by OECD Countries

OECD countries have introduced emergency packages to help businesses and individuals through government loans or guarantees or through the tax and welfare systems. Examples of measures taken are deferral of income tax and VAT filing deadlines and payment dates for businesses and individuals, combined in many cases with the provision of government loans, guarantees or grants to businesses and deferral of mortgage payments for individuals. The summary is as table 2.

Table 2: Measures taken by OECD countries

Use of losses	Where businesses have been making losses their cash flow may be eased if they can offset these losses against profits of previous years and obtain a tax reduction or refund. Measures taken by the US to help business in the phase three legislation (CARES Act) ⁴ passed in March 2020 include a five-year net operating loss carry-back for losses incurred in years beginning in 2018, 2019 or 2020. Italy is allowing banks in some cases to surrender carried forward losses to obtain tax credits
Additional deductions	The US ⁵ has implemented a measure to allow the maximum deduction for interest expenses to increase from 30% to 50% of adjusted taxable income for tax years beginning in 2019 and 2020. Also, a new temporary refundable 50% employee retention credit is available to employers that have partially or fully suspended their business due to the coronavirus crisis, or whose gross receipts have significantly declined due to the crisis
Accelerated refunds	The US has legislated for accelerated refunds of alternative minimum tax (AMT) ⁶ credits relating to tax years beginning in 2019. In March 2020 the Phase Two legislation introduced a business tax credit for some employers who have fewer than 500 employees to assist with paid sick leave and paid family and medical leave until the end of 2020. Refunds by the French government in relation to R&D tax credits and the tax credit for competition and employment (CICE) due in 2020 will be accelerated and paid as soon as possible after they become due
Deferral of deadlines and payments	The UK ⁷ has provided tax deadline deferrals, loans and grants for businesses unable to operate in the crisis and compensation for individual employees and self-employed people unable to work from home in the crisis. VAT return deadline deferrals have been introduced and businesses have been given more time to pay the VAT liabilities to the government. For self-employed individuals the final tax payment for tax year 2019/20 has been deferred from 31 July 2020 to 31 January 2021. France ⁸ has deferred the corporate income tax instalment due on 15 March until 15 June for all companies, and those companies that have already paid the instalment may claim a refund. For individuals there is a deferral of direct tax payments and of social security contributions for up to three months, without liability to penalties. There is also deferral of some local taxes. In Germany ⁹ taxable persons significantly affected by the crisis may until 31 December 2020 submit applications to defer certain taxes due or that will become due up to that date, including income tax, corporation tax, solidarity surcharge and VAT. Applications may also be made by affected businesses to adjust prepayments on income and corporation tax, and generally interest and late payment penalties on deferral can be waived. Further, applications may be made for deferral of personal income tax by individuals directly and significantly affected by the crisis, up to 31 December 2020. Applications for deferral of VAT may also be made by significantly affected businesses ¹⁰
Conversion of tax losses into tax credits	To help banks with their cash flow, Italy has given them the chance to convert future deductions for tax losses and notional interest into tax credits. Banks selling their troubled loans will be able to convert future deductions into tax credits that are worth up to 20% of the face value of the loans sold. It will then be possible to offset those tax credits against tax payments, and if the credits exceed the tax liability it will be possible to claim a refund. This is a way of bringing forward valuable tax assets and converting them into cash in the current year to ease cash flow in a time of crisis

⁴ Coronavirus Aid, Relief, and Economic Security (CARES) Act.

⁵ COVID-19: US passes Coronavirus Aid, Relief, and Economic Security (CARES) Act, <https://regfollower.com/2020/03/31/covid-19-us-passes-coronavirus-aid-relief-and-economic-security-cares-act/>.

⁶ KPMG (2020). *Tax Provisions in the CARES Act (COVID-19 "Phase 3" Response): Analysis and Observations*, <https://home.kpmg/content/dam/kpmg/us/pdf/2020/03/tnf-cares-act-signed-mar30-2020.pdf>.

⁷ COVID-19: VAT and Self Assessment Payment Deferral, <https://www.icaew.com/insights/tax-news/2020/mar-2020/covid19-vat-and-self-assessment-payment-deferral>.

⁸ Exceptional Tax Measures to Support Businesses Affected by Coronavirus (Covid-19), <https://cms.law/en/fra/news-information/exceptional-tax-measures-to-support-businesses-affected-by-coronavirus-covid-19>.

⁹ COVID-19: Germany Releases a Decree on Tax Relief Measure, <https://regfollower.com/2020/03/24/covid-19-germany-releases-a-decree-on-tax-relief-measure/>.

¹⁰ Germany: Additional Tax Relief, Response to Coronavirus (COVID-19), <https://home.kpmg/us/en/home/insights/2020/03/tnf-germany-additional-tax-relief-response-coronavirus.html>.

5. Measures Taken by China

Given China's key role within BRI, the measures taken by China need to be analyzed in detail. Many cities and industries have been affected by the coronavirus crisis, in particular service sectors such as tourism, hotels, education

and training. These measures seem to solve the immediate issues, but given China's role as an engine of growth within BRI, they should be further accessed in the light of economic development of BRI jurisdictions.

Table 3: Measures taken by China in response to coronavirus¹¹

Enterprises supplying relevant goods and services	Tax incentives covering VAT and enterprise income tax were also announced for enterprises engaged in the production of supplies important for containing and protecting personnel from the coronavirus outbreak, including masks and protective clothing. A 100% deduction was introduced for investments in equipment as part of an expansion of production capacity. To help with cash flow, enterprises producing supplies for coronavirus protection and containment may obtain a full refund of excess input VAT balances. Monthly applications may be made for the refunds. Enterprises transporting the protective items are also eligible for a VAT exemption. An exemption from VAT has been introduced for micro, small and medium enterprises in Hubei province, and the VAT rate has been reduced from 3% to 1% for qualified MSMEs in other areas, with effect from 1 March until 31 May 2020
Affected Enterprises	Enterprises will also be able to carry forward tax losses incurred for the year 2020 for a period of eight years, instead of the normal period of five years, if they are operating in the transportation, catering, accommodation and tourism sectors
Service Sector	A wide range of consumer services were exempted from VAT. These included medical services, catering, accommodation and personal services such as hairdressing and laundry that would normally pay VAT at a rate of 6%. Public transportation and express delivery services provided to residents were also exempted, with the exemption to remain in place until the crisis is under control
Individuals	There are also individual income tax exemptions for bonuses and subsidies paid to medical staff working to combat the coronavirus outbreak. Donations of money and goods by individuals or enterprises to help combat the coronavirus outbreak were exempted from VAT and consumption tax and a deduction was available against income or corporate income tax for donations made. Exemptions from import tax on donations apply for the period from 1 January 2020 to 31 March 2020
Tax Administration	The statutory tax filing deadline for February 2020 was extended until 28 February 2020, with further extensions possible if agreed by local tax authorities in areas especially affected such as Hubei province. Taxpayers and withholding agents hit by the crisis could apply for a further extension of tax payment deadlines if necessary and they were also encouraged to deal with their tax affairs remotely rather than using methods involving personal contact
Local measures	Some provincial and local governments introduced other relief measures including deferral of social security contributions and reductions in real estate tax and urban land use tax for enterprises with cash flow problems or for SMEs

6. Measures Taken by Key BRI Jurisdictions

BRI jurisdictions have also recognized the

profound economic risks caused by the crisis.

A brief analysis of the types of measures being implemented is as shown in table 4:

¹¹ STA (2020). *The Latest Files*, <http://www.chinatax.gov.cn/>.

Table 4: Measures taken by key BRI countries/regions

Tax cuts	<p>There have been some tax cuts in response to the coronavirus, but on a much smaller scale and for a shorter time span than those implemented during the financial crisis. Kenya has cut the VAT rate from 16% to 14% and accelerated VAT refund claims; and Turkey has cut the VAT rate to 1% for services of domestic airlines. Kazakhstan has exempted agribusiness from VAT on the import of biological assets.</p> <p>A fast effect can also be produced by the reduction of excise taxes, fees or local taxes. For example, in Indonesia local hotel and restaurant taxes will be relieved for six months; and Egypt¹² has reduced stamp duty on transactions on the stock exchange. Uzbekistan¹³ has suspended tourist duty from 1 April to 1 July 2020; reduced special duty on wholesalers for alcohol products from 5% to 3% in the period from 1 April 2020 to 1 October 2020; and reduced fees for sale of alcohol by catering establishments by 25% in the period from 1 April to 1 October 2020.</p> <p>Some direct tax measures have been taken, either in the form of a tax rate cut or as increased deductions or credits. Singapore¹⁴ is supporting companies with their cash flow by allowing a corporate income tax rebate of 25% of tax payable for the year of assessment 2020, capped at SGD15,000. In addition to an enhancement of the loss carry-back relief scheme, Singapore is allowing taxpayers to accelerate capital allowance claims for fixed assets acquired in financial year 2020 and also permitting deductions for renovation and refurbishment expenses incurred in financial year 2020. Kazakhstan is allowing a tax credit equal to 50% of expenses for sanitizing the environment and for some work tools; and is offering a tax credit for shops and stores equal to 60% of the monthly rental for real estate properties</p>
Trade taxes	<p>Customs duties and related administration charges are also relaxed by some countries, for example Dubai¹⁵ has implemented a refund of 20% of customs duties paid on imported goods that are sold locally; cancelled a requirement for bank guarantees to clear goods and implemented a 90% reduction of customs clearance fees</p>
Deferral of tax filing	<p>Assisting taxpayers through the crisis by deferral of tax filing deadlines is the most commonly used tax procedure to relieve the administrative burden for taxpayers during the crisis. This move is important for taxpayers who are unable to go to their workplace and are not in a position to do the compliance work associated with corporate or individual income tax or VAT. For example, Malaysia¹⁶ has granted taxpayers an extension of two months for submissions due; Kazakhstan¹⁷ is extending the deadline for submission of certain 2019 tax returns to 30 April 2020; and Saudi Arabia¹⁸ is extending corporate tax, zakat and VAT filing deadlines</p>
Deferral of tax payments	<p>Deferral of various types of direct tax or VAT payments, without interest or penalties, is a commonly used tool to help taxpayers through the crisis. Relief is extended in a number of countries to other direct taxes and fees, and to local taxes. Taxpayer cash flow can also be helped in some cases by speeding up VAT refunds, as China itself has done in some cases</p> <p>Indonesia¹⁹ is permitting taxpayers to delay payments of corporate and income tax on the sale of imported goods effective from 1 April 2020; Singapore is allowing a two-month delay for some tax instalments without incurring interest</p>

12 PwC (2020). *Middle East Tax and Other Measures in Response to COVID-19*, <https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/middle-east-tax-other-measures-response-to-covid-19.html>.

13 PwC (2020). *Tax Measures in Response to COVID-19*, <https://www.pwc.com/gx/en/assets/tax/covid-19-global-master-master-document-tax-measures-web.pdf>.

14 Singapore: *Supportive Tax Measures in Response to COVID-19 Pandemic*, <https://regfollower.com/2020/03/31/singapore-supportive-tax-measures-in-response-to-covid-19-pandemic/>.

15 KPMG (2020). UAE: *Customs Duty Refunds, Customs Relief in Dubai (COVID-19)*, <https://home.kpmg/us/en/home/insights/2020/03/tnf-uae-customs-duty-refunds-customs-relief-in-dubai-covid-19.html>.

16 COVID-19: *Malaysia Extends Income Tax Filing Deadline*, <https://regfollower.com/2020/03/29/covid-19-malaysia-extends-income-tax-filing-deadline/>.

17 PwC (2020). *Tax Measures in Response to COVID-19*, <https://www.pwc.com/gx/en/assets/tax/covid-19-global-master-master-document-tax-measures-web.pdf>.

18 PwC (2020). *Tax Measures in Response to COVID-19*, <https://www.pwc.com/gx/en/assets/tax/covid-19-global-master-master-document-tax-measures-web.pdf>.

19 COVID-19: *Indonesia Provides Relaxation of Import Taxes for Companies in the Manufacturing Sector*, <https://regfollower.com/2020/03/23/covid-19-indonesia-provides-relaxation-of-import-taxes-for-companies-in-the-manufacturing-sector/>.

Local taxes	Reduction of the burden of local taxes can help cash flow especially for small businesses, for which local taxes can be an important cost, and can help to keep them afloat during difficult periods. Oman ²⁰ for example has announced exemptions from municipal taxes. Effective immediately is an exemption from Tourist and Municipal Tax for restaurants until 31 August 2020; and an exemption from Municipal Tax for commercial establishments until 31 August 2020
Tax Administration	A number of the BRI jurisdictions are requesting taxpayers to file their returns electronically where possible or to use the post rather than going in person to the tax office. An example is Nigeria ²¹ where taxpayers have been requested to use existing online platforms for filing various tax returns and have provided contact numbers within the tax administration for telephone conversations and email. The online platforms already existed before the crisis, but Nigeria can now extend their use by taxpayers through further publicity for these channels of communication. Another example is Turkey ²² , which is encouraging taxpayers to make their disclosures, returns and applications by electronic means or by post. This exercise in taxpayer education should have the effect of increasing the efficiency of tax administration when the crisis is over and helps countries to continue implementing this aspect of the Astana Proposal

7. Tax Reform Trends and Considerations for the Future

The main trends observed across regions of the world are:

- i Deferral of tax liabilities and other liquidity measures;
- ii Extension of deadlines and relaxations of sanctions for late payment;
- iii Measures to protect employment such as reductions of payroll tax and relaxations on the requirements for employee withholding taxes;
- iv Measures for small and medium-sized enterprises (SMEs), especially those that protect their employees;
- v Measures that support industries that help combat the effects of the virus;
- vi Measures to support food, hospitality and travel businesses;
- vii Measures to encourage investment in particular sectors, including recognition of the need to relax some anti-abuse measures that might discourage such investment;

viii Reductions of corporate and personal income tax rates in some countries;

ix Indirect tax measures to support key sectors of the economy.

BRI jurisdictions are in a position where they cannot easily renounce tax revenue. In many cases they already have a low tax-to-GDP ratio that needs to be improved if they are to achieve the level of development expected. On the other hand, they also need to help businesses that may have problems during the coronavirus crisis, especially in the period from March to June or even longer.

Most of the measures taken initially in the crisis have been short-term measures aiming to keep businesses and individuals going and shield them from the worst effects of the shutdowns and restrictive measures to combat the coronavirus. As the dangers of recession and longer-term effects on the economy grow, countries will need to consider measures to stimulate the economy and promote longer-term growth. As in the finan-

cial crisis of 2008/09, this will require more government support for loans and other forms of credit, particularly for SMEs, as well as more incentives for innovation, research and development, and more support for education and training.

8. Recommendations for BRI Jurisdictions

Policy interventions in BRI jurisdictions, while primarily focused on urgent domestic priorities, should also bear in mind the need to foster increased connectivity between BRI jurisdictions, and to keep open the channels of trade and investment. Policymakers must resist the temptation to close borders and focus on recovery within their own country; the lessons from the Great Depression and the impact of protectionist policies in the 1920s should not be forgotten. In the context of the global financial crisis, the rise of nationalist governments and their resistance to globalization are obvious. Many of these nationalist movements seized on the crisis of the 19th century to oppose globalization

20 *Coronavirus: Govt Announces Loan Exemptions* (2020), <https://www.omanobserver.om/coronavirus-govt-announces-loan-exemptions/>.

21 *FIRS Announces Tax Relief Measures During COVID-19 Pandemic*, <https://regfollower.com/2020/03/29/nigeria-firs-announces-tax-relief-measures-during-covid-19-pandemic/>.

22 *Tax Measures due to COVID-19 Pandemic*, <https://regfollower.com/2020/03/31/turkey-tax-measures-due-to-covid-19-pandemic/>.

and the movement of ideas, people, goods, services and investment. While some restrictions are absolutely necessary in view of current conditions, policymakers in BRI jurisdictions have an opportunity to demonstrate to the world their commitment to open trade and investment in their tax policy responses to the crisis.

At this stage of the coronavirus crisis, the most effective tax measures are those that can help businesses to improve their cash flow and stay in business. At a later point it may be necessary to introduce further measures to stimulate the economies. One of the best measures that can be taken to relieve the burden on business is to defer tax payments until later in the year, thereby helping the cash flow of businesses and of the individuals working for them.

To ease cash-flow problems, businesses could be given the opportunity to convert unused tax losses or other unused deductions into tax credits so they can be used in the current period either to offset against other tax liabilities or to obtain a refund. Italy has introduced this type of measure for banks, but it would also be suitable for other types of business in the crisis. The ability to convert deferred tax assets into current credits helps the cash flow of businesses in a period where they may be making losses and unable to offset losses or deductions in any other way.

Where there is fiscal room for tax cuts, indirect tax cuts are likely to be most effective. The advantage of a VAT rate cut is that it has an immediate effect on prices, whereas the effect of an income tax cut filters through over a longer time span of a year or more depending on the filing and payment dates. In the coronavirus crisis, which is currently expected by

many countries to be of limited duration, the emphasis is on cuts that will have an immediate effect.

Measures to help business could include:

- i Deferral of tax deadlines and payment dates and deferment of social security contributions, combined with government loans on favorable terms, guarantees and grants where necessary;
- ii Supporting small and medium enterprises through and beyond the crisis recognizing that such firms have lower reserves and limited access to capital;
- iii Relief or exemption for smaller businesses from local taxes;
- iv Enhancing measures to enable VAT repayments from government, such as refunds for exporters, and to permit businesses where possible to opt for a shorter VAT reporting period, for example one month instead of three months, so the refund can be obtained more quickly.

Measures to help individuals could include:

- i Businesses could be encouraged to retain employees and continue paying them, by the provision of government loans or the provision of grants to businesses that may be dependent on retaining staff.
- ii Payroll tax relaxations or deferral can help maintain jobs while a business may be under severe financial pressure or may even have to suspend trading for a period of time.
- iii Self-employed people can get help by deferring tax deadlines, delaying mortgage payments or helping to pay rent. Government transfer payments could also be used to compensate for the fall in incomes of the self-employed. Temporary relief or exemption

from local taxes, combined with deferral of local tax payment dates, is also important in supporting small and medium enterprises during the crisis period. Targeted measures may also be taken to relieve the financial burden on health workers and to facilitate the import, production and transport of essential medical equipment.

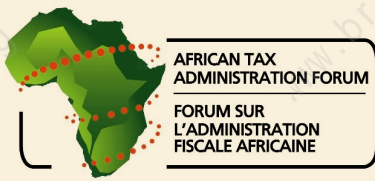
Further tax administrative measures could include: (1) The introduction of electronic filing where this is not yet available to all taxpayers; (2) Taxpayer education measures to ensure that all taxpayers are aware of the tax relief available to them and of how to access the relief.

9. Conclusion

BRITACOM has an important role to play in coordinating the tax policy responses to the crisis in BRI jurisdictions. This is particularly true in the second stage of reforms mentioned above, i.e. those that seek to address longer-term and second-order effects of the immediate policy measures taken. BRITACOM could also coordinate the responses of BRI jurisdictions to the complex range of international tax policy measures currently under discussion at the Platform for Cooperation on Taxation level, including the World Bank, the OECD, IMF, and the UN. In this context, it is worth mentioning that tax administration resources, especially in developing countries, are stretched by the need to administer measures to deal with the crisis while also needing to protect staff. Therefore, it is important that BRI jurisdictions should be more aware of the role BRITACOM can play in this regard and facilitate the dialogue between countries to reduce the negative impact on their respective economies and resume the path to growth and prosperity.

COVID-19 Measures Recommended for Revenue Authorities

African Tax Administration Forum (ATAF)



1. Introduction

The COVID-19 pandemic is affecting the lives of the world population in various ways and has resulted in an unforeseen scale of disruption of activities across the globe. Its emergence has health and economic implications that impact individuals, organizations and sovereign states which is inclusive of the stakeholders in a tax system. Thus, revenue authorities need to take actions to protect and ease the burden on its external and internal stakeholders.

Consequently, this document has been developed to provide general suggestions on what African tax jurisdictions can consider in their development of measures to protect the health of its staff and taxpayers while alleviating the burden of the COVID-19 on its stakeholders. Revenue Authorities should adopt measures that are applicable in its jurisdiction with considerations given to the peculiarities of its tax system, political and economic environment. Some of the suggestions may require legislative or policy adjustments for effective implementation.

2. Risk Assessment

2.1 Safety

The health and safety of staff and taxpayers is very critical to the operations of revenue authorities, therefore there is need to evaluate the transmission risk of the

COVID-19 in tax offices and other external engagements. This will include:

- Monitoring and evaluating the transmission rate and expectancy within the jurisdiction — consult with appropriate health professionals and authorities; and
- Evaluation of the operational processes and procedures of the revenue authorities in relation to the social distancing and other precautions proffered by the appropriate authorities.

2.2 Possible Economic Impact and Impact on Revenue Collections

The Revenue Authority can work in collaboration with the relevant authorities to evaluate the potential economic impact of the pandemic. An understanding of such impact will give the authorities the opportunity to know the right tax policies or administration tools needed to alleviate the impact. A detailed analysis may not be possible at this point but some of the questions to be assessed are as below.

- What are the potential economic burdens?
- Who will bear the economic burdens of the pandemic?
- How will the burden present itself?
- When will the burden materialize?
- What is the potential tax revenue loss due to the pandemic?

- What economic sectors will the tax revenue loss be most prevalent?
- How can the authorities optimally mitigate or alleviate the economic burden and tax revenue loss?

2.3 Business Continuity

In assessing the potential impact of the COVID-19, it is critical that revenue authorities assess the extent to which the pandemic may reduce its ability to function effectively. Understanding of the risk and the functions that may be threatened will help the revenue authorities plan accordingly to prevent or mitigate the impact of the risk if it materializes. Safety and economic impact in combination with other factors are risks that may affect business continuity. Some of the basic questions to be considered are as below.

- How can the pandemic disrupt the rendering of services to internal and external customers?
- What services can it disrupt?
- Who receives the services?
- How, when and where are the services rendered and received?

3. Scenario Planning

After appropriate risk assessments, revenue authorities should come up with potential scenarios consisting of best-case, midpoint and worst-case scenarios. The scenarios can be derived from the risk assessments. For example, worst-case scenario can be where the safety risk assessment shows that 50% of workforce will be incapacitated across all functions. Precision may not be achieved in scenario planning but enhances the ability to plan for risk mitigation. Under each scenario the following can be clearly identified and provided for accordingly.

3.1 Identifying Essential and Non-Essential Activities

Under each scenario, the first thing is to identify what activities are essential for continuous rendering of services (external and internal) by the revenue authority. Non-essential activities may be those activities whose absence under that scenario will not materially disrupt the ability to carry on operations.

3.2 Remote and In-office Activities

When the non-essential activities are identified,

the next step is to evaluate the activities that can and should be performed remotely or in-office under each scenario. This evaluation will include the resource implications of remote work, e.g. ICT (Information and Communications Technology) access and permissions, internet connectivity, etc. When in-office activities will involve engagement with taxpayers, the revenue authority should consider adopting visits by taxpayers based on appointment. The working areas should be reorganized to ensure the recommended distance between staff is maintained while a dedicated space for taxpayer visits with clear markings on distance be maintained between taxpayers and tax officials.

3.3 Resources

The relevant resources for remote work should be provided for staff, e.g. internet connectivity provided through phone data or usb dongles, grant permission to access ICT resources remotely, provision of applications/software necessary for communication or team activities, technical support, etc. It is very important to deploy ICT resources that do not compromise the confidentiality of taxpayers' information.

3.4 Governance Arrangements

It is critical to maintain clear decision-making, reporting, performance monitoring and communication processes and procedures under each scenario. There should be a documented and clearly communicated guidelines on the following issues.

- The decision-making authority under each scenario or its delegation especially in an emergency;
- Reporting line across functions in an emergency;
- Guideline on in-office work process — stipulating expectations, deliverables and measures to enhance health safety;
- Guideline on remote work — stipulating expectations, deliverables and performance monitoring system; and
- Guideline on communication — stating the official channels for communication for remote and on-site work. It can also provide for obligatory periodic communication and reiterate the taxpayer information confidentiality obligations when working remotely.

3.5 Vulnerabilities

Adequate mitigation plan should be put in place for vulnerabilities that may arise due to the aforementioned measures. These vulnerabilities may range from ICT to physical security risks, etc.

3.6 Staff Enlightenment and Education

It is critical that staff understand the measures adopted by revenue authorities, as its effective execution is dependent on the staff. Thus, staff should be educated on the measures and provided regular tidbits and documents on the new measures.

4. Suggestions

4.1 Electronic/Digital Channels (E-Channel)

All tax operations like registration, filing and payments should be conducted through digital channels. Physical interactions with taxpayers should be limited to the barest minimum. If the revenue authority has partial or non-digitalized systems, it could make use of dedicated email addresses based on tax offices, segmentation and tax types to receive documentation for registration, filing or proof of payment. On-site regularization can be carried out when the business environment has been normalized. This will require resources like digital storage capacity and clear guideline and communication to all parties on the process, obligations and responsibilities.

4.2 Extension of Deadlines

The deadline for filing tax returns should be extended to accommodate the disruption taxpayers may be facing due to the pandemic. Ideally, the extension should be based on the compliance level of a taxpayer. However, all taxpayers should enjoy this policy, as the extension will play a dual role of easing burden on taxpayers and limiting the transmission risk to revenue authority staff where digital channels are limited or non-existent. The extension can be done by one or mix of options. Some examples are as below.

- All returns to be filed on or before a certain date beyond the normal deadline, e.g. all returns due between March 2020 and June 2020 to be filed on or before 31 August 2020;
- All monthly returns should be filed quarterly till certain date; and
- All quarterly returns should be filed biannual-

ly (twice a year).

Revenue authorities should also consider the extension of certain time limits which do not necessarily relate to payment or submission of returns, e.g. the time period within which a vendor is required to issue a tax invoice, notify the revenue authority of a change of address, etc.

4.3 Flexible Payment Plans

Revenue authorities should consider granting taxpayers flexible payment plans like monthly or bi-monthly instalment payments over a certain period beyond the extant due date. This will ease some of the economic burden that the pandemic may cause for taxpayers. The flexible payment plan may also include the suspension of payments for a certain period. Depending on the administrative resources available to revenue authorities, the flexible payment plan may be the same across taxpayers or differ dependent on the compliance history of a taxpayer, economic sectors, etc.

4.4 Suspension of Penalty and Interests

The imposition of penalty for late filings can be suspended during this period. The period may be based on the extended deadlines with provision for waiver of late filing penalty for taxpayers who can show that the non-compliance with the extended deadline was due to disruption caused by the pandemic.

Imposition of penalty and interest for late payments can also be suspended for a certain period, in line with flexible payment plans given to taxpayers and provisions made for waiver of interest for late payments/remittances for taxpayers who can show relevant evidences.

4.5 Suspension of Compliance and Enforcement Activities

Revenue authorities should consider the total suspension of compliance and enforcement activities, or limiting the activities to specific situations like where there is a clear case of fraud or elopement of the taxpayer. The activities in this context consist of field activities like compliance check, audit and other activities like debt recovery actions, etc. The suspension should be a period that allows taxpayers to get through the pandemic and return to a material level of operations. The idea is not to add burden to taxpayers during this period or add

hurdles to recovering from the pandemic.

While compliance and enforcement activities may be suspended for a certain period, revenue authorities should continue with compliance risk assessment and have a cohesive plan on how to effectively and efficiently carry out the compliance and enforcement activities after the suspension without substantially disrupting recovery of businesses.

4.6 Expedited Tax Refund

The turnaround time for payment of refunds should be expedited to ameliorate the possible cashflow issues that taxpayers may face due to economic hardships that may be caused by the pandemic. The refund process should be streamlined for efficiency during this period, with compliant taxpayers and taxpayers in essential sectors prioritised for expedited tax refunds.

While revenue authorities consider to pay out VAT refunds as quickly as possible, it is probably also a good idea to consider the suspension of the payment of interest on outstanding refunds. The priority should be to pay out as many refunds as quickly as possible, and not to prioritise refunds based on interest that may be accumulating.

4.7 Prioritise Issues Involving Essential Goods

All queries, clarifications, rulings involving essential goods such as food, medical supplies, etc. should be expedited, while the processes and procedures relating to the importation of these goods should be streamlined and expedited to ensure that these goods reach those in need as soon as possible.

4.8 Tax Rates

Temporary reduction of tax rates is one of the options available to revenue authorities as a way of easing the economic burden of the pandemic on taxpayers. In considering this, jurisdictions should be clear on the period covered by the reduction and the legal framework to safeguard. However, the reduction of tax rates will require both the revenue authorities and taxpayers to make changes to its systems, thereby increasing administrative and compliance costs. In the case of consumption taxes like VAT, the benefits may not reach the intended public as suppliers can absorb the reduced rate as part of the price markup in jurisdictions where there is no price control.

4.9 Tax Relief — Deductibles and Allowances

Consideration should be given for the provision of tax relief for taxpayers whose business has been substantially affected by the pandemic. Such relief can come in the form of allowing certain deductibles for tax purposes or accelerated tax depreciation/capital allowance for certain assets for business. The relief granted by revenue authorities will depend on the peculiarities of jurisdictions, economic sectors, etc.

For individuals, the relief can be in the form of increase in the rates, value, sum, etc. of reliefs or allowances claimable in the computation of personal income tax.

4.10 Tax Rebate

Tax rebate can be granted to taxpayers significantly affected by the pandemic. The rebate can come in the form of a discount of a certain percentage of tax due.

Tax rebate and tax relief schemes will require clear guidelines on who, what, how and when for effective and efficient implementation.

4.11 VAT Exemption or Zero Rating for Essential Items

In jurisdictions where some essential goods and services are vatiable, consideration should be given for temporary exemption or zero rating of such goods and services. For example, some processed foods that are widely consumed but not included in food items exempted or zero rated from VAT can be temporarily exempted or zero rated. This is to improve cashflow in the supply chain and ensure that the public get essential goods as needed. However, revenue authorities should take cognisance of possible increase in administrative and compliance cost that may arise from changing transaction systems to comply with the exemptions or zero rating.

If a jurisdiction chooses to reduce VAT rate for an extended period, then it may also consider widening its base by narrowing the scope of exemption or zero rating in order to protect its revenue.

4.12 Allowable/Deductible Donation Rules

In order to encourage increased donations to welfare funds for alleviating the hardships caused by the COVID-19, revenue authorities should review their rules on deductible donations to see if they are effective in encouraging donations in this

time of hardship. Consideration should be given for temporary removal of certain limitations (e.g. percentage/amount ceilings) and the process and procedure for inclusion of organisations for receipt of deductible donations should be streamlined and expedited.

4.13 Suspension of Advance Payments

The temporary suspension of advance payments should be considered by revenue authorities. Advance payments are those tax payments for the current tax year made by taxpayers based on the tax returns from the previous year. They are prepayments of tax before returns for the tax year are prepared and filed. Suspending the advance payments will aid in mitigating cashflow challenges that taxpayers may experience during and after the pandemic. Taxpayers with a good compliance history and those substantially affected by the COVID-19 can be prioritised in the temporary suspension of advance payments. Prioritization of certain taxpayers or sectoral application of the measure can also help revenue authorities alleviate the burden of the pandemic on the worst hit taxpayers while duly managing the tax revenue cash-flow of the government. Where the suspension is applicable to a certain type of taxpayers, there will be need for documented clear guideline on how the benefactors will be identified and how it will be implemented.

4.14 Review of Revenue Target

Though targets are meant to aid government budgets, it might be important to revise targets downwards so that the pressure on revenue authorities is relieved and in turn the pressure on taxpayers will be reduced as they face economic hardships which are likely during this period.

4.15 Communication

Revenue authorities should duly inform and educate taxpayers through relevant communication channels available for respective services.

More importantly, revenue authorities need to clearly communicate measures or changes being adopted in order to provide tax certainty for taxpayers.

4.16 Other Suggested Actions

Constitute an adhoc committee to plan, implement and monitor the measures to mitigate the

impact of the COVID-19. The committee will be responsible for actions not limited to the following:

- Identify internal and external stakeholders;
- Coordinate between all stakeholders;
- Identify required resources and ensure its provision in a timely manner;
- Ensure the development of all necessary guidelines for the implementation of chosen measures; and
- Actively monitor the situation and provide update and advice to management.

Continuously keep staff informed and updated in a timely manner. Provide educational material on all internal communication channels and urge staff to continuously read this material to keep abreast on the latest information.

All attaches and interns may be requested not to report to work until further notice.

Staff with health conditions that make them vulnerable as outlined by World Health Organization including lactating and expectant mothers can be requested to take their leave.

All physical learning and training should be suspended or migrated to digital platforms.

Procure adequate hand sanitizers, hand gloves, masks and equipment for measurement of temperature for staff working on points of entry and others who may require them.

Develop and communicate to staff a clear guideline on how to report and handle staff who have had any contact with persons deemed to be high risk or being out of the country or in areas that may predispose them to the COVID-19. Psycho-social support for staff should be provided and our counsellors should be on call throughout this period.

To enhance staff safety, all common areas such as restaurants, gym facilities among others should be aligned to the safety guidelines from the relevant agencies.

5. Conclusion

The advent and pervasive spread of the COVID-19 is a health and economic threat to the taxpayers, revenue authorities and sovereign states. Therefore, it is important that revenue authorities take all necessary steps in collaboration with relevant stakeholders to actively play their part in ensuring that the people and economy are protected. The suggestions in this document are intended to help revenue authorities play their part.

COVID-19: Tax Administrations at the Forefront

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Abstract: Since the outbreak of COVID-19, Tax Administrations (TAs) have been at the forefront of this battle, fighting to continue on business, trying to help the economy to keep on working and planning the recovery scenario. In this article we summarize some of the actions adopted by TAs in this three fields. During this period, Inter-American Center of Tax Administrations (CIAT) is trying to help tax administration community coordinating efforts with other international organizations, producing timely documents and promoting new and innovative working methodologies.

Keywords: Tax administration; Tax measures; COVID-19

1. Introduction

A CIAT's recent publications — *"ICT as a Strategic Tool to Leapfrog the Efficiency of Tax Administrations (2020)"* — began asking what do the prevention of malaria, the efficiency of the financial markets, access to clean water, a reliable judicial system, safety in the streets and the maintenance of the transportation infrastructures in a country have in common? Apart from the fact that they may all be considered desirable objectives; all require financing and significant collective action.

And here is where TAs play their role. As highlighted by all the experts in institutionalism and the origin of modern states, the capacity for collecting taxes along with the rule of law is one of the pillars of collective action.

This is true specially now, when the health crisis and the impact of restrictions imposed by various governments to achieve social distancing, and thus mitigate the speed of disease transmission and the pressure on the health system, have had an extremely significant impact on economic activity.

In this article, we summarize the first steps undertaken by TAs in the fields of business continuity, support to taxpayers and planning of the recovery scenario.

2. TAs Business Continuity

First things first. In order to contribute to the solution of this crisis, TAs have to begin by reassuring their own capacity to keep with their work in a safe and efficient way. Based on the questionnaires filled by TAs, OECD-FTA (Forum of Tax Administrations), IOTA (Intra-European Organization of Tax Administrations) and CIAT have published a reference document on TAs business continuity,¹ that we will summarize and can be downloaded for more details.

As the document states, its purpose is to assist TAs in their own consideration of possible domestic measures. Although most administrations will already have well-developed business

continuity plans, they may need some adjustments given the nature of the current pandemic and wider government responses. Besides, the document does not make recommendations for particular measures as national circumstances and considerations vary greatly.

Most TAs probably have business continuity plans for dealing with one-off events which may be of short duration or geographically confined, such as economic shocks affecting a limited group of taxpayers, an event impacting a particular area (such as an earthquake), equipment failures and disruption to tax administration systems and terrorist incidents. Some may, though, not have plans which cover the range of issues relevant to a pandemic (or a huge localized epidemic, for that matter), in particular the risks to health, the impact on staff numbers and working locations, the potential length of a pandemic, the strains that might arise on the IT infrastructure and the economy wide shocks. In this case, the existing contingency plans need to be reviewed and adjusted to take into account the different considerations which will arise in the case of a pandemic. Even where contingency plans for a pandemic are in place, they will need to be continually reviewed given the rapidity with which circumstances can change and planning assumptions can become outdated.

The objectives of business continuity plans in a pandemic would include:

- Maintaining the safety of staff and taxpayers. This means that measures should be put in place to reduce transmission of the virus. For example, minimizing physical contacts and ensuring that appropriate hygiene and disinfectant procedures are in place, having clear policies on what staff should do in the case of illness and, where necessary, moving to remote working and closing offices to all but essential staff.
- Continuous provision of critical services to taxpayers and government over a prolonged period. The duration of a pandemic

1 CIAT/IOTA/OECD (2020). *Tax Administration Responses to COVID-19: Business Continuity Considerations*, www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-responses-to-covid-19-businesscontinuity-considerations.pdf.

can put significant strains on the administration's systems (for example, as a result of increased remote working, a reduced ability to maintain equipment, difficulties in carrying out coordinated activities or providing access to classified data), making it important that administrations identify the set of critical functions that must be carried out, desirable functions to minimize disruptions and non-essential functions. This will allow for prioritization of resources and a focus on the core mitigating actions that can be taken to address risks. Of course, what is considered a critical function may change the longer the pandemic lasts.

- Delivering support to a wide range of taxpayers, including as a result of new government policy responses. Pandemics will generally affect a country as a whole, although it may be uneven in its impacts over time. This can lead to a widespread shock in the economy as demand drops, supply chains are disrupted, and cash-flow constraints develop. In order to prevent a vicious circle developing, measures can be taken to support taxpayers as a whole or significant numbers of taxpayers in the most affected sectors. This itself can put strain on existing systems at a time when the administration may be asked to take on additional tasks, such as delivery of grant aid and benefit payments.
- Clear and timely decision-making processes in a rapidly changing environment and uncertain future states. Pandemics can rapidly become uncontained with exponential increases in infection rates or significant changes in government policy (for example, household isolation and quarantine restrictions, transport restrictions, infrastructure issues), making the assumptions of activated business continuity plans redundant and the need for significant adjustments to be made to ways of working and prioritiza-

tion of actions. This uncertainty about the impacts and evolution of the crisis need to be factored into decision-making processes, including their robustness.

- Clear and timely communication with taxpayers and staff. Pandemics can be confusing, demoralizing and frightening, particularly in a period where there are rapid and uncertain changes in the impact of the responses and prevention measures. Clear communications are vital to help staff and taxpayers to understand their options and responsibilities and to provide a supportive and inclusive environment.

3. Tax Measures to Support Taxpayers

The document "*Tax Administration Responses to COVID-19: Measures Taken to Support Taxpayers*"², published jointly by OECD/FTA, IOTA and CIAT, contains examples of measures undertaken by tax administrations globally to support taxpayers as a whole or particular classes of taxpayers affected by the COVID-19 outbreak. Measures for individual taxpayers generally focus on preventing hardship and reducing burdens given the restrictions in place in a number of countries. Measures for businesses, both legal entities and the self-employed, generally focus on helping to alleviate cash-flow problems to help avoid escalating problems such as laying-off workers, temporary inability to pay suppliers and, in the worst cases, closure or bankruptcy.

The examples contained in this document are grouped under the following headings:

- Additional time for dealing with tax affairs, including consideration of:
 - Extension of filing and tax payment deadlines;
 - Remitting penalties and interest;
 - Deferral of tax payments;
 - Easier access to debt payment plans and extension of plan duration; and

² CIAT/IOTA/OECD (2020). *Tax Administration Responses to COVID-19: Measures Taken to Support Taxpayers*, https://read.oecd-ilibrary.org/view/?ref=126_126478-29c4rpb3y&title=Tax_administration_responses_to_COVID-9_Measures_taken_to_support_taxpayers.

- Suspension of debt recovery.
- Quicker refunds to taxpayers.
- Temporary changes in audit policy and ways to provide quicker tax certainty.
- Enhanced taxpayers' services and communication initiatives.

Additionally, the document highlights certain issues that should be taken into account when designing these measures, including:

- Whether they adopt a targeted approach and only apply measures to taxpayers that are the most affected by COVID-19.
- Whether to apply measures to all taxpayers, or all taxpayers within particular segments such as individuals, self-employed, small and medium-sized enterprises (SMEs) and large businesses.
- The consequences which might arise for taxpayers from tax administration actions.
- The duration of measures.
- The possibility of fraud.
- How to make options available to the digital challenge.
- And, finally, considering the scope, tax administrations must reach to support a broader government response to this crisis. For example, this could be through providing other forms of assistance to businesses and individuals on behalf of other agencies or central government, or by providing direct assistance to the health authorities or emergency services.

4. Tailoring Measures, Measuring, Thinking Ahead

The impact of restrictions imposed by various governments to achieve social distancing, and thus mitigate the speed of disease transmission and the pressure on the health systems, has an extremely significant impact on economic activity. It's easy to see, you just need to look out the window to notice the decline in economic activity.

Around the world, news and analysis are appearing about the immediate and medium-term consequences of the economic downturn, covering various aspects ranging from the purely economic to the environmental or to the effects

observed on individuals as a result of the long confinement.

An anecdotal example: the improvement in air quality and the decrease in pollution, which has made it possible to see the Himalayas from 200 km for the first time in many years. It is not so clear to determine how long it has been since it was visible. The initial headline, replied to by several media outlets, claimed that it was "the first time in 30 years". A later study confirmed that the mountain range was visible from Punjab, and "it had been a long time since that it was visible". Several local people said they had "never seen this before". The study could not determine whether this had been possible or not for 30 years. It was, in effect, only an "anecdotal" estimate, not based on data.

We run the risk of replicating that process when estimating the impact on the reduction of economic activity. We see businesses closed, we can go out in a very limited way, there are no big meetings and we know that only the essential is operational. The economic impact is obvious (and as big as the Himalayas). But determining how large and how specifically it affects each economic agent is not so simple. We know that, for example, cinemas are closed, but supermarkets and pharmacies are open. The two sectors clearly do not face the same impact. We may even wonder if some companies that deliver packages and courier services, including home delivery of groceries and prepared meals, have increased their level of operation. Again, it is difficult to know precisely, it may simply be just another anecdotal observation.

Tax administrations, responsible for collecting the resources that allow the state to develop its activities, are currently facing significant challenges. On the one hand, it is clear that the decline in economic activity will lead to a drop in revenue, an immediate decline in consumption taxes and a prolonged decline in income taxes; on the other hand, it has been necessary in many jurisdictions to establish measures, both policy and administrative measures, that will alleviate the economic impact on taxpayers. In many cases, however, an assessment of the specific impact on each sector will require waiting

for the filing of the tax returns, or at least the submission of informative declarations on operations with third parties, which naturally takes time. Time that could even be further delayed by some measures taken that allow the due dates for compliance to be postponed.

Fortunately, the availability of national electronic invoicing systems, in which electronic documents (invoices, credit or debit notes, bills of lading, withholding certificates and others) are transmitted to tax administrations in real time, makes it possible to identify some of these data.

For example, a public consultation on the number of documents received by Ecuador's Internal Revenue Service (SRI in Spanish), comparing an arbitrary period from last year, from 13 to 16 September, with economic activity in the middle of the quarantine between 20 and 23 March, shows that the number of electronic documents received fell by less than half, with the fall further accentuated at the end of the week (see Figure 1).

However, the impact on economic activity is not only on the number of transactions. The needed aid for economic recovery should not be global and generalized. An analysis by economic sector and geographical location could facilitate more effective aid, and certainly, fairer, if it could be focused on the sectors most affected.

With the use of the information from the electronic invoice, SRI has been able to disaggregate the impact on sales volumes by economic activity, geographical location and taxpayer size.

With this information, it has been possible to design public policy so that taxpayers who increased their economic activity continue to pay their taxes normally, while granting additional time to those that have been most affected. Figure 2 and Figure 3 illustrate the panel developed at SRI to help identify and analyze those impacts under the above criteria.

Another example of the use of immediate and detailed information provided by the electronic invoice can be found at the Secretariat of Finance of Rio Grande do Sul, in Brazil (see Figure 4, 5). The data shows a slight growth in some sectors in the first week of the measures in sectors such as food, hygiene and medicines, although subsequently all sectors were affected. The data prove, however, that not all sectors were affected in the same way. Below is the evolution in value compared with the same period of the previous year. Prior to the measures, there was a growth of 14 percent to reach a reduction of more than 30 percent.

It is also clear that the impact on sales for products such as food differs significantly from that of other products.

Finally, in Figure 6, we see the impact among industrial activities, wholesale trade and retail trade were very different. The effect on wholesale trade (purple) is weaker than that faced by industrial and retail sectors (yellow).

Similar efforts have been carried out at the Spanish Tax Agency with data from the Immediate Information System (SII) and in Brazil, at Receita Federal itself. In addition to the analysis to anticipate the impact today and to focus the aid, the data from the electronic invoicing will undoubtedly allow to monitor the next phase and, certainly, to better guide the efforts of the tax administrations to seek resources that will be indispensable in the recovery process.

In addition, another piece of good news, also supported by electronic invoicing, is worth commenting on. In Brazil, as of 28 March 2020 the mobile app "Menor preço" incorporated a new section called "Prevenção COVID-19". This is where the lowest prices of important products in the fight against the pandemic can be found, such as alcohol gels, hydrogen perox-

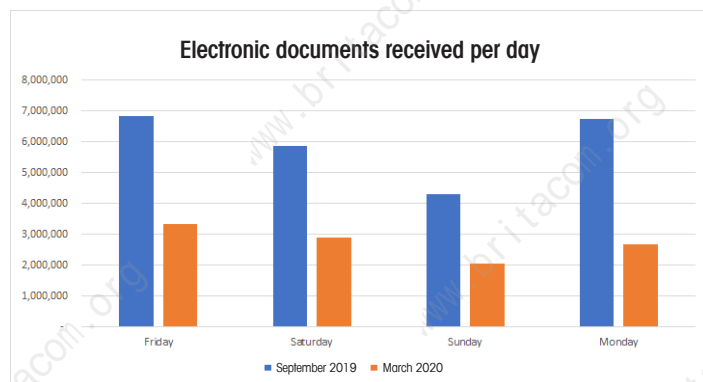


Figure 1. The number of documents received by SRI in Ecuador per day

Source: Prepared by the authors based on data from SRI's website, <https://www.sri.gob.ec>.

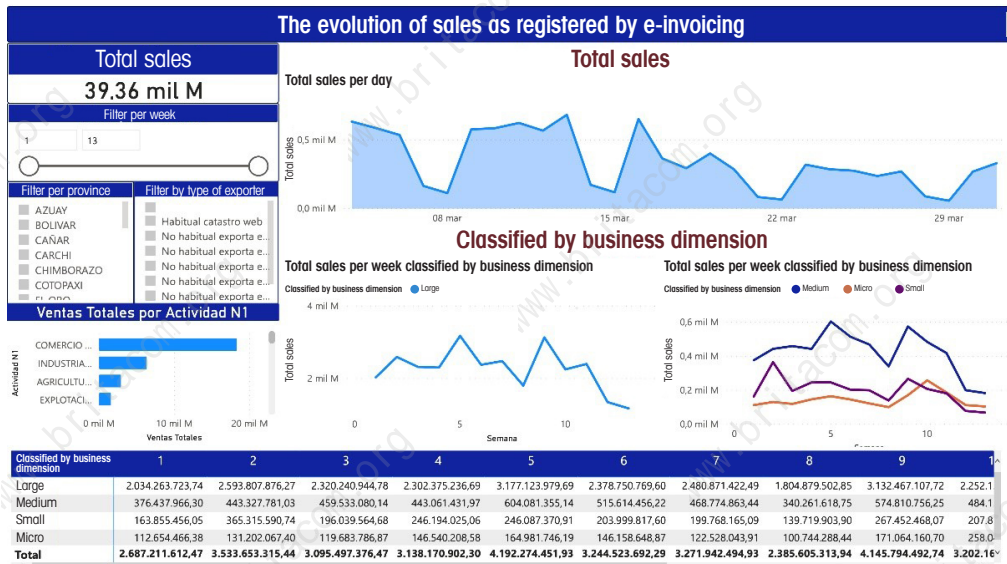


Figure 2. The evolution of sales as registered by e-invoicing

Source: SRI — Ecuador.

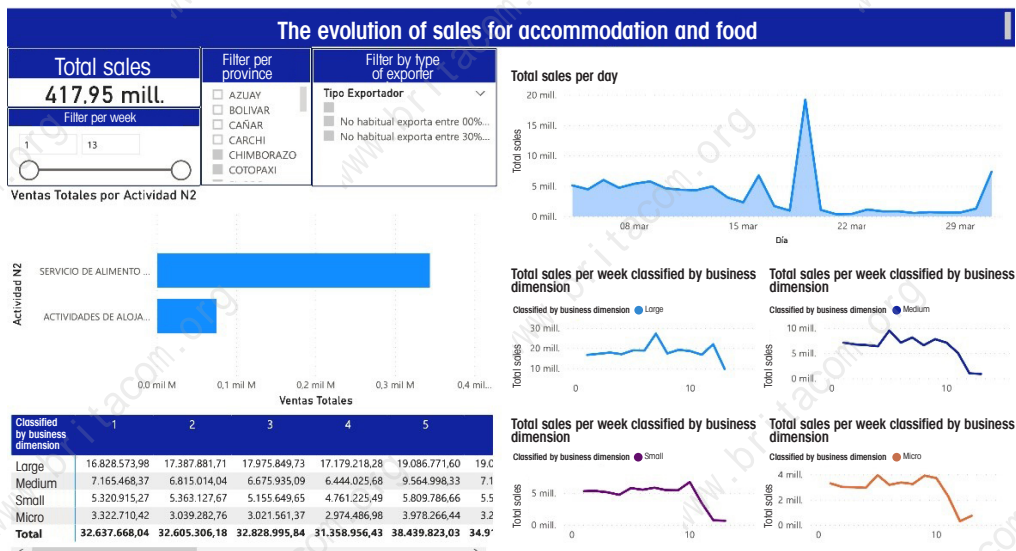


Figure 3. The evolution of sales for accommodation and food

Source: SRI — Ecuador.

ide, masks, gloves and other similar products. The application works for more than fifteen of the Brazilian states.

In the face of the desolation, this pandemic is fundamentally causing the loss of life. The economic consequences come, of course, later, but they're coming. And although the magnitude of the crisis means that the first recommendation is to "do whatever it takes", we cannot ignore the

fact that the economy deals with alternative uses of scarce resources. Limitations are not going to disappear, and the search for efficiency in public policies in this case will be more closely linked than ever to that of equity. We certainly hope that in these times of crisis, these systems, the detailed information they provide and their immediacy, are a tool that contributes to improving the decision-making process.

5. Final Remarks

This pandemic has transformed our world. All of us will have to adapt to it and TAs, of course, are not an exception. As we have seen they are reacting timely even if the challenges are huge. During these times, CIAT will keep on trying to help TAs, collaborating with individual countries and international and regional organizations to maximize results.

In our web page (www.ciat.org), all the actions we are taking can be followed, including online free training courses for our member countries, reference documents on COVID-19 crisis as the two aspects summarized in this article on business continuity and taxpayers support measures, and other publications and databases with free access.

In particular we would like to highlight “ICT as a Strategic Tool to Leapfrog the Efficiency of Tax Administrations (2020)”³, produced thanks to the cooperation framework established between CIAT and the Bill & Melinda Gates Foundation. The purpose of this book is to be a guide for the tax administrations on how to implement information technology to support its processes, thereby seeking not only the reduction of the cost of the tax transaction, which is defined as the compliance cost of the taxpayers, but also the administration’s cost. Likewise, it endeavors to increase the rates of voluntary compliance with tax obligations, as well as the capacity of the treasuries to combat tax evasion and harmful tax planning. The solutions, models and proposals presented are always of a general nature, resulting from successful experiences, which may allow for their easy adoption by countries with varying levels of knowledge in the use of information and communication technology.

In the current context, especially in developing countries, the challenges faced by TAs are enormous, and they cannot wait for “classic” procedures and solutions that have been followed in regular times. In order to make a qualitative leap, TAs need to adopt the most advanced procedures and technologies more directly. We hope that these books and the experiences described in them could help. It is our task; it is our challenge.

The evolution of e-invoices (value) for different weeks compared with the same period one year ago (2019)

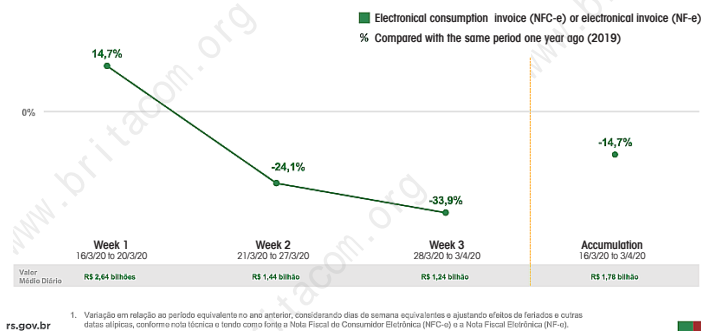


Figure 4. The evolution of e-invoice value

Source: Secretary of Fazenda. Rio Grande do Sul. Brazil.

The evolution of e-invoices value for different weeks and products compared with the same period one year ago (2019)

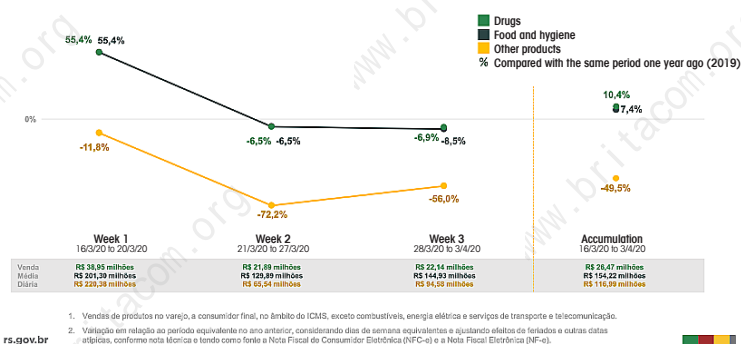


Figure 5. The evolution of e-invoices value for different weeks and products

Source: Secretary of Fazenda. Rio Grande do Sul. Brazil.

The evolution of e-invoices value for different weeks and industrial activities compared with the same period one year ago (2019)

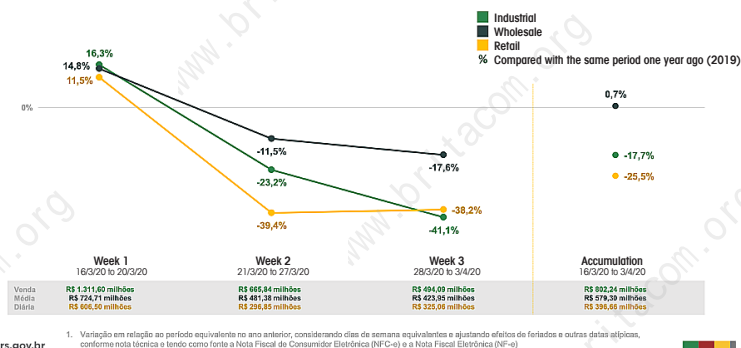


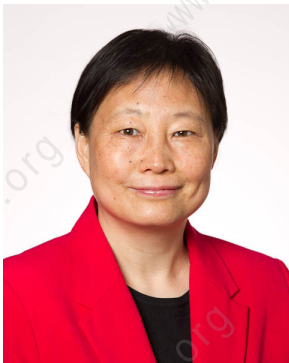
Figure 6. The evolution of e-invoices value for different weeks and industrial activities

Source: Secretary of Fazenda. Rio Grande do Sul. Brazil.

3 CIAT (2020). ICT as a Strategic Tool to Leapfrog the Efficiency of Tax Administrations, https://www.ciat.org/Biblioteca/Estudios/2020-ICT_STL_CIAT_FMGB.pdf.

Tax Weapons in the COVID-19 War: A Preliminary Study of Brazil, Canada, Denmark, UK and US

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1. The COVID-19 Pandemic

The COVID-19 pandemic is killing hundreds of thousands of people and crippling businesses worldwide.² There is no medical cure or vaccine yet. To prevent COVID-19 from crushing the health care system, non-essential activities have been paused and people are asked to stay home and keep “social distancing” in order to slow down the spread of the virus. Between 37 and 40 percent of jobs in the United States (US), the United Kingdom (UK) and Sweden can plausibly be performed entirely at home, but most workers cannot continue working.³ Such pause means no income for workers and no revenues for businesses while necessity expenditures continue rising. To fight the COVID-19 “war” through pausing the

economy, governments have resorted to tax policy instruments as well as fiscal and monetary instruments to support workers and businesses during the pause period.

In this paper, we canvass the tax policy weaponry in the context of overall COVID-19 relief measures in Brazil, Canada, Denmark, the UK and US. These countries represent different contexts and approaches to fighting against the common invisible “enemy” — COVID-19. Our goal is to see how tax measures are used, whether there is much similarity among the selected countries, and what the likely implications for the long term are. We make some general observations about the possible changes for the post-COVID-19 tax system.

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2 By May 8, 2020, the World Health Organization announced that the coronavirus had infected more than 3.8 million people worldwide and killed at least 269,881, referring to data compiled by Johns Hopkins University. *WHO Briefing on Coronavirus Pandemic*, https://www.youtube.com/watch?v=fb-WL_eID6iQ (Accessed May 9, 2020).

3 Jonathan Dingel & Brent Netman (2020). *How Many Jobs Can be Done at Home?* Becker Friedman Institute for Economics at University of Chicago, https://bfi.uchicago.edu/wp-content/uploads/BFI_White-Paper_Dingel_Neiman_3.2020.pdf.

2. Tax Weaponry in Selected Countries: At a Glance

2.1 “Rapid” Response

The governments in Brazil, Canada, Denmark, UK and US acted swiftly after the pandemic declaration by the World Health Organization (WHO) on March 11, 2020. Table 1 shows the timing of the government response and pre-COVID-19 state of social safety net, employment and economy.

It is interesting to note that Denmark reacted prior to WHO’s pandemic declaration and seemed to be

the most prepared. For example, workers were advised before March 11 of the need to self-quarantine should they experience any symptoms of coronavirus, and that they “will of course receive their normal salary during the period.”⁴

The pre-COVID-19 state of the economy and social safety net shapes the magnitude and measures of fiscal relief package. Brazil, Canada, Denmark and UK have universal health care system, which presumably reduces the need for emergency health-care support. US does not have universal health

care and therefore committed a higher percentage of the GDP to fight the pandemic. Similarly, countries with an employment insurance (EI) system have less need for emergency relief for workers who become unemployed due to COVID-19 and can use the EI system to deliver some emergency relief, such as enhancing the insurance payments. Pre-COVID-19 economic situation, such as unemployment rate and GDP growth rate, suggests pressures on government’s action to assist workers as well as on government’s fiscal capacity to finance the emergency relief payments.

Table 1: Economic background for the COVID-19 response ⁵

Country	Timing			Social Safety Net		Economy	
	First announcement	First Legislation	First direct payment to individuals	Universal healthcare	Employment Insurance (EI)	Unemployment rate	GDP growth rate (2019) ⁶
Brazil	March 20 ⁷	March 20 ⁸	April 7 — application for benefits	Yes	Yes	11%	1.1% ⁹
Canada	March 11 ¹⁰	March 25 — <i>An Act respecting certain measures in response to COVID-19</i> ¹¹	April 6 — Canada Emergency Response Benefit	Yes	Yes	5.6% ¹²	1.6%

4 Rosie Collington (2020). *Denmark is Helping Those Who Can’t Work Due to Coronavirus – Why Isn’t the UK?* <https://www.theguardian.com/commentisfree/2020/mar/18/denmark-coronavirus-uk-government-workers-employees>.

5 Main sources: OECD (2020). *Country Policy Tracker*, <http://www.oecd.org/coronavirus/en/> (OECD Tracker); IMF (2020). *Policy Responses to COVID-19, Policy Tracker*, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19> (IMF Tracker).

6 For Canada, Denmark, UK and US data, see OECD, <https://stats.oecd.org/index.aspx?queryid=60703> (using expenditure approach).

7 On March 20, 2020, Congress declared a state of “public calamity”, authorizing the government to introduce COVID-19 response measures. On the same day, measures were introduced. See IMF Tracker.

8 IMF Tracker, *supra* note 4.

9 Brazil, Ministério da Economia (2020). *Nota Informativa: Medidas de Combate aos Efeitos Econômicos da COVID-19*, <https://www.gov.br/economia/pt-br/centrais-de-conteudo/publicacoes/notas-informativas/2020/nota-informativa-medidas-fiscais-coronavirus-final-1704.pdf>; Trading Economics (2020). *Brazil Unemployment Rate*, <https://tradingeconomics.com/brazil/unemployment-rate>.

10 Justin Trudeau, Prime Minister of Canada (2020). *Prime Minister Outlines Canada’s COVID-19 Response*, <https://pm.gc.ca/en/news/news-releases/2020/03/11/prime-minister-outlines-canadas-covid-19-response>; The initial amount of CA\$1.1 billion was adjusted later to CA\$107 billion, see John Tasker (2020). *Parliament Passes Ottawa’s \$107 Billion COVID-19 Aid Package*, <https://www.cbc.ca/news/politics/covid19-coronavirus-ottawa-hill-economic-legislation-1.5509178>.

11 Parliament of Canada, C-13 (2020). *An Act Respecting Certain Measures in Response to COVID-19*, <https://www.parl.ca/LegisInfo/BillDetails.aspx?Language=E&billId=10710867>.

12 Stats Canada (2020). *Labour Force Survey, February 2020*, <https://www150.statcan.gc.ca/n1/daily-quotidien/200306/dq200306a-eng.htm>.

Country	Timing			Social Safety Net		Economy	
Denmark	March 10 ¹³	March 15 — Direct Fiscal Impulse ¹⁴	Unknown	Yes	Yes	3.7% ¹⁵	2.4%
UK	March 11 ¹⁶	March 19 ¹⁷	April 20 — Portal for Job Retention Scheme opens ¹⁸	Yes	Yes	4% ¹⁹	1.4%
US	March 11 ²⁰	March 18 — Families First Coronavirus Response Act ²¹	April 15 — Direct payment of “Recovery Rebate” under the Coronavirus Aid, Relief, and Economic Security (CARES) Act	No	Yes	3.5% ²²	2.3%

2.2 Fiscal Measures

The COVID-19 fiscal response measures in the five countries attempt to provide income support to individuals, liquidity support to businesses and direct funding to assist certain sectors

of the economy (such as those whose business model depends on people aggregating or socializing in person) or activities (such as medical research, procurement of medical equipment or caring for homeless people). This

paper focuses on the income support and liquidity support programs, which are summarized in Table 2.

The magnitude of the support in terms of the percentage of the national GDP varies among the five countries.

Table 2: Fiscal measures: overview²³

Country	Income support to individuals			Liquidity support to businesses (except grants)	Magnitude	
	Wage substitute	Top-up E.I.	Top-up social security		% of 2019 GDP ²⁴	% for business liquidity ²⁵

13 Brenda Bouw (2020). *How Denmark Got Ahead of the COVID-19 Economic Crisis*, <https://www.macleans.ca/economy/economicanalysis/how-denmark-got-ahead-of-the-covid-19-economic-crisis/>.

14 Direct fiscal impulse, at <https://e-markets.nordea.com/#!/article/56456/denmark-economic-measures-to-tackle-the-corona-crisis> and <https://www.ft.dk/samling/20191/aktstykke/aktstk.108/index.htm>.

15 Trading Economics (2020). *Denmark GDP Annual Growth Rate*, <https://tradingeconomics.com/denmark/gdp-growth-annual>; Statista (2020). *Denmark: Gross Domestic Product (GDP) Per Capita in Current Prices from 1984 to 2024*, <https://www.statista.com/statistics/318343/gross-domestic-product-gdp-per-capita-in-denmark/>.

16 BBC News (2020). *Budget 2020: Government Lays out Economic Plan to Combat COVID-19*, <https://www.bbc.com/news/av/uk-politics-51845258/budget-2020-government-lays-out-economic-plan-to-combat-covid-19>.

17 UK Government (2020). *Finance Bill 2020: Legislation*, <https://www.gov.uk/government/collections/finance-bill-2020>.

18 UK Government (2020). *Coronavirus Job Retention Scheme up and Running*, <https://www.gov.uk/government/news/coronavirus-job-retention-scheme-up-and-running>.

19 Office of National Statistics (2020). *Unemployment Rate (2019 Dec - Feb)*, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment>.

20 President Donald J. Trump Has Taken Unprecedented Steps to Respond to the Coronavirus and Protect the Health and Safety of Americans, <https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-taken-unprecedented-steps-respond-coronavirus-protect-health-safety-americans/>.

21 Families First Coronavirus Response Act was signed into law on March 18, 2020 and applies to employers with 500 or fewer employees. *Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law by President Trump on March 27, 2020*.

22 Feb 2020, <https://data.bls.gov/timeseries/LNS14000000>.

23 OECD Tracker.

24 The data in this column is based on IMF Tracker.

25 Our calculation is based on the estimated total value of support to individuals and businesses.

Country	Income support to individuals			Liquidity support to businesses (except grants)	Magnitude	
Brazil	EI payments for employees on reduced hours and furloughed; Unemployed and self-employed receive US\$120 (US\$240 for single parents)	Employers cannot terminate furloughed employees within a specified period of time after the pandemic is over ²⁶	US\$240	Tax payment deferrals; Tax filing extension; Cuts in payroll taxes; Low-rate loans	8%	35%
Canada	Those stopped working because of COVID-19 (CA\$2,000/month); Top-up wages for low-wage essential workers	Enhanced or extended eligibility for unemployment benefit or sick pay	Extra amounts for low-income families and students ²⁷	Wage subsidy; Tax deferrals; Loan guarantees and forgivable loans; Rent subsidy	8.4%	44%
Denmark	90% of wages of hourly workers; 100% salary of furloughed employees	Enhanced sick and EI benefits	US\$4,500.00	Tax deferrals; Reimburse businesses for cost of paying sickness benefits and benefits during the period of leave	2.6%	57%
UK	80% of regular salary ²⁸ or earnings of the self-employed	Enhanced sick pay	Suspension of the floor of Universal Credit (UC) ²⁹	Tax deferrals; Property tax holidays ³⁰	3.4% ³¹	72%
US	Every resident making up to US\$75,000 per year is eligible for US\$1,200 per month (CARES Act)	Additional EI benefits; Extending EI to self-employed; Enhanced sick leave and medical leave benefits	Increasing Medicaid and food-security	Tax deferrals; Loss carry-back period; Forgivable small business loans and guarantees	14%	70%

Such variations do not mean that the level of societal support varies that much. This is because countries with an existing high-level social safety net need less emergency support.

2.2.1 Supporting individuals

Individuals receiving income sup-

port are generally classified into four groups. Group one includes furloughed employees (employees who work on reduced hours to a significant degree or whose work was suspended while remaining employed). They receive 75% of regular salary in Denmark,³² 80% of

regular salary in the UK,³³ unemployment insurance benefits in Brazil (for low-income workers, the amount is the same as regular salary), and CA\$2,000 monthly pay (Canada Emergency Response Benefit or CERB) in Canada.

Group two includes employees

²⁶ The law requires employers to provide stability to their employees on furlough. For example, if an employee stays in furlough for 2 months, he cannot be fired for at least 2 more months after the pandemic is over.

²⁷ The Canada Child Benefit was increased by CA\$300 per child and the refundable Goods and Services Tax credit was increased by CA\$300 for each adult and CA\$150 for each child. The amount for students is CA\$250 per month or CA\$2,000 per month for students taking care of others.

²⁸ IMF Tracker.

²⁹ The government uses universal credit to test whether it considers an unemployed person is in gainful self-employment. The measure increased the UC allowance by £1,000 for the next twelve months: see OECD (2020). *Country Policy Tracker: UK*, <http://www.oecd.org/coronavirus/en/#country-tracker>.

³⁰ IMF Tracker.

³¹ The IMF Tracker does not include this data. 3.4% was derived from reducing the 18.4% of the economic package by 15% attributable to loans and guarantees. Researchers estimate this to be 2.3% if “fiscal package” is used instead of the “economic package”. See Carl Emmerson & Isabel Stockton (2020). *The Economic Response to Coronavirus will Substantially Increase Government Borrowing*. Observation, 26 Mar 2020, <https://www.ifs.org.uk/publications/14771>.

³² The government pays 75% of the salary (up to a maximum of EUR3,100 or about US\$4,760 per month of the cost of employees’ salaries as long as those companies don’t let people go).

³³ Under the Job Retention Scheme, the government pays up to 80% of the employee’s usual monthly wage costs (up to £2,500 per month to the employer).

who became unemployed during the pandemic. They receive fixed cash payment in Canada (CERB) and the US (Recovery Rebate of US\$1,200 per month), standard unemployment insurance benefit in Brazil, and extended unemployment benefits in Denmark³⁴ and the UK.

Group three includes individuals who are self-employed. They receive: 90% of regular income in Denmark; 80% of regular income in the UK;³⁵ a monthly US\$120 in general or US\$240 for single parents in Brazil; a fixed monthly payment of CA\$2,000 (CERB) in Canada; and US\$1,200 per month Recovery Rebate in the US.

Finally, individuals who do not work or work with low household incomes qualify for additional cash to top up the existing “negative taxation payments” or social income support in Canada and the US. In Canada, these include additional amounts of Canada Child Benefit and refundable Goods and Services Tax credit. In the US, in addition to the general US\$1,200 monthly Recovery Rebate, individuals in this group are eligible for an additional US\$500 per child under the age of 17 and additional food stamps and medical care assistance.³⁶

2.2.2 Supporting businesses

Fiscal support to business takes the form of suspending tax payments (to free up cash flow), extending filing deadlines, wage subsidy, tax subsidy, cuts in social insurance contributions, and interest-free or forgivable loans. Wage subsidies are conditioned upon the employers’ undertaking to keep workers on the payroll so that business can resume after the COVID-19 pause and the relationship between employer and employee is preserved, avoiding a massive unemployment outbreak.³⁷ The percentage of regular salaries covered by the government is 75% in Canada and Denmark, and 80% in the UK. In Brazil, the percentage of regular salaries covered by the government is 70% or 100%, depending on the annual earnings of the company. The percentage is 100% if the company earns less than 4,800,000 BRL (Brazilian real)/year, or 70% if the company earns more than 4,800,000 BRL/year.³⁸

In addition, Denmark and Canada cover businesses’ fixed costs (rent in Canada³⁹ and rent and interest in Denmark). In Denmark, sick leave benefits for people with COVID-19 are fully covered by the government.

In Canada, the UK and US, banks and financial institutions provide support to businesses and home-owners by relaxing mortgage payments deadlines and line of credit and the government provides lenders with a partial guarantee on loans extended to small and medium-sized enterprises (SMEs). The US provides small businesses with forgivable loans.⁴⁰

2.3 Tax Measures

Tax measures introduced as part of the COVID-19 emergency response are summarized in Table 3 below. They fall into administrative measures and substantive measures regarding personal income taxes (PIT), corporate income taxes (CIT), value-added taxes (VAT) and payroll taxes (including contributions to social insurance programs, such as EI, and pensions).

2.3.1 Deferring tax filing and tax payment

Extending deadlines for tax filing, tax payments and information reporting is among the first announced by governments to provide relief to taxpayers. Deferred tax payments mean that taxpayers can use the money earmarked for tax payment during the

34 See Jan Størup Nielsen & Helge J. Pedersen (2020). *Denmark: Economic Measures to Tackle the Corona Crisis*, <https://e-markets.nordea.com/#!/article/56456/denmark-economic-measures-to-tackle-the-corona-crisis>.

35 UK, Self-Employed Income Support Scheme (SEISS).

36 This credit phases out at 5% of adjusted gross income in excess of US\$75,000 per year.

37 For example, in Canada, under a Canada Emergency Wage Subsidy (CEWS) program, employers (individuals, taxable corporations, certain non-profit organizations, registered charities, and partnerships) experiencing at least 15% of revenue drop in March 2020 and 30% of the qualifying revenue in April 2020 and May 2020 receive a subsidy equal to 75% of wages paid to employees, up to a maximum of CA\$847 per employee per week. Parliament of Canada (2020). *A Second Act Respecting Certain Measures in Response to COVID-19*, <https://www.parl.ca/DocumentViewer/en/43-1/bill/C-14/royal-assent>.

38 See Articles 6, I and II, a) and b), and Article 8, s. 5 of Medida Provisoria no. 936/2020, [http://www.planalto.gov.br/ccivil_03/_ato2019-2022/2020/](http://www.planalto.gov.br/ccivil_03/_ato2019-2022/2020/0222/2020/) (in Portuguese).

39 Canada Revenue Agency (2020). *Canada’s COVID-19 Economic Response Plan*, <https://www.canada.ca/en/department-finance/economic-response-plan.html#businesses>.

40 Under the CARES Act, the government provides recipients of loans to be eligible for loan forgiveness on covered loans in an amount equal to the sum of the costs incurred on or after February 15, 2020, and on or before June 30, 2020, due to payroll cost, mortgage interest payments, rent or utility payments. These benefits are available to employers with no more than 500 employees, including nonprofit organizations.

Table 3: Tax measures⁴¹

	PIT	CIT	VAT	Payroll taxes	Extension of deadlines
Brazil	Income support payments are tax-free	Subsidy to 75% of salary of furloughed employee	No import VAT on medical equipment	Reductions	Tax payments; Tax filing
Canada	Cash transfer through the PIT; Relaxation of withdrawals from retirement funds	Wage subsidy to employers; Rent subsidy	No import VAT on medical equipment	[CEWS to cover the contributions from employer]	Tax payments; Tax filing; Refrain from initiating new tax audits; Refrain from taking collection actions
Denmark		Wage subsidy up to 75% of salary of furloughed employees; Subsidy towards fixed expenses ⁴²	Reimbursing employers for the cost of sick pay and leave of absence pay		Tax payment; Tax filing; More flexible tax debt repayments
UK		Wage subsidy up to 80% of wage costs of furloughed employees ⁴³	No import VAT on medical equipment	Refund the cost of Statutory Sick Pay for up to two weeks for SMEs	Tax payment; Tax filing; Flexible tax debt repayments
US	Cash transfers delivered through the tax system; Special rules for using retirement funds; Relaxation of limitations on charitable donations	Extending net operating losses carry back to five years; Relaxing limitation on interest deductibility ⁴⁴ ; Employee retention credit Pass-through of losses to individuals ⁴⁵		A refundable tax credit to employers to offset the cost of providing workers with sick and family leave	Tax payment; Tax filing

extended period. Other extensions reduce pressure for compliance and concerns for penalties.

Some tax administrations, such as Canada Revenue Agency, the Brazilian Federal Revenue Service and Her Majesty's Revenue & Customs (HMRC) also suspended audit interactions with taxpayers and their representatives and refrained from initiating any post-assessment audits with SMEs

or taking collection actions.⁴⁶

2.3.2 Delivery through the tax system

While in many countries the tax administration is tasked to administer the implementation of support programs, in Canada and the US the support payments are delivered through the tax system. Major relief payments to individuals and businesses are legislated as tax expenditure provisions of

the income tax statute. For example, section 125.7 was added to the Income Tax Act in Canada to facilitate the wage subsidy to businesses. Similarly, the Internal Revenue Code was added with new provisions to facilitate payments under the CARES Act. For example, employee retention tax credit provided to employers under CARES Act section 2301, which is equal to 50% of the qualified wages paid by a

41 The main source for the data is OECD Policy. OECD (2020). *Country Policy Tracker*, <http://www.oecd.org/coronavirus/en/>.

42 This is based on the decline in turnover (from 80% of fixed expense to 25%).

43 This is limited to £2,500 per employee per month.

44 The Tax Cuts and Jobs Act (TCJA) limited interest deductions to 30 percent of earnings before interest, taxes, depreciation, depletion, and amortization (EBITDA). The CARES Act raises this limit to 50 percent for 2019–2020 and calculates both years' allowance on the basis of 2019 EBITDA.

45 This measure allows owners of pass-through entities to offset business losses against other forms of income, such as wages and investment, without limit.

46 See Canada Revenue Agency (2020). *Changes to Taxes and Benefits: CRA and COVID-19*, <https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update.html>.

qualified employer to an employee is allowable against the tax imposed on an employer under section 3111(a)—i.e., the Old-Age, Survivors, and Disability Insurance Social Security tax. The Recovery Rebates for individuals under the CARES Act section 2201 is a refundable tax credit.

The main reason for using the tax system to deliver COVID-19 support payments is that the tax administration has (1) the information about the vast majority of businesses and individuals and (2) an efficient system to transfer funds to taxpayers. This is particularly important when eligibility for COVID-19 supports is tied to gross income, revenue or expenditures of a business, such as wage subsidies.

2.3.3 Substantive tax measures

Among the five countries, the US introduced changes to substantive tax rule to offer financial relief to businesses. These changes include: eliminating the taxable income limit for certain net operating losses (NOLs) and allow businesses and individuals to carry back NOLs arising in 2018, 2019 and 2020 to the five prior tax years;⁴⁷ suspending the excess business loss rules under section 461 of the Internal Revenue Code; and generally loosening the business interest limitation under section 163(j) from 30% to 50% of EBITA. These tax expenditure provisions were estimated to reduce federal tax revenue by over US\$591 billion between 2020 and 2030.⁴⁸

2.3.4 Examples of convergence and divergence

All countries reacted rapidly to

use tax measures as major weapons to fight against COVID-19. They have all granted immediate relief through extending deadlines for tax payment and filing returns or providing information. SMEs are typical recipients of wage subsidies.

As to divergence, Canada and the US rely more on the tax system to deliver cash payments under the COVID-19 relief programs. The US uses substantive tax rule changes as part of the relief measures. There is also divergence in policy priority in terms of the proportion of money spent on assisting individuals or businesses. As shown in Table 2, while Brazil and Canada spend less than half of the total fiscal package on assisting businesses liquidity, UK, US and Denmark spent more.

3. Some General Observations

Given the rapid and unprecedented developments since March 11, 2020, it is difficult to offer any definitive assessment of the fiscal and tax measures. On the basis of our research, we make some preliminary observations below.

3.1 Different Emphasis

The governments of the five countries appear to identify the COVID-19 response package differently. Denmark and UK seem to treat it as a “bridge” in the sense of paying workers and businesses during the COVID-19 pause; Canada emphasizes the national emergency relief nature in a way similar to a social insurance; the US and Brazil tend to present it as an economic stimulus to facilitate a faster recovery.

The “bridge” perspective has shown to be the most straightforward—a percentage of workers’ salaries and businesses’ fixed expenses is covered by the government. Socializing the COVID-19 risk in Canada seems to have made the emergency response package more reactive to on-going assessment of the damages caused by the pandemic and more “demand” for government assistance. For example, the response package has been growing in Canada since March 25, 2020. The “stimulus” message seems to have been lost as millions of people became unemployed during the pandemic and reopening the economy seems very challenging.

3.2 Long-term Implications

Tax measures appear to be effective in providing immediate relief to taxpayers. COVID-19 hit right before the deadline for filing annual tax returns (typically in April). Extending the deadlines was well received by taxpayers. Delaying the payment of taxes means more money can be used by taxpayers in the crisis. In Canada, for example, the value of income tax and sales tax remittance and customs duty payments deferrals was estimated to be CA\$85 billion (while the total value of direct cash payments to individuals was CA\$105 billion).⁴⁹

The COVID-19 measures are meant to be temporary. Temporary measures can have long-term implications. One major implication is the potential damage to the fiscal health of the country as the cost of these measures will be paid through increasing public debt or higher taxes. It is hoped

47 This is necessary because the 2017 Tax Cut and Jobs Act repeals the carryback of most net operating loss of corporations. See IRS, https://www.irs.gov/publications/p542#en_US_201809_publink1000257872. Corporations must carry forward the NOL with certain conditions.

48 The Joint Committee on Taxation (2020). *Description of the Tax Provisions of Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act*, <https://www.jct.gov/publications.html?func=startdown&id=5256>.

49 Canada’s COVID-19 Economic Response Plan—Cost and Implementation, <https://www.canada.ca/en/department-finance/news/2020/04/the-canada-emergency-wage-subsidy.html>.

that the economy could resume after the COVID-19 pause and generate sufficient tax revenues. Another long-term implication is perhaps the efficiency gains derived from using technologies in the tax administration.

As to policy implications, one is the consideration of reviving previous “wartime” excessive profits tax on taxpayers whose businesses profited from the opportunities presented by COVID-19 (e.g. digital businesses and medical equipment and supplies).⁵⁰ Another policy implication is to reimagine the social safety net based on lessons learned from the experience, such as installing universal basic income (UBI; that is, turning the emergency minimal income support into a permanent system). Or, just like Marshall Plan devised following World War II, or President Franklin D. Roosevelt’s New Deal of 1933 followed the 1929 economic depression, it is possible that a better social insurance system would evolve after COVID-19 pandemic. In Canada, for example, previous major crisis has led to the creation of long-lasting institutions: income taxation was introduced in 1917 during the World War I, and the national unemployment insurance system was introduced in 1940 after the Great Depression.

More fundamentally, the future of the state in post-COVID-19 world is likely different. Having stepped forward to deliver so much in the crisis, the state seems unlikely to simply retreat to its former shape and size once the pandemic is over. Citizens will likely continue to expect the state to

address other systematic risks or crises, such as inequality, poverty and environment. The use of fiscal and tax policies in the post-COVID-19 world will thus be different and likely be reimagined.

4. Tax Weaponry for a Post-COVID-19 World

4.1 A “Dangerous Opportunity”

There are some features of the COVID-19 pandemic and fiscal responses by governments that suggest opportunities for a “great reset” of tax policies for the post-COVID-19 world. During the pandemic, governments acted fast and such speedy action was well received by the public. Such “crisis effectiveness” may be continued into the post-crisis mode.

While many people must “pause” their income-earning activities, many others continue their activities online (such as teaching and government services). The fact that COVID-19 fiscal and tax response measures were designed, legislated into law and implemented during “social distancing” is an amazing testament to the potential of working online. Online shopping for goods and services increased exponentially. This presents challenges and opportunities for reimagining the taxes that were designed for the physical world.

The global pandemic calls for a global response. Even though each government acted separately, the response measures across the five countries are similar in nature. This may bode well for future global-based tax reforms. The 2008 Global Finance Crisis led

to the G20/OECD Base Erosion and Profit Shifting (BEPS) project — the first major “renovation” of the international tax system that was created after the WWI. The COVID-19 pandemic is likely to inspire some meaningful rethinking about taxation at a global level, such as taxing global digital businesses that profited tremendously from the opportunities presented by COVID-19.

Due to the length constraint of this paper, we briefly canvass below some possible tax changes in the post-COVID-19 world. These changes include the revenue side of the budget as well as the expenditure side through tax incentives.

4.2 Tax System Restructuring

To raise sufficient tax revenues in the post-COVID-19 economy to pay for the cost of the COVID-19 response measures may involve restructuring the tax system, reforming some specific taxes, and introducing new taxes.

One restructuring idea is to increase taxes on capital. In Canada, Denmark, the UK and US, income tax is the most important source of tax revenue, accounting for about 35% in the UK and over 40% in Canada, Denmark and the US.⁵¹ Adding the burden of contributing to social insurance programs, workers or labor bears the brunt of the fiscal burden. Meanwhile, the burden of tax on capital has been on decline. As a result, the income tax is largely a tax on labor.⁵² There had been calls for more taxation of capital to reduce income inequality and to make the

50 Reuven S. Avi-Yonah (2020). *COVID-19 and US Tax Policy: What Needs to Change?* <https://ssrn.com/abstract=3584330>.

51 OECD. *Revenue Statistics – Tax Structures*, <https://www.oecd.org/tax/tax-policy/revenue-statistics-tax-structures.htm>.

52 See Edward McCaffery (2019). *The Death of the Income Tax (or, The Rise of America’s Universal Wage Tax)*, 95 *Indiana L.J.*; also <https://ssrn.com/abstract=3242314>.

tax system fairer, as well as for more equal taxation of employees and the self-employed or gig workers.⁵³ Such calls are likely to receive more support after the COVID-19 crisis is over. During the crisis, all workers are treated the same, regardless of the status of the worker as an employee or self-employed.

Lowering taxes on labor may also be a way to help get people back to work. It may also act as a stimulus to small businesses as the cost of labor will be lower, which may help these businesses to survive and thrive in a more pandemic-resilient economy. Not all the jobs saved by the government during the crisis will remain viable. Such stimulus would be important for the economy.

Consumption tax may also become more important. During the COVID-19 pandemic, consumption was not paused, and may in fact increase. Online sales replaced in-person sales. It is unclear whether such change adversely impacted the sales tax revenues owing to the difficulty of collecting sales taxes on remote (especially cross-border) transactions.

The taxation of multinational enterprises (MNEs) had been changed through the BEPS project. Fixing the deficiencies in the corporate tax system, especially the problem of tax avoidance, is likely to continue. MNEs based in tax havens are excluded from receiving COVID-19-related aid in Denmark, France and Germany (to some extent Canada which requires an economic footprint in the country).

A new system of taxing digital

businesses⁵⁴ may become more plausible. These businesses are positioned to make excessive profits during the pandemic and the business models will likely continue in the future. It has been challenging to collect income taxes or sales taxes on digital businesses.

4.3 Tax Expenditures as Stimulus Tools

While direct spending is expected to help restart the economy, indirect spending through tax subsidies is expected to be used as stimulus tools. It is possible that some of the COVID-19 emergency measures be extended. More generous loss carryover rules, such as those introduced by the US, may be introduced in other countries. More tax incentives may be warranted to support start-up companies in “essential” sectors or medical research to develop vaccines or treatments for novel diseases.

The rapid and massive fiscal response to COVID-19 suggests that governments can take action to address large and systematic risks. Encouraged by the public support of such actions during the COVID-19 crisis may encourage some governments to use tax measures to stimulate investment in clean energy and preventing environmental risks.

4.4 Universal Basic Income

The COVID-19 income support to individuals in Canada, Denmark, UK and US, and to a lesser extent Brazil, is in the nature of a universal basic income to working-age individuals. This experiment may pave the way

for a more permanent UBI to build up resilience for combating future systematic risks. The COVID-19 pandemic clearly indicates the connection between public health and minimal income to sustain people’s basic need and dignity during the crisis.

4.5 Taxpayer Interface and Services

Experience gained from providing services to taxpayers and implementing COVID-19-related programs is expected to help create a “new normal” for taxpayer interface and services. The tax administration is likely to become more efficient in delivering transfers and subsidies to taxpayers as well as collecting taxes, using enhanced digital platforms and technologies.

5. Conclusions

Our preliminary study of the COVID-19-response measures allows us to make several conclusions. First, these measures are largely similar in nature and design across the selected countries, although the magnitude varies, ranging from 2.6% in Denmark to 14% of GDP in the US. Second, they all have been introduced in haste, suspending the application of normal fiscal disciplines in such abnormal time. The impact of such action is too early to tell. Third, some long-term implications for the tax system, both on the revenue-raising side and tax-expenditure side, are likely to be significant. If “no crisis should go to waste”, this COVID-19 crisis may prove to be an opportunity for some fundamental rethinking about the tax system.

53 Jinyan Li, Arjin Choi & Cameron Smith (2020). Automation and Workers: Re-imagining the Income Tax for the Digital Age, 68 *Canadian Tax J.* 1, pp. 99-124.

54 See OECD (2020). *Statement by the OECD/G20 Inclusive Framework on BEPS on the Two-Pillar Approach to Address the Tax Challenges Arising from the Digitalisation of the Economy*, <https://www.oecd.org/tax/beps/statement-by-the-oecd-g20-inclusive-framework-on-beps-january-2020.pdf>.

The Impact of COVID-19 on World Economy and China's Role

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Abstract: Recent years have seen more countries to experience “three lows and three highs” problems. The pandemic triggered the exposure of these accumulated risks, leading to a slump in world economic growth. Given the developing trend of world economy amid the ongoing pandemic, the world may face a range of challenges for a long time to go, e.g. insufficient momentum for economic growth, increased resistance for market opening and rising debt risks. As the world economy suffers a major hit, China has been active in providing the international community with the assistance needed to combat the COVID-19 and recover the economy, while China's economy itself has shown strong resilience and stability. In the long run, the pandemic will not change the sound momentum of China's economic development; rather, it will provide an opportunity for China to play a significant role in the world economy.

Keywords: COVID-19; World economy; China's economy

1. The COVID-19 Outbreak Deals a Heavy Blow to the World Economy

As COVID-19 continues to spread throughout the world, it is difficult to accurately predict when it will end and how much it will impact and change the world economy. The impact of the pandemic on the world economy, however, has been complicated by the risks accumulated over the years. If the pandemic continues, the world economy may be caught up in a prolonged downturn. Therefore, international agencies have successively substantially lowered their expectations for world economic

growth. The OECD's 2 March 2020 report pointed out that the public health emergency will severely hurt global demand and supply, possibly making world economy growth hit a 10-year low. Even in the best-case scenario, the global growth rate in 2020 will drop by 0.5 percentage points from the prior year to 2.4%, while the continuation of the pandemic will make the world economy suffer more. The world economic growth rate is likely to drop to 1.5%, only half the expected rate before the outbreak, and the economies of Japan and the euro zone may even be caught up in a recession.¹ On 23 March, the *Global Macro*

1 OECD (2020). *Coronavirus: The World Economy at Risk*, <http://www.oecd.org/economic-outlook>.

Views, issued by the Institute of International Finance (IIF), reported that as the COVID-19 has led to stalled economic activities, plummeted oil price, and mounting credit stress, the world economy in 2020 will see its first negative growth since 2009, at -1.5%.² On 14 April, the IMF released its *World Economic Outlook* report, indicating that in 2020, it is highly likely that the global economy will experience its worst recession since the Great Depression in the 1930s, and the global economic growth rate is projected to be -3%.³

The global spread of the COVID-19 has accelerated the exposure of the accumulated risks in major advanced economies, such as the United States (U.S.), over the years. After the U.S. subprime mortgage crisis in 2007, the U.S. economy embarked on a journey of recovery after a year of adjustment. Thanks to the implementation of unconventional monetary policies, the U.S. has managed to maintain a bull market for 10 consecutive years, which has led to the generation of a huge asset bubble. According to the WIND database, the total value of the U.S. stock market by the end of 2019 was approximately USD47.18 trillion, accounting for 220% of its GDP, far exceeding the 2007 level before the global financial crisis. In addition to the ultra-low interest rate, companies' stock repurchase efforts are also an important reason for the rise of stock prices. However, the performance of both the real economy and the financial market has indicated that the situation is changing, and the stock market is a barometer of the future economy. Between 9 March and 18 March 2020, the U.S. stock market has experienced four circuit breakers, unprecedented in the history of the world stock market. In the context that the U.S.'s macro policies, economic performance and asset prices are largely disconnected, it is normal

for the U.S. stock market to decrease by 30%. The plunge shows that the stock market bubble, among other economic risks, of the advanced economies, such as the U.S., has reached unprecedented level that any disturbance may trigger a violent market shock. It just happens that the pandemic serves as such disturbance. In any case, the signal released by the U.S. stock market reflects the market's underlying concerns about the future of the U.S. economy.

On 21 March 2020, the world-famous hedge fund Bridgewater Associates estimated that the novel coronavirus pandemic may cause U.S. companies to lose USD4 trillion. Without effective monetary and fiscal policy support, the U.S. economy would contract by more than 6% in 2020.⁴ It is difficult for the U.S. to launch effective policies to cope with the crisis facing the imminent economic recession. The benchmark interest rate has already been lowered to zero, and the leeway for fiscal policy is also pretty limited. Since President Donald Trump took office, the U.S.'s fiscal deficit has rebounded due to the large-scale tax cuts. The debt problem is not just a reflection of the economic challenges faced by the U.S. government, but also an important factor that drives up risks in the U.S. economy. Once these economic risks are exposed, not only would the U.S. economy be impacted, but a strong negative spillover effect would happen in other countries, thereby affecting the future of the world economy.

In the medium to long term, major advanced economies are still faced with many challenges. Some European countries and Japan have already set their nominal interest rate to negative values, and now the U.S. is following their steps as the Federal Reserve has adjusted the benchmark interest rate to zero.⁵ Thanks to

2 Robin Brooks & Jonathan Fortun (2020). *Global Macroeconomic View: Global Recession*, <https://www.iif.com/Publications/ID/3813/GMV-Global-Recession>.

3 IMF (2020). *World Economic Outlook: The Great Lockdown*, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.

4 Greg Jensen, et al. (2020). *The Coronavirus's \$4 Trillion Hit to US Corporations*, <https://www.bridgewater.com/research-library/daily-observations/Greg-Jensen-the-coronavirus-4-trillion-hit-to-us-corporations/>.

5 On 15 March, the U.S. Federal Reserve cut its benchmark interest rate by 100 basis points to 0–0.25%.

the ultra-low interest rates and different versions of the quantitative easing policies introduced by the central banks, these countries manage to maintain their GDP growth rate at about 1%. It is worth noting that negative interest rate is not something a central bank would normally adopt. But as policymakers in many countries cannot afford the political consequences of an economic recession, the promise to normalize monetary policies has not really been put into practice. Moreover, monetary policies are hardly sufficient to have a substantial impact on long-standing structural problems. They may even fortify the long-standing “three lows and three highs” problems.⁶

As the COVID-19 spreads to more emerging markets and developing countries, its impact on the economy of these countries will be amplified. In emerging economies where the virus is spreading rapidly or the situation is more severe, the short-term impact of the pandemic on the economy has shown up, as the normal operation of consumer services, such as tourism, air transport, hotels, catering, and foreign trade-related industries has been seriously disrupted, residents’ consumption directly impacted, and corporate investment willingness undermined. In the medium to long term, stalled economic activities may lead to the reorganization and damage to the industrial, supply and value chains. These damages are not only reflected in the severe losses suffered by the real economy, but also in the turbulence of the capital market, increased capital outflows, and rising debt risks.

In short, the COVID-19 pandemic has been a tremendous blow to the world economy, making it unavoidable for the world economy to experience negative growth in 2020. Compared with previous economic crisis, this one is particularly difficult for the international community to deal with. There is even a possibility for the world economy to fall into a prolonged

downturn.

2. The World Economy Is Faced with Multiple Challenges

Today, the international community is developing as a “community of shared future”, where the interests of all parties are deeply intertwined. Facing the economic challenges brought by the global pandemic, no country can stand alone. Only through strengthened cooperation can the countries around the world better meet the global challenges, so as to build a better future for mankind. In particular, the major global economies must stand together in a joint effort to shoulder the responsibility of maintaining the global value chain and driving world economic recovery. It is gratifying that the G20 leaders have reached a consensus on restoring confidence, maintaining financial stability, restoring growth, or better still, achieving stronger growth. Considering that the world economy will be likely to develop against the background of a global pandemic for a long time to go, the international community is expected to encounter the following challenges.

2.1 Insufficient Momentum for Economic Growth

In the short term, countries should strengthen macroeconomic policy coordination and introduce a reasonable mix of fiscal and monetary policies to stimulate the economy. In this regard, G20 members have determined to inject USD5 trillion into the global economy during the 2020 G20 Extraordinary Virtual Leaders’ Summit on COVID-19 (hereinafter referred to as “Summit”). This has released a strong signal to the international community that cooperation will be strengthened among the major economies, which is conducive to restoring market confidence and boosting the morale for world economic recovery. The fund will provide support to the global economy affected

⁶ The “three lows and three highs” problems refer to low growth, inflation and interest rates, and high debts, income gaps and asset prices.

by the pandemic, and to a great extent mitigate the current downward pressure on the world economy. In the meantime, the positive results achieved through the efforts will also lay a solid foundation for further capital input and cooperation. In the long run, the key to economic growth lies in labour productivity growth. At present, whether in developed economies or in emerging markets and developing economies, the growth rate of labour productivity is on a downward slope. Therefore, countries around the world need to strengthen collaboration on technological innovation, the international division of labour, human capital accumulation, and institutional reforms to jointly create the source for world economic growth.

2.2 Increased Resistance for Market Opening

In recent years, the world economy has been heavily affected by unilateralism and protectionism. Kristalina Georgieva, IMF Managing Director, has pointed out on multiple occasions that the cumulative economic losses caused by trade conflict may reach USD700 billion. It has directly led to insufficient global demand, i.e. investment demand and consumer demand. Worse still, unilateralism and protectionism have greatly dampened the confidence and determination of countries to open up and participate in the division of labour in the global value chain, causing more countries to set reducing reliance on foreign countries as a core economic policy. Since the COVID-19 outbreak, international economic and trade activities have been severely disrupted, as cross-border flow of important medical supplies, key agricultural products and other commodities and services have been blocked, putting the global supply chain at the risk of disruption. To turn the tide, the international community needs

to jointly create a free, fair, non-discriminatory, transparent, predictable, and stable trade and investment environment so that the market will stay open.

2.3 Rising Debt Risks

The global economic slowdown has forced major economies to implement large-scale tax cuts, thereby leading to high government debt levels. According to IMF forecasts in October 2019, the proportion of gross government debt of developed economies to their GDP was 103.1% in 2019, 32.2 percentage points higher than that in 2007. In comparison, the figure of emerging markets and developing economies was 53.3%, 17.6 percentage points higher than that in 2007.⁷ In the meantime, private debts and external debts also soared. IMF's October 2019 *Global Financial Stability Report* examined eight major economies, including the United States and Japan, in which it warned that due to ultra-low interest rates, corporate debt-at-risk could rise to USD19 trillion—or nearly 40% of total corporate debt. Such default may lead to a subprime crisis on the corporate level.⁸ The vulnerability of shadow banking, measured in GDP, has worsened in 80% of the economies, a recurrence of the situation in the 2008 global financial crisis.⁹ As global economic growth slows down amid the ongoing pandemic, debt risks are likely to surface due to the introduction of large-scale stimulus policies.

2.4 Imminent Harm Brought by Negative Interest Rate Policies

In response to the major impact of the COVID-19 pandemic on the capital market and the real economy, the U.S. Federal Reserve announced on 15 March that it had cut the lower limit of the benchmark interest rate to zero, and

7 IMF (2019). *World Economic Outlook: Global Manufacturing Downturn, Rising Trade Barriers*, <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>.

8 IMF (2019). *Global Financial Stability Report: Lower for Longer*, <https://www.imf.org/en/Publications/GFSR/Issues/2019/10/01/global-financial-stability-report-october-2019>.

9 Ibid.

it is widely believed that the Federal Reserve will introduce negative interest rate in the near future. The impact of the emergence and spread of negative interest rates on the world economy is both complex and extensive, with both direct and indirect consequences. But overall, it will become a hotbed for risks to stack up, and bring forth negative effects that are difficult to deal with, such as squeezing the profitability of commercial banks, undermining the enthusiasm of enterprises to improve efficiency, weakening the ability to fight risks, and disturbing the market's basic function of resources allocation, encouraging speculators to borrow and invest in high-risk assets, and exacerbating the risk of currency mismatch in developing countries and emerging economies. Moreover, negative interest rates will further narrow the space for countries to introduce other policies in response to the economic recession.

3. China Helps the International Community Combat COVID-19

To prevent and control the pandemic, China upholds the philosophy of "community of shared future for mankind" as a guideline to provide necessary assistance to the international community. Since the COVID-19 outbreak, China has been sharing the research information of the coronavirus, the relatively mature diagnosis and treatment plans, and technical routes with the international community in a timely manner, which have provided important experience and technical support for relevant countries in the control of the pandemic. On 19 February 2020, Tedros Adhanom Ghebreyesus, WHO Director General, mentioned that China's proactive efforts to contain the outbreak made it possible to prevent a broader global crisis. By far, China's virus prevention and control efforts have generated remarkable results — the number of confirmed cases of COVID-19 has dropped dramatically. As China continues to promote the resumption of production and work, the production capacity of medical supplies manufacturers has increased substantially to solve the shortage of personal protective materials, such as masks and disin-

fecting supplies.

Moreover, China has also played an active role in promoting the relevant parties to strengthen macro-policy coordination under the framework of the UN and the G20, thus contributing substantially to many countries' efforts to stabilize the markets, secure growth and protect livelihoods, and ensure that the global supply chain is open, stable, and safe. In the meantime, amid the epidemic, it becomes all the more relevant to fully tap into the tremendous potential of the Belt and Road Initiative (BRI) for international cooperation. By expanding third-party market cooperation, more developed and developing countries are encouraged to participate in the joint effort of the BRI to facilitate regional and global economic integration as a driving force for international economic and trade cooperation and world economic growth.

Despite the impact of the pandemic on its economy, China has not slowed its pace in opening up wider to the world. In order to unblock the global industrial chain for revived global growth, China has optimized its business environment by launching a series of new measures to promote international trade and investment, and expand the openness of the financial sector.

4. China Will Make Greater Contribution to World Economy

As the world's second largest economy, China has maintained a relatively high growth rate for a long time. In recent years, China has actively put into practice its new development philosophy, took supply-side structural reform as the main task, and focused on advancing reform and opening up, in an effort to create new momentum for high-quality development. In 2019, faced with complex and severe international environment and arduous tasks of balancing reform, development and stability, China managed to maintain its economy generally stable and ensure the quality and efficiency of growth, thereby laying a solid foundation for a decisive victory in building a moderately prosperous society in all respects and eliminating poverty.

According to the preliminary results released by the National Bureau of Statistics of China on 17 January 2020, China's GDP in 2019 exceeded RMB99 trillion, ranking second in the world, an increase of 6.1% over the previous year.¹⁰ The Chinese economy drove world economic growth up by about 1 percentage point, which perfectly reflected China's remarkable contribution to the world economy.

Indeed, the COVID-19 outbreak has been a tremendous blow to China's economy, but it will not undermine China's significant role in the world economy. Thanks to its effective prevention and control measures, as well as policies for stabilizing economic operations, China has demonstrated strong resilience to stabilize its economy. So far, China has been progressing steadily in promoting the restoration and stabilization of employment, resuming transportation, and guaranteeing market supply. Thanks to the targeted financial and monetary policy support and adequate supply of protective materials, the number of reopened industrial enterprises above designated size has gradually increased. In terms of agricultural production, spring farming was effectively safeguarded by promoting the resumption of work for agricultural materials manufacturers and the opening of wholesale stores of agricultural materials.

In the short run, China's effort to support the resumption of production in all industries has produced remarkable results. To intensify support for the real economy, China has adopted fiscal policies by moderately increasing its deficit rate. Apart from implementing policies such as financial interest discounts, large-scale tax and fee reductions that have been issued in recent years, a special tax and fee reduction policy has been introduced to help enterprises survive the crisis. In terms of monetary policy, by cutting the statutory deposit reserve ratio of commercial banks and depository institutions,

China provides targeted credit support for industries, private, small and micro enterprises that are substantially affected by the pandemic. In the long run, China will intensify its support for innovation-driven development, improve the level of industrial chain, and continuously promote new breakthroughs in supply-side structural reform, as part of an effort to facilitate high-quality economic development. As the Chinese economy turns for the better, the world economy will have a steady driving force that pushes it forward.

Looking ahead, thanks to its great development potential, China will remain the "locomotive" of global economic growth, as it has a huge market with a population of more than 1.4 billion. The people's need for a better life can create tremendous domestic demand that will enable China to maintain stable economic growth. China continues to make progress in its industrialization, informatization, urbanization, and agricultural modernization. New economic development models are taking form to facilitate sustained and healthy economic development. In the meantime, China's effort to build an open economy based on new systems is moving ahead steadily in terms of level, coverage and depth. The Belt and Road Initiative is entering a new stage of quality development, which will create conditions for better use of both international and domestic markets and resources. This means that China's economy still has a strong momentum for growth, and its significant role in the world economy will be further enhanced. Following an approach of pursuing shared benefits through consultation and collaboration, China will continue to work with other countries to build a community of shared future for mankind, and make greater contribution to promoting a strong, sustainable, balanced and inclusive growth of the world economy.

10 National Bureau of Statistics (2020). *National Economy Was Generally Stable in 2019 with Main Projected Targets for Development Achieved*, http://www.stats.gov.cn/tjsj/zxfb/202001/t20200117_1723383.html.

14-16 May 2018

BRITCC Participants Called for the Establishment of the BRITACOM

The Belt and Road Initiative Tax Cooperation Conference (BRITCC) was held in Astana, Kazakhstan during 14–16 May 2018, co-hosted by the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (SRC), the State Taxation Administration of the People's Republic of China (STA), the Centre for Tax Policy and Administration (CTPA) of the Organization for Economic Co-operation and Development (OECD) and the OECD's Forum on Tax Administration (FTA). More than 200 delegates from tax administrations, international organizations, academic institutions and businesses attended the Conference. Four correlated topics on taxation, i.e. rule of law, taxpayer service, dispute settlement and capacity building, were deliberated at the Conference. The *Astana Proposal* was adopted during the Conference.

Delegates agreed that stronger support is needed to achieve better coordination and cooperation among tax administrations of the Belt and Road Initiative (BRI) jurisdictions and thus proposed that a mechanism should be officially established to enhance BRI tax administration cooperation. The Conference marked a milestone in strengthening communication and cooperation among jurisdictions supporting the BRI with a view to promoting sustainable and inclusive economic development.

18-20 April 2019

The First BRITACOF Was Held in Wuzhen, China

In order to strengthen tax administration cooperation under BRI framework guided by the principle of achieving shared growth through consultation and collaboration, the BRITACOM was officially launched at the First Belt and Road Initiative Tax Administration Cooperation Forum (BRITACOF) in Wuzhen, China, from 18 to 20 April 2019. Heads and their representatives of tax administrations or finance departments from 85 jurisdictions, 16 international organizations, and a number of academic institutions and businesses participated in this Conference.

The BRITACOM mainly consists of the Council, the decision-making body, and the Secretariat, a liaison office supporting the daily operation of the BRITACOM. Two key pillars underpin the success of the BRITACOM — the BRITACOF and the Belt and Road Initiative Tax Administration Capacity Enhancement Group (BRITACEG). In addition, an Advisory Board was established to advise on and assist in fulfilling the vision and the purpose of the BRITACOM.

The BRITACEG and its network — BRI Tax Academy (BRITA) Yangzhou and Beijing, were established at the First BRITACOF. Meanwhile, based on the in-depth discussions on the five interlocking tax topics, i.e., (i) following rule of law; (ii) raising tax certainty; (iii) expediting tax dispute resolution; (iv) streamlining tax compliance and digitalizing tax administration; and (v) enhancing tax administration capacity, the BRITACOM Council adopted the *Wuzhen Statement* and the *Wuzhen Action Plan (2019- 2021)*.

27-31 May 2019

The First Training Event of the BRITACEG Was Held in Yangzhou, China

The BRITACEG hosted its first face-to-face training event on Tax Dispute Resolution in BRITA Yangzhou in China during 27–31 May 2019 with 27 tax officials from 13 jurisdictions including Kazakhstan, Sierra Leone, and Ukraine attending the event. The framework and procedures of tax dispute resolution, and BEPS Action Plan 14, etc., were introduced through lectures by tax experts and discussions among the participating tax officials. This well-acclaimed milestone BRITACEG training kicked off the training series of the BRITACOM.

15 March 2020

The Special Edition of the BRITACOM Update on COVID-19 Was Issued

At this challenging moment of fighting the COVID-19, the *Special Edition of the BRITACOM Update on COVID-19* is issued, providing a platform for BRITACOM Council Member Tax Administrations, Observers and other stakeholders to exchange views and share experiences in responding to the outbreak.

The measures and policies rolled out by tax administrations, and views provided by international organizations and experts are circulated through this platform. Up to the end of May 2020, 12 Issues have been published on the webpage of the BRITACOM and circulated among BRITACOM stakeholders.

2 June 2020

The BRITACOM Official Website Was Launched

Being the official platform of the BRITACOM, the website (www.britacom.org) was launched to release news, enhance communication, provide tax services, etc. among all BRITACOM stakeholders. Later on, BRITACEG training programs, international tax policies, tax treaties, and useful knowledge products will also be shared on this platform.

26-28 September 2018

The Working Group Meeting of the BRITACOM Was Held in Yangzhou, China

Building on the *Astana Proposal*, the Working Group Meeting of the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM), co-chaired by STA of China and SRC of Kazakhstan, was held in Yangzhou, China from 26 to 28 September 2018, with 35 delegates from tax administrations of 22 jurisdictions and one representative each from the OECD and the International Bureau of Fiscal Documentation (IBFD) convened for consultation on the establishment of the BRITACOM. The meeting achieved fruitful outcomes where all participants expressed willingness of participation in the BRITACOM and provided inputs on the draft *Memorandum of Understanding on the Establishment of the BRITACOM*.



6-8 November 2019

The Multilateral Seminar of the BRITACOM Was Held in Beijing, China

Tax officials from 8 countries and regions, as well as Members or their representatives from the Advisory Board participated in the Seminar. The participants agreed that digitalization of tax administration will be the theme of the Second BRITACOF. Besides focusing on the construction of the BRITACEG and the implementation of the *Wuzhen Action Plan (2019-2021)*, all participants actively exchanged views on the BRITA working plan and the building of the BRITACEG experts team, and explored options for efficient communication of Task Forces on five identified topics.



2 June 2020

The BRITACOM Virtual Meeting — Responding to COVID-19: BRITACOM Perspective Was Held

In response to the COVID-19, the Secretariat of the BRITACOM organized a virtual meeting on 2 June 2020 for experience sharing and exchanging, allowing us to stay close online in this challenging time. Tax administrations shared their experience on the fiscal and tax policies, and collection and administration measures to respond to the pandemic, and experts from the Advisory Board and international organizations analyzed and reviewed policies and measures and provided suggestions for tax administrations. Taking this opportunity, the Secretariat also updated the BRITACOM progress since the First BRITACOF, and participants provided suggestions for its future operation.



Contributions Invited

Dear readers and writers,

We highly appreciate your contribution to the *Belt and Road Initiative Tax Journal* (BRITJ), and look forward to your continuous support in the future.

As an official journal sponsored by China Taxation Magazine House in collaboration with the BRITACOM Secretariat, BRITJ is committed to serving as a platform for communication and cooperation among tax administrators, academia, tax practitioners and other stakeholders around the world, and providing strong theoretical support and international reference for tax reform and administration among the Belt and Road jurisdictions.

Given your expertise and reputation in the tax arena, we sincerely invite you to contribute papers to the journal on such themes as tax issues concerning the Belt and Road Initiative, the latest development and reform of tax system and tax administration as well as hot topics in the field of international taxation. Papers written in English with less than 5,000 words and sent in a WORD format would be highly appreciated.

Papers can be sent to britj@britacom.org. For more information, please visit our website: www.britacom.org.

Kind regards,

Liu Lei 

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ISSN 2096-8450
CN10-1697/F8

