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Tax Reforms After COVID-19 and Financial Crises

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23 June 2020

Question

What types of tax reforms in developing countries were introduced following a financial crisis what are the lessons learned from the reforms?

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1. Overview

Major financial crises (e.g. the 2008–2009 global economic crisis or the current global crisis caused by COVID-19) have a significant negative impact on tax revenues, leading to an increase in annual revenue shortages. Tax revenues are first and foremost under pressure because most national tax systems are increasingly relying on personal income taxes, consumption taxes, as well as on capital and other taxes. Since economic crises have an impact on both earnings and consumption levels, tax revenues decline sharply at national and sub-national levels during periods of crises (Christians, 2010; Brondolo, 2009; OECD, 2020). Second, governments' response to crises — e.g. in the form of stimulus and rescue packages, as well as increased benefits — usually create additional spending commitments and, consequently, extra revenue needs (Christians, 2010; OECD, 2020).[1]

Financial and economic crises also present significant challenges to 'revenue administration' in many countries. With economic conditions deteriorating, tax agencies and departments increasingly face compliance risks, including tax arrears (i.e. taxes due but not paid), loss-reporting companies, and the cash economy. At the same time, agencies are often asked to offer additional support and assistance to taxpayers – i.e. to help them cope with their obligations. And complicating their response to the crisis, some tax agencies face potential budget cuts as governments struggle with increasing fiscal pressures (Brondolo, 2009; IMF, 2009a; IMF, 2009b).

Many distinct, but interconnected, factors could cause tax revenue to decrease, in relation to GDP. Three main factors include (i) the tendency of some tax bases to drop faster than GDP in the face of financial crises (e.g. profits, capital gains, excises, and imports tend to decline faster than GDP during an economic downturn), (ii) a decrease in commodity prices and related revenues[2], and (iii) discretionary changes in tax policy[3] (Brondolo, 2009; IMF, 2009c).

The key set of policy reforms and interventions during (and after) financial crises include domestic and international tax policy reforms as well as diverse economic policies that help to recover GDP growth (and, hence, tax revenue). Some example of the tax policy reforms and amendments passed in response to the fiscal crises caused by the current COVID-19 crises are given below. The examples are from developing countries in Africa and Asia. These tax reforms and amendments constitute both:

i) **Tax administration amendments** to manage crises (e.g. Introduction of flexible tax payment plans; allowing extension of tax deadlines; temporary suspension of

[1] For instance, the global economic crisis has led to a substantial decline in government revenue relative to gross domestic product (GDP) in many countries. For many countries, the revenue decline began in 2008 when general government revenue dropped by an average of 0.8 percentage point of GDP worldwide. This decline accelerated in 2009: the annualized tax yield decline averaged 4 percentage points of GDP across selected emerging and developing economies in the first quarter of 2009 (Brondolo, 2009).

[2] Quak (2020) notes that resource-rich developing countries show high volatility in their corporate tax revenues, making them particularly vulnerable to low commodity prices that are witnessed during (and in the aftermath of) a financial crisis.

[3] Discretionary tax measures can be (broadly) defined as “any legislative or administrative change in policy that has an impact on tax revenues, whether it is already finally adopted or only likely to be implemented” (Princen et al., 2013. P 3).

tax penalties and interests; temporary suspension of compliance and enforcement activities; use of electronic or digital tax payment platforms) as well as:

ii) **Tax policy reforms and amendments** to manage crises (e.g. Provisional changes to tax rates; accelerating tax refund process; and provision of various tax relief packages to businesses and individuals)

- **Tax administration amendments to manage the COVID-19 crisis**:
  - **Nigeria** has introduced the **use of electronic platforms** for processing tax clearance certificates, for electronic filing of tax returns by taxpayers and paying taxes.
  - **Various developing countries have introduced a series of extensions for filing tax returns:**
    - **Botswana** gave extensions to payments on corporate income tax returns.
    - **India** gave extensions on the filing of income tax returns and annual returns on Goods and Services Taxes (GST).
    - **Myanmar** gave extensions and deferrals for the payments of income taxes and monthly commercial taxes.
    - **Nigeria** extended the deadline for filing annual tax returns for employees and self-employed persons.
    - **Rwanda** gave extensions to tax filing deadlines by small and medium-sized taxpayers as well as large taxpayers.
    - **Sri Lanka** gave extensions on reporting of the Pay-As-You-Earn (PAYE) taxes, withholding tax, Value added tax, Transfer pricing disclosures, etc.
  - **Some developing countries have introduced a provisional suspension of tax penalties and interests:**
    - **Bangladesh** gave waivers on interest assessments and penalties – if the taxes are paid by businesses within the new (extended) tax deadlines.
    - **India** introduced a reduced rate of interest for certain tax payments and a waiver of late-filing penalties.
    - **Mauritius** gave waivers to normal assessments of penalties and interest for late filing or late payments of different taxes.
    - **Nigeria** suspended interest and penalty on outstanding tax liabilities.
    - **South Africa** has introduced a waiver of penalties for larger businesses that are temporarily unable to pay VAT.
    - **Sri Lanka** also gave some waivers on interest or penalties.

- **Tax policy changes to manage the COVID-19 crisis**:
  - Some developing countries have introduced provisional changes to various tax rates:
    - **Bangladesh** has lowered the withholding tax rate on export cash subsidy from 10% to 5%.

  - **Egypt** reduced the rate of withholding tax imposed on dividend distributions for businesses listed on the Egyptian stock exchange (from 10% to 5%). Egypt also lowered the rate of stamp tax on transactions involving listed securities from 0.15% to 0.05%.
  - **India** has also lowered the rate of interest for some types of tax payments.
  - **Kenya** lowered the resident corporate income tax from 30% to 25% to help businesses better weather the crisis. Similarly, the country also lowered the top PAYE rate from 30% to 25%.
  - **Pakistan** has reduced the rate of advance tax for some types of imported food items from 2% to 0%. Further, Pakistan has reduced the rate of withholding tax from 4.5% to 1.5% for those providing basic food items to government-owned departmental stores.
  - **Sri Lanka** has introduced a range of changes to tax rates – both for individual taxpayers and businesses.
- Other developing countries have accelerated their tax refund process:
  - **Botswana** has accelerated the refunds of its VAT system. The refund process has been expedited from 60 days to one made within 21 days.
  - **Pakistan** has approved dedicated funds for carrying out refunds of sales tax, income tax, customs duty drawbacks and customs duties – i.e. to accelerate the refund process.
  - **South Africa** has introduced a fast-tracking procedure for VAT refunds for some smaller VAT vendors. This has allowed these businesses to temporarily file monthly VAT returns instead of bi-monthly returns.
- Most developing countries have also introduced a wide range of tax relief measures (e.g. including tax deductibles and allowances).

Nevertheless, it is worth noting that there is some limitation in the evidence base (e.g. academic studies) around tax policy reforms linked to financial crises. The literature both on tax reforms and financial crises is fairly developed – but both in their own rights. There are fewer (dedicated) studies linking the two directly or specifically trying to study tax reforms passed in times of financial crises or mainly because of it. Usually, some sort of tax reforms (or temporary amendments to the tax code and system) are passed in times of financial crises – often as a part of several 'crisis-management' and 'recovery' policy packages and interventions (e.g. see Section 4 and 5). Major and consequential tax policy reforms usually take time to prepare and are unlikely to be carried out during brief periods of crises episodes. As such, it is difficult to find a lot of evidence in the literature that clearly link these reforms to financial crises. However, even if such reforms are passed during 'normal times', it is fair to assume that many of them are preceded (often taking many years) by significant fiscal crises.

2. Tax Revenue and Financial Crises (or Pandemic)

The OECD in its recent report "Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience" takes stock of the **emergency tax and fiscal policy measures instituted by countries worldwide in response to the Coronavirus (COVID-19) pandemic**. It reviews how tax and fiscal policy can lessen the impact of continued control and mitigation policies and subsequently support economic recovery. It also summarizes the key policy reforms that will be needed to prepare for the rebuilding of public finances. This section will particularly summarize OECD's assessment on the revenue impact of the crisis and on ways of restoring public finances during and after the current crisis.

2.1 Impact of crises on tax revenue and channels of transmission

According to OECD (2020), **the direct adverse impact of COVID-19 on tax revenues has the possibility to be substantial in the short-run, worldwide.** These **revenue impacts** will take a **variety of channels:**

i) **The slow-down in economic activity (and unemployment) will shrink or defer income tax mobilisation** and social security payments, leading to lower corporate income tax and lower personal income tax, social security contributions, and payroll tax receipts. Corporate tax revenues may also stay low for some time as any losses emanating in 2020 will generally be carried forward and applied against future income.

ii) **Decreased consumption is likely to result both from lowered consumer confidence and from the containment and mitigation measures taken.** This, coupled with a shift towards the consumption of essential goods, which are often zero-rated or exempt under VAT systems, and a higher share of government consumption in GDP, will reduce consumption tax revenues and, in particular, VAT revenues, although excise duties and environmental taxes will also be impacted.[4]

iii) **A reduction in tourism and travel tax revenues** will also be likely seen – including both direct losses (in the form of reduced tourism, aviation, and housing taxes) and also indirect losses, notably through a **reduction in VAT revenues.**

iv) Resource prices have declined dramatically in recent months, which will **reduce excise and royalty revenues for resource-rich countries** and result in lower revenues from corporate income taxes.

Estimating the effect of COVID-19 on global GDP remains a highly uncertain process, although early impact estimates imply that the impact on tax revenues is likely to be considerable due to the large decrease in employment and the possibly much greater impact on tax revenues. Usually, tax revenue and GDP growth patterns continue to move together, but tax revenues appear to decline faster than GDP when GDP growth is minimal or negative (e.g. Belinga et al., 2014). A greater decline in tax revenues than in GDP was also seen in most countries around the end of the 2000s, i.e. because of the Global Financial Crisis

[4] Property taxes are likely to be less harmed, as they are not linked as directly to the economic cycle, although the various measures introduced during containment may be anticipated to have some impact on property values and thus may also affect taxes directly linked to property valuations (OECD, 2020).

(GFC). Although the stimulus and effects of the GFC in 2007-2009 are markedly different from the current crisis, changes in tax revenues during the GFC provide an example of the scale of the revenue impact of a major global shock. The average tax-to-GDP ratio in Latin America and the Caribbean decreased by 0.6 percentage points and the African average decreased by 0.6 percentage points between 2007 and 2009 before falling again by another 0.2 percentage points in 2010. On average, 90 of the 98 countries included in the OECD Global Revenue Statistics Database experienced a fall in their tax-to-GDP ratio between 2007 and 2010, with an average decline from the maximum to the minimum in each of these countries during this period of 1.9% of GDP. These measures include both the direct impact of the crisis itself and the policy changes that have taken place during the crisis. Revenues may take several years to return to pre-crisis levels (OECD, 2020).

Revenue impacts will differ from country to country and over time. In the short term, the extent of tax revenue reductions will be seen in countries that are heavily affected by COVID-19 themselves and that impose long-term containment measures, as well as those that are more exposed to the global economy through trade, tourism, or participation in global value chains. In the longer term, the impact on tax revenues will depend to a large extent on the effectiveness of policy responses to reduce the economic impact of the crisis and international transmission channels. Countries may see tax revenue losses to varying degrees on the basis of their tax mix (Lagravinese et al., 2020; Sancak et al., 2010).

Corporate income taxes (CIT) can be much more responsive to sudden changes in GDP. The largest decrease in revenues was seen in corporate income taxes during the GFC. Nevertheless, the previous crisis was a financial crisis and comparisons with the current situation are not straightforward. Even where countries see a greater drop in CIT revenues, CIT usually accounts for a small share of total tax revenues, which means that the overall effect on revenues could be limited. In this crisis, the drop in consumption taxes and in Personal income tax (PIT) and social security contributions (SSCs) could well be higher relative to the GFC. **Decreased consumption tax revenues could have an especially massive effect on developing and emerging countries as they depend heavily on consumption tax revenues**, while the decline in PITs and SSCs would be felt more intensely by advanced countries (OECD, 2020).

In certain developing economies, for a variety of reasons, the revenue impact during the crisis may be more severe. First, the sharp decline in global and domestic trade will have a greater impact on revenues in developing countries, as many rely more heavily on revenues from trade taxes and international transactions. VAT revenues in developing countries may be significantly affected if these taxes are collected largely at the border (e.g. McNabb and LeMay-Boucher, 2014; Keen, 2017). Second, several developing countries have a high share of revenues from commodities and natural resources and are more vulnerable to fluctuations in global demand and prices. Oil prices are currently very low, although this is due to factors other than the pandemic and it may evolve differently overtime. However, persistently low prices could have significant revenue impacts for these countries. Developing countries with a large tourism sector (such as small island developing countries) will also experience a significant drop in revenues, and this revenue loss could be prolonged, especially if the health crisis in developing countries lasts longer than in advanced economies. Finally, developing countries are typically more dependent on corporate taxes and consumption taxes than developed countries, which are both likely to face substantial declines and slower recovery than many other types of tax (OECD, 2020).

2.2 Tax reforms to deal with the negative revenue impacts of crises

Targeting GDP recovery to recuperate/boost tax revenue: Tax policy will contribute to and respond to the costs of the crisis. However, efforts to restore public finances should not be made too early, as the path of some countries to exit the crisis may be long. As countries look to restore their public finances, tax will have a key role to play, both in terms of the level of revenue and the tax structure that may need to be adjusted to the post-COVID era. Nevertheless, policymakers should consider that the best way to maximize tax revenue is to promote strong growth, such as through strong and sustained stimulus, as this will increase tax revenues in the medium to longer term. This can occur in conjunction with other policies to smooth costs over time, e.g. central banks holding government bonds on their balance sheets permanently (OECD, 2020).

Setting proper (longer-term) tax reforms – although this will take time: In the case of the ongoing COVID-19 related crisis, it is clearly too soon to develop tax policy advice for the longer term, but the discussion is starting. The extraordinary nature of the crisis, for example, prompts a reflection on whether some exceptional measures could be considered, as was the case after major wars or major fiscal crises (e.g. Aidt and Jensen, 2009; Seelkopf et al., 2016; Scheve and Stasavage, 2012). This includes suggestions for new sources of revenue or changes to the tax mix in current systems.

Unconventional tax policy measures may be needed in the short-to-medium term: Some scholars have suggested exceptional revenue-raising measures (e.g. Guvenen et al., 2019; Landais et al., 2020). Some of the recommendations include the taxing back of additional income earned during the crisis (e.g. Marron, 2020; Mankiw, 2020). **Some also consider 'carbon pricing tax' measures as a way to combine revenue-raising objectives with more fundamental, longer-term structural reform** (e.g. see recent (COVID-19 related) policy response by South Africa in Section 4).

While recognizing the significant political and economic challenges of such measures, there is evidence that the introduction of new taxes is less difficult at a time of major policy reforms, as it enables the impact of a wide range of policy measures to be balanced. Although not all developing countries may be willing to move in this direction (e.g. introduction of carbon pricing by South Africa), this could be further facilitated by international cooperation and coordination (OECD, 2020).

2.2.1 Domestic tax policy reforms:

Emerging and developing economies will need to strive to significantly raise their tax-to-GDP ratios. For instance, Africa 's average tax-to-GDP ratio is around 17 %, which is low compared to the OECD average of 34 % (OECD, ATAF and AUC, 2019). This will include efforts to formalize the economy – to bring more people into the tax and social protection systems – to increase the use of property and carbon taxes, and to improve the performance of personal income taxes, especially on the richest. These are underutilized tools in many countries and will broaden the tax base, requiring governments to reconstruct a social-fiscal contract with their citizens. This can help not only increase revenues but also build trust and accountability between citizens and the state, dynamics that will be strained during the crisis.

The current COVID-19 crisis also creates an opportunity to evaluate changes in tax administration (e.g. see section 3.1). For instance, the changes that digital technology can make in tax collection to the overall efficiency of tax systems and increased revenues stand out as an issue where learning between countries could be accelerated (e.g. see recent tax administration reforms in Nigeria, regarding use of electronic platforms in section 4.5). Research from even the lowest capacity countries (such as Liberia) suggests that investing in digital capacity in tax administration can change things. International support for capacity development in all areas of tax administration and tax policy development consequently plays a vital role and needs to be beefed up, with the Tax Collaboration Platform playing a leading role with many other partners (OECD, 2020).

Higher revenue needs should encourage investment in enhanced tax administrations via greater use of new technologies and digitalisation (e.g. see section 3.1). Models of highly digitized tax administrations can increase compliance and reduce the burden on taxpayers of more seamless and frictionless taxation. The benefits of investment in better tax administration can be particularly high for developing countries. Simplifying taxation through both administrative and policy measures, including simplified taxes on micro-businesses, could also help to bring some informal workers into the formal sector in the longer term (OECD, 2020).

2.2.2 International tax policy reforms:

Globally, as the fiscal legroom tightens, acceptance of international tax evasion and tax evasion in developing countries will sharply decline and global non-taxed income will be targeted. Substantial progress has been achieved in addressing both of these issues through the work of the Base Erosion and Profit Shifting (BEPS)[5] framework and the Global Forum over the last decade, but a number of challenges remain, not least the impact of the digitisation of the economy. While many of the key challenges are universal, low-income countries are increasingly concerned that they are not fully benefiting from the tax evasion tools that have been developed. More recently, discussions on the taxation of the digital economy have begun to address some of the key concerns of developing countries, in particular, the reallocation of taxing rights and proposals to capture untaxed income and reduce the shift in profits through the introduction of a global minimum corporate income tax (OECD, 2020; see also ICTD, 2020a; ICTD, 2020b).

After the last global financial crisis in 2008-09, international tax cooperation has made substantial progress of both tax transparency and in the fight against tax evasion by Multinational enterprises (MNEs). For instance, in 2018, information on 47 million financial accounts with a combined value of around EUR 4.9 trillion was exchanged under the Automatic Exchange of Information (AEOI) framework. The international tax community, via the BEPS Inclusive Framework, which encompasses 137 jurisdictions on an equal footing, has been authorized to resolve the tax challenges of the digitalisation of the economy. Work has advanced well, focusing on two pillars (OECD, 2020):

i) On reallocation of taxing rights and increased tax certainty, and
ii) On ensuring that the profits of MNEs are subject to a minimum level of tax.

[5] Base erosion and profit shifting (BEPS) relates to “tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax. Developing countries’ higher reliance on corporate income tax means they suffer from BEPS disproportionately” https://www.oecd.org/tax/beps/about/

2.3 Lessons from the 2008-09 Global Financial Crisis

2.3.1 Adverse economic (and tax revenue) effects from financial crises:

Financial crises are expected to have negative consequences for economic growth and poverty reduction efforts in developing countries. During the GFC (at the conference of the Committee of Finance Ministers and Central Bank Governors held in Cape Town in January 2009), it was noted that trade receipts suffered significantly as importers of African goods (i.e. many developed economies) went into recession. Furthermore, trade financing dropped sharply as private agents who handled and financed trade experienced increasing difficulties in accessing their financial institutions. Private foreign investment also declined significantly as such investors found it increasingly difficult to access funds in European and US banks and other capital markets. In the aftermath of the crisis, there were worries that the developed world would adopt a protectionist stance and renounce commitments to provide development assistance. The main concern regarding the impact of the GFC on the real economy was the negative impact on domestic demand, namely consumption, investment, exports, and government spending. Logically, a substantial decline in domestic demand reduces incomes which, in turn, affects employment and, consequently, growth (AfDB, 2009).

One of the key recommendations of the 2009 meeting in Cape Town was that African governments should increasingly turn to the use of domestic (revenue) resources. It was noted that the low level of financial development necessitated financial sector and fiscal reforms in order to raise the level of domestic resource mobilization. Such a reform was considered essential to improve the internal conditions for mobilizing development resources from within. Ministers considered the need to establish property rights, contract enforcement mechanisms, and legislation ensuring the rights of creditors. Given the likely impact on employment generation, finding ways to support small and medium-sized enterprises (SMEs) lending by bank supervision staff has been suggested. Other issues discussed included the need for an efficient domestic bond market, the broadening of the tax base and the introduction of funded pension schemes. It was also suggested that public financial management should be part of the domestic resource mobilization package as it leads to greater resource efficiency (AfDB, 2009).

2.3.2 Enhancing Domestic Revenue mobilization:

Economies with a low level of actual revenue collection and a low level of tax effort may have some scope to raise revenues in order to achieve their potential without any worsening of economic distortions in the medium-term. On the other hand, low-income countries with a relatively low collection and high tax effort have less scope in the short-term to increase revenue without inducing high collection (i.e. compliance and administrative) costs and creating negative incentives for the formal sector (AfDB, 2009).

Apart from structural factors, tax policy is essential to revenue reform in all countries at widely varying levels of development. In this respect, Fjeldstad and Rakner (2003) argued that taxation is highly path-dependent due to the resistance of elite groups. Furthermore, the wide-ranging effects of taxation and the common nature of the pool of tax revenues, make it challenging to find collaborative resolutions for the creation of simple, efficient, and equitable tax systems (e.g. Le et al., 2008). What all this means is that there are huge political challenges to

tax reform. It is for this reason that there are hardly any public discussions in several countries about the tax reform and what new taxes can be introduced. In many countries, property taxes are very low and pay very few people. African countries must open the debate on all tax reforms in order to make a significant contribution to the people who will eventually pay any new taxes. Considering that tax reforms must be country-specific, they must rely on a comprehensive analysis of the country's revenue potential, revenue performance and 'political readiness'[6] to implement difficult reform measures (AfDB, 2009).

For countries with low tax collection and low effort, an enhancement in tax collection would necessitate those (i.e. low-and lower-middle-income) countries to pursue comprehensive reforms in both tax policy and tax administration (e.g. Le et al., 2008; AfDB, 2009). Le et al. (2008) assert that the improvement of revenue should be one of the key objectives of the reforms if it is compatible with the criteria of efficiency and equity. In doing so, they need to pursue tax policies that broaden the base, streamline the rate structure and provide incentive schemes. They must eliminate tax-induced economic distortions with a focus on increasing the revenue productivity of major taxes such as VAT (e.g. see: Houssa, Megersa and Nikiema, 2017; Keen, 2013; Aizenman et al., 2008). For countries that have been classified as having low collection but high effort, Le et al. (2008) recommend that short-term tax reform measures should aim at restructuring tax policy and tax administration procedures to decrease compliance costs and enhance formality, and to lower tax barriers to entry and operation of firms. They suggest that medium-to-long-term reform priorities should aim to broaden the scope for raising revenue by broadening the effective tax base and enhancing the functioning of the tax administration (AfDB, 2009).

However, there may be substantial trade-offs between domestic resource mobilization and other sources of development financing such as FDI, trade promotion, etc. While they can ideally complement each other, the different sources of funding could also compete for attention and policy space, leading to a situation in which initiatives in one area could have a negative impact on other areas. For example, high levels of aid can negatively impact domestic resource mobilization by reducing the tax effort of recipient countries (AfDB, 2009; Adam and O'Connell, 1997).

Unrestrained trade liberalization is anticipated to boost competitiveness and increase export earnings, although it has often resulted in reduced production and export capacity, even in the medium term, apart from a reduction in government revenues. This is particularly the case in poor countries, which rely heavily on tariffs as a source of revenue. In such countries, only a very small share of revenue lost – due to a reduction in tariffs – has been offset by wider indirect taxation instruments, such as VAT (AfDB, 2009).

3. Tax Policy and Reforms in Times of Crises

The African Tax Administration Forum has compiled a guideline "suggested COVID-19 measures for revenue authorities" (see: ATAF, 2020) regarding tax policy measures countries can implement – in response to the fiscal crises linked to the pandemic. The guideline is intended to

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[6] See also Quak (2019)

provide general suggestions as to what African tax jurisdictions may consider for protecting the health of their employees and taxpayers, while at the same time alleviating the burden of COVID-19 on stakeholders. Revenue Authorities should adopt measures that are applicable in their jurisdiction, considering the peculiarities of their tax system, their political and economic environment. Some of the suggestions may require legislative or policy adjustments to ensure effective implementation.

The initial exercise will be to carry out an analysis of the potential effects on the economy and the collection of revenues. The revenue authority may work with the competent authorities to assess the potential economic impact of the pandemic. For example, i) What is the potential loss of tax revenue due to a pandemic? ii) In which economic sectors will the loss of tax revenue be the most prevalent? And iii) How can the authorities optimally reduce or reduce the economic burden and the loss of tax revenue? (ATAF, 2020).

Once the possible tax revenue loss due to the crisis is well forecasted, the revenue target should be reviewed. Although targets are intended to help government budgets, it may be important to revise targets downwards to ease the pressure on revenue authorities and, in turn, reduce the pressure on taxpayers as they face economic hardships that are likely to occur during this period (ATAF, 2020).

The ATAF (2020) guideline on the key suggestions for revenue authorities has elements that touch policies targeting better 'tax administration' as well as 'tax policy'.

3.1 Tax Administration Amendments to Manage Crisis

I. Introduction of Flexible Tax Payment Plans:

Revenue authorities should consider providing taxpayers with flexible payment plans, such as monthly or bi-monthly instalment payments, for a period beyond the current due date. This will ease some of the economic burdens that the pandemic may have on taxpayers. A flexible payment plan may also include a suspension of payments for a certain period. Depending on the administrative resources available to the revenue authority, the flexible payment plan may be the same across taxpayers or could vary depending on the compliance history of taxpayers, economic sectors, etc. (ATAF, 2020).

See examples in Section 4 and Section 5:

- South Africa: monthly VAT returns instead of bi-monthly returns

II. Allowing Extension of Tax Deadlines:

The timetable for filing tax returns should be lengthened to support disruptions that taxpayers may face as a result of a pandemic. Ideally, the extension should be based on the level of compliance of the taxpayer, but it should be considered that all taxpayers will have a dual role to play – i.e. (i) in easing the burden on taxpayers and (ii) in limiting the risk of transmission of revenue authorities where digital channels are limited or non-existent.

An extension can be done by one or a combination of options. Examples may include (i) making all returns to be filed on or before a certain date beyond the normal period (ii) allowing all

monthly returns to be filed quarterly until a certain date (iii) allowing all quarterly returns to be filed on a bi-annual basis (i.e. twice a year).

See examples in Section 4 and Section 5:

- South Africa: deadline extension on carbon tax return filing
- Nigeria, Botswana, Rwanda, India, Sri Lanka, Myanmar etc.: Extension of tax deadlines for filing various tax returns

III. Temporary Suspension of Tax Penalties and Interests:

The punishment for late filings may be revoked during crises periods. The period may be based on the extended time limits provided for the waiver of the late filing penalty for taxpayers who can demonstrate that failure to comply with the extended period is due to disruption caused by the pandemic. The imposition of penalties and interest on late payments may also be suspended for some time – in line with the flexible payment plans given to taxpayers and the provisions on the waiver of interest on late payments/remittances for taxpayers (ATAF, 2020).

See examples in Section 4 and Section 5:

- South Africa, Mauritius, Nigeria, India, Sri Lanka and Bangladesh: various waivers of penalties

IV. Temporary Suspension of Compliance and Enforcement Activities:

Revenue authorities could also consider the total revocation of compliance and enforcement activities or the restriction of activities to specific situations – such as where there is a clear case of fraud or tax elopement. Activities in this context consist of field activities such as compliance verification, audit, and other activities such as debt recovery actions, etc. The suspension should be for a period that allows taxpayers to get through the pandemic and return to a material level of operation. The idea is not to add to the burden on taxpayers during this period or to add to the barriers to recovery from the pandemic. While compliance and enforcement activities may be suspended for a certain period, revenue authorities should continue to conduct compliance risk assessments and have a coherent plan on how to carry out compliance and enforcement activities effectively and efficiently after suspension without significantly disrupting business recovery (ATAF, 2020).

V. Use of Electronic or Digital Tax Payment Platforms:

All tax transactions, such as registration, filing and payments, should be conducted via digital channels (as much as possible). Physical interaction with taxpayers should be limited to the barest minimum. Where the revenue authority has partially or non-digitized systems, it may use special email addresses based on tax offices, segmentation, and tax types to obtain documentation for registration, filing or proof of payment. On-site regularization may be carried out once the business environment has normalized. This will require resources such as digital storage capacity and clear guidance and communication to all parties on processes, obligations and responsibilities (ATAF, 2020).

See examples in Section 4 and Section 5:

- Nigeria: electronic platforms for paying taxes and processing tax clearance certificates

3.2 Tax Policy Amendments to Manage Crisis

I. Provisional Changes to Tax Rates:

Temporary reductions in tax rates are one of the options that are available to revenue authorities to ease the economic burden on taxpayers of the COVID-19 crisis. In considering this, the jurisdiction for the period covered by the reduction and the legal framework to safeguard it should be clear. However, the reduction of tax rates will require both revenue authorities and taxpayers to make changes to their systems, thereby increasing administrative and compliance costs. In the case of consumption taxes such as VAT, the benefits may not reach the intended public as suppliers can absorb the reduced rate as part of the price mark up in jurisdictions where there is no price control (ATAF, 2020).

See examples in Section 4 and Section 5:

- Kenya: i) reduction of the resident corporate income tax from 30% to 25% ii) reduction of the top “pay as you earn” (PAYE) rate from 30% to 25%.
- Egypt: i) rate of withholding tax imposed on dividend distributions made by companies listed on the Egyptian stock exchange is reduced to 5% (from 10%) ii) rate of stamp tax imposed on total proceeds realized by tax residents of Egypt from the buying and selling of listed securities is reduced to 0.05% (from 0.15%).
- India: reduced rate of interest for certain tax payments.
- Pakistan: i) rate of advance tax for certain imported food items is reduced to 0% (from 2%) ii) Individuals and associations providing basic food items to government-owned departmental stores will pay a reduced rate of withholding tax of 1.5% (reduced from 4.5%).
- Sri Lanka: Adjustments to different tax rates for companies and individual taxpayers.
- Bangladesh: The withholding tax rate on export cash subsidy is reduced from 10% to 5%.

II. Accelerating Tax Refund Process:

The timeframe for payment of refunds should be speeded up to improve the potential cash flow problems that taxpayers may face as a result of economic hardships that may be caused by the pandemic. The process of refunding should be streamlined for efficiency during this period, with taxpayers and taxpayers in the essential sectors prioritized for accelerated tax refunds. While revenue authorities consider paying VAT refunds as quickly as possible, it is probably also a good idea to consider suspending the payment of interest on outstanding refunds as a priority should be to pay as many refunds as possible and not to prioritize refunds based on the interest that may accumulate (ATAF, 2020).

See examples in Section 4 and Section 5:

- South Africa: Fast-tracking of VAT refunds, with “smaller VAT vendors”.

- Botswana: Expedited refunds of value-added tax, with refunds to be made within 21 days from the date of filing the VAT return (instead of the 60 days for a refund).
- Pakistan: Government-approved funds for making refunds of sales tax and income tax, refunds of customs duty drawbacks and customs duties.

III. Provision of Tax Relief (Deductibles and Allowances):

Attention should be paid to the provision of tax relief for taxpayers whose businesses have been significantly affected by the COVID-19 crisis. Such relief may come in the form of allowing certain deductibles for tax purposes or accelerated tax depreciation/capital allowance for certain assets for business purposes. The relief granted by the revenue authority will depend on the particularities of the jurisdictions, the economic sectors, etc. For individuals, the relief may be in the form of an increase in the rate, value, sum, etc. of allowances or allowances payable in the calculation of personal income tax (ATAF, 2020).

See examples in Section 4 and Section 5:

- Particularly, see "Tax relief measures" sub-sections for different countries in Section 4 and Section 5.

4. Africa: Country Experiences on Tax Policy Responses to COVID-19 Induced Fiscal Crisis

Note: The recent tax policy responses by various countries to the ongoing COVID-19 related crisis (in Section 4 and 5) are taken from Summaries of the latest tax developments being reported by KPMG firms from around the globe.[7]

4.1 Botswana

Tax relief measures:[8]

On 31 March 2020, the Minister of Finance and Economic Development declared the government's plan for tax relief as part of broad measures to alleviate the impact of the coronavirus (COVID-19) pandemic. Considering the "lockdown" in Botswana, the following tax relief is being offered:

- Deferral of 75% of any two self-assessment tax quarterly payments due between March and September 2020, with payment of the deferrals to commence from March 2021

[7] https://home.kpmg/us/en/home/insights/2015/03/taxnewsflash-africa.html

[8] https://home.kpmg/us/en/home/insights/2020/04/tnf-botswana-tax-relief-measures-COVID-19.html

- Expedited refunds of VAT, with refunds to be made within 21 days from the date of filing the VAT return (rather than the 60 days for a refund)
- VAT refund periods for companies with annual turnover above P250 million will be subject to negotiations on a case-by-case basis
- Waiver of payment of the “training levy” (e.g., for youth employment), halted for six months
- Wage subsidies for businesses registered for tax, irrespective of whether they owe tax (if not specifically exempted, COVID-19 wage subsidies are to be taxable)

Extension of deadlines for tax return and tax payment:[9]

The Botswana Unified Revenue Service on 24 April 2020 delivered a release updating information about extended due dates for filing tax returns and making tax payments, relief measures in reply to the coronavirus (COVID-19) pandemic.

- The due date extensions apply for corporate income tax returns and payments (initially due 30 April 2020) and state that corporate income tax returns and payments are due 30 days after the expiration of the lockdown period. The extended due date for corporate income tax returns also applies regarding transfer pricing documentation (which is filed with the corporate income tax return).
- The extended due date for VAT returns and payments (initially due 25 April 2020) is 14 days after the end of the lockdown period, and the extended due date for employment taxes (including “pay as you earn”) and withholding taxes (initially due 15 April 2020) are also due 14 days after the conclusion of the lockdown period.

4.2 Egypt

Tax relief measures:[10]

The Egyptian Cabinet revealed tax measures meant to provide relief from the economic impact of the coronavirus (COVID-19) pandemic.

- The capital gains tax realized by Egyptian tax residents from disposals of securities listed on the Egyptian stock exchange are deferred until 31 December 2021 (from the existing “on hold” date of 16 May 2020). For non-residents, capital gains are perpetually exempt from tax.

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[9] https://home.kpmg/us/en/home/insights/2020/04/tnf-botswana-extended-due-dates-for-tax-returns-payments-COVID-19.html

[10] https://home.kpmg/us/en/home/insights/2020/04/tnf-egypt-tax-relief-provisions-COVID-19.html

- The rate of withholding tax charged to dividend distributions made by businesses listed on the Egyptian stock exchange is lowered to 5% (from 10%) when the dividends are paid to both tax residents and non-residents.
- The rate of stamp tax levied on total proceeds realized by tax residents of Egypt from the buying and selling of listed securities is reduced to 0.05% (from 0.15%), and the rate of stamp tax charged to the total proceeds earned by non-residents from the buying and selling of listed securities is lowered to 0.125% (from 0.15%). All "spot transactions" are exempt from stamp tax.

4.3 Kenya

Tax relief measures:[11]

On 25 March 2020, Kenya outlined tax proposals meant to offer relief concerning the coronavirus (COVID-19) pandemic. The government has proposed:

- A lowering of the resident corporate income tax from 30% to 25% to enable businesses to get additional resources to sustain their operations
- A 100% tax relief for individuals making a gross monthly income of up to KES 24,000 (generally categorized as "low-income earners")
- Payment of extra income for a person making a monthly income of KES 24,000
- A lowering of the top "pay as you earn" (PAYE) rate from 30% to 25%

4.4 Mauritius

On 19 March 2020, the government declared a two-week "lockdown" because of the coronavirus (COVID -19) pandemic.

Tax relief measures:[12]

The Mauritius Revenue Authority stated that taxpayers that are incapable to timely submit their tax returns or to timely remit tax payments due to COVID-19 will not be made subject to evaluations of penalties or interest for late filing or late payments. Furthermore, a "double tax deduction" and a 5% tax credit on certain IT system purchases accessible to employers to promote employee telecommuting and working from home are offered through 30 June 2020.

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[11] https://home.kpmg/us/en/home/insights/2020/03/tnf-kenya-tax-relief-measures-include-reduced-corporate-tax-rate-COVID-19.html

[12] https://home.kpmg/us/en/home/insights/2020/03/tnf-mauritius-tax-relief-response-coronavirus.html

Businesses also may be eligible for certain greater tax deductions for plant and machinery purchased during the period 1 March 2020 through 30 June 2020.

The Mauritius Revenue Authority in April 2020 released a communique to offer clarity concerning previously given relief from interest and penalties for late filings of tax returns or late payments of tax because of the "lockdown" in response to the coronavirus (COVID-19) pandemic.[13] Also, the government launched a "COVID-19 Solidarity Fund" to give support to those who are affected by the COVID-19 pandemic. Those who contribute to the fund would be permitted to deduct the amount contributed from taxable income (in consideration of enactment of implementing legislation being enacted).

4.5 Nigeria

Tax relief measures:[14]

On 23 March 2020, The Federal Inland Revenue Service revealed tax relief measures to address the impact of the coronavirus (COVID-19) pandemic on taxpayers. Amongst the tax relief provisions are measures providing for:

- Extension of the due date for filing of VAT and withholding tax returns from the 21st day of the month to the last business day of the month, following the month of deduction
- Extension of the due date for filing of the business's income tax return by one month
- Use of electronic platforms for paying taxes and handling tax clearance certificates
- Electronic filing of tax returns by taxpayers

Extension of tax deadlines for individual tax returns:[15]

The Lagos State tax authority extended the deadline for filing annual tax returns for some group of individuals (e.g. employees and self-employed persons) by two months to 31 May 2020 (from 31 March 2020) in reply to the coronavirus (COVID-19) pandemic. The Lagos State tax authority, nevertheless, did not extend tax relief regarding certain other tax compliance obligations, like the filing and payment of monthly withholding tax and "pay as you earn" (PAYE) tax.

[13] https://home.kpmg/us/en/home/insights/2020/04/tnf-mauritius-relief-for-late-filed-tax-returns-tax-payments-COVID-19.html

[14] https://home.kpmg/us/en/home/insights/2020/03/tnf-nigeria-tax-relief-responding-to-coronavirus.html

[15] https://home.kpmg/us/en/home/insights/2020/03/tnf-nigeria-extended-due-date-for-individual-tax-returns-lagos-state-COVID-19.html

Suspension of interest and penalty on outstanding tax liabilities:[16]

The tax authority (FIRS) released a notice declaring its decision to waive interest and penalties on outstanding tax liabilities and debts arising from desk reviews, tax audits and investigations as a relief measure in reaction to the coronavirus (COVID-19) pandemic. To be eligible for the interest and penalty relief, taxpayers should settle their outstanding tax debts in full by 31 May 2020.

4.6 Rwanda

Extension of deadlines for tax return and tax payment:[17]

The Rwanda Revenue Authority declared an extension of the deadlines for submitting tax returns and remitting payment of corporate income tax for the fiscal year 2019 in the reply to the coronavirus (COVID-19) pandemic.

- The filing deadline for “larger taxpayers” is extended by 15 days. These taxpayers are going to be expected to file the tax returns and pay the amount of corporate income tax due by 15 April 2020.
- The filing deadline for “small and medium-sized taxpayers” is extended by one month. These taxpayers are going to be expected to file the tax returns and pay the amount of corporate income tax by 30 April 2020.

4.7 South Africa:

On 23 March 2020, South Africa announced a nationwide “lockdown” effective for 21 days starting from midnight on 26 March 2020 up until 16 April 2020, in response to the coronavirus (COVID-19) pandemic.

Provisional Tax considerations for business expenses:[18]

Measures taken by businesses in response to the coronavirus (COVID-19) may result in extra expenses, for which companies need to note possible tax considerations. For example, COVID-19 can have consequences on employment and the ability to claim a tax deduction with regard to “retrenchment costs” (redundancies) will depend on many factors, such as:

[16] https://home.kpmg/us/en/home/insights/2020/04/tnf-nigeria-waiver-interest-penalty-outstanding-tax-liabilities.html

[17] https://home.kpmg/us/en/home/insights/2020/04/tnf-rwanda-extended-tax-return-tax-payment-deadlines.html

[18] https://home.kpmg/us/en/home/insights/2020/03/tnf-south-africa-tax-considerations-for-business-expenses-related-to-coronavirus.html

- Whether the retrenchments are the consequence of the business closing and ceasing to trade or whether the retrenchments are the result of the need to downsize operations
- Whether the employer is under a statutory obligation to pay the retrenchment costs or is making the payment ex gratia
- If there is no legal obligation to pay retrenchment costs, whether there is an established procedure of making such payments to employees

There are also tax considerations for employers who grant paid leave to employees, whether items of expenditure relating to overhead costs are capital in nature, and for taxpayers who invest in technology that may justify a shorter write-off period.

Provisional VAT considerations:[19]

Signs from the South African Revenue Service are that taxpayers have to continue to conform with their tax obligations, but that there may be numerous unusual VAT effects to be considered. VAT-related items to be considered concern:

- **Deposits**—whether an amount obtained is indeed a deposit and, if so, what is the VAT treatment when such deposit is forfeited or applied as consideration for the supply of goods or services
- **Vouchers issued or credits granted for cancellations—**whether the voucher is taxable or not, the consequences when tendered or forfeited and various forms of credits received for future use
- **Cancellation fees**—the rate of VAT to be charged to these charges to customers together with documentary requirements, when relevant (for example, a local standard rated flight for a non-resident will possibly have a zero-rated cancellation fee)
- **Unpaid creditors**—the consequences of creditors unpaid for a period of more than 12 months (subject to the exceptions) such as certain inter-group transactions
- **Bad debts**—the requirements for the relief available for bad debts written off, taking into account the exceptions to certain inter-group transactions and the possible VAT liability on bad debts afterwards recovered
- **Dealings with the tax authority—**the possible consequences that new measures will have on VAT registrations, disputes, account queries, ruling applications, postponed refunds, verifications, etc.
- **VAT refunds**—if tax authority offices close down or there is a considerable decrease in staff members, the possible effect on cash flow due to deferred payment of VAT refunds
- **VAT due which the business cannot afford to pay promptly** arranging lengthened payment terms with South African Revenue Service (SARS) due to cash flow restrictions

[19] https://home.kpmg/us/en/home/insights/2020/03/tnf-south-africa-vat-considerations-in-light-of-coronavirus.html

VAT relief for zero-rated goods:[20]

The SARS has released guidance regarding VAT rules in reply to the coronavirus (COVID-19) pandemic. Broadly speaking, when the zero-rate is applied to the exportation of goods, the seller shall be obliged to obtain documentary proof to corroborate the application of the zero-rate. There are specified periods within which the movable goods must be exported and the documentation in support of the export should be obtained. Non-compliance with these recommended periods will necessitate the supplying vendor to account for VAT at the standard rate on the supply of the goods exported, except if it is beyond the control of the vendor.

Binding General Ruling 52 (BGR52), issued on 26 March 2020, confirms that SARS takes the current COVID-19 situation to be "beyond the control of the vendor, qualifying purchaser, or the person duly authorised to represent the qualifying person" and officially extends the prescribed periods within which to export the goods by an extra three months.

- By inference, this indicates that the period within which to obtain the required documentation is also lengthened by three months.
- The ruling applies only to the supplies of movable goods for which the periods have not yet been surpassed at the date of issue of BGR52. Besides, BGR52 will apply until it is revoked, amended or the relevant legislation is revised.
- When VAT was applied at the standard rate on an indirect export, BGR52 offers an extension of the period within which the "qualifying purchaser" may apply for a refund of VAT.
- For any situation falling beyond the scope of BGR52, a VAT ruling or VAT class ruling may be applied for from SARS.

VAT and customs duty relief for importers:[21]

On 27 March 2020, the SARS declared that the importation of "essential goods" will be exempt from VAT. Later on, 29 March 2020, SARS announced a full rebate of customs duty for imports of eligible goods. Eligible goods consist of those imported for the relief of distress of persons in circumstances including "national disaster."

VAT relief for small and some large businesses:[22]

On 23 April 2020, South Africa's National Treasury issued a statement regarding VAT relief measures being offered in response to the coronavirus (COVID-19) pandemic. The VAT relief comprises the following:

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[20] https://home.kpmg/us/en/home/insights/2020/03/tnf-south-africa-vat-relief-zero-rated-goods.html

[21] https://home.kpmg/us/en/home/insights/2020/04/tnf-south-africa-vat-and-customs-duty-relief-for-importers-COVID-19.html

[22] https://home.kpmg/us/en/home/insights/2020/04/tnf-south-africa-additional-vat-relief-COVID-19.html

- Fast-tracking of VAT refunds, where “smaller VAT vendors” in a net VAT refund position will be allowed momentarily to file monthly VAT returns rather than bi-monthly returns
- Case-by-case application to SARS regarding a waiver of penalties by “larger businesses” (i.e. those with gross income of more than R100 million). To qualify for the waiver, the large businesses must show that they are unable to make tax payments due to the COVID-19 disaster. Businesses with gross income of less than R100 million qualify for an extra deferral of payments without encountering penalties. This relief would also apply regarding VAT.

Carbon tax registrations and deadline extension on carbon tax return filing:[23]

The carbon tax has been in effect since 1 June 2019, but there has been a delay in the South African Revenue Service accepting registrations, and the unforeseen implications of the coronavirus (COVID-19) pandemic has added to the concerns of taxpayers that they will not have the ability to register for this new tax in time. Several companies have collected the necessary application documents well before March 2020 in order to comply with their carbon tax obligations. In the context of concerns that the documents collected and submitted may no longer be valid once they are actually processed (because of certain criteria), the South African Revenue Service has implied that the date of submission of the documents ensures the status of the documents instead of the date of approval. Consequently, if the application and approval process is longer than three months, the tax authority will not force employers to resubmit their documents.

Eventually, a carbon tax relief was passed. This is a three - month extension of the filing of carbon tax accounts and the first payment of the carbon tax. The submission of annual carbon tax accounts and the payment of the carbon tax is due by 31 October 2020 (from 31 July 2020) for the period ended 31 December 2019.[24]

Tax relief measures and draft legislation:[25] [26]

There are related tax relief policies that allow for a deferral of remittances of the “pay as you earn” (PAYE) and other employment taxes liabilities, without prompting penalties or interest, and an acceleration of certain employment tax incentives.

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[23] https://home.kpmg/us/en/home/insights/2020/03/tnf-south-africa-carbon-tax-registrations-possible-effect-coronavirus.html

[24] https://home.kpmg/us/en/home/insights/2020/04/tnf-south-africa-carbon-tax-return-filing-payment-deadline-extended.html

[25] https://home.kpmg/us/en/home/insights/2020/03/tnf-south-africa-tax-relief-measures-in-response-to-lockdown-COVID-19.html

[26] https://home.kpmg/us/en/home/insights/2020/05/tnf-south-africa-tax-relief-measures-in-draft-legislation-COVID-19.html

Further tax relief measures that are expected to counter the adverse impact of the coronavirus (COVID-19) pandemic on the South African economy and workforce are incorporated in revised draft legislation issued by the Treasury on 1 May 2020.

The revised South African draft legislation defines “qualifying taxpayers” for purposes of the provisional tax and employees tax relief to include a company, trust, partnership or individual. More taxpayers will gain from the deferral of provisional tax because of a rise in the “qualifying taxpayer” threshold. The tax relief itself, nevertheless, remains unchanged, and is proposed as follows:

- The initial provisional tax payments (due between 1 April 2020 and ending on 30 September) will be reduced to 15% (normally 50%) of estimated total tax liability without inducing any penalties and or interest because of the reduced payment
- The second provisional tax payments (due between 1 April 2020 and 31 March 2021) will be based on 65% of projected total tax liability, with no interest or penalties to be charged because of the reduced payment
- The balance (35%) would have to be paid in full when carrying out the third provisional tax payment (the top-up payment made within six months after year-end)

Other policy measures in the draft legislation relate to:

- A framework for the tax treatment of gifts of cash or property to COVID-19 disaster relief trusts
- Provisions for donations to a “solidarity fund”
- How to decide days that are not counted under measures of the Tax Administration Act, for purposes of the “lockdown period”
- An exemption for all employers from payment of the “skills development levy” in connection with the four-month period 1 May 2020 to 31 August 2020
- VAT relief, by letting certain registered vendors to file their VAT returns every month, rather than bi-monthly

Tax on key (mining) sector:[27]

Section 36(11)(b) of the Income Tax Act explicitly states that any expenditure encountered during any period of non-production, on development, general administration and management (as well as interest incurred on loans used for mining purposes) represent a capital expenditure for tax purposes. Consequently, section 36(11)(b) costs will be capitalised to mining capital expenditure and can only be claimed against mining income.

[27] https://home.kpmg/us/en/home/insights/2020/03/tnf-south-africa-tax-implications-mining-sector-lockdown.html

Section 36(11)(b) costs would, indeed, appear to be incurred during a time of non-production for mining companies (i.e. in the context of the lockdown). Therefore, any section 36(11)(b) costs incurred would not be deductible in terms of the general deduction formula but rather would be considered as mining capital expenditure.

5. Asia: Country Experiences on Tax Policy Responses to COVID-19 Induced Fiscal Crisis[28]

5.1 Bangladesh

Tax relief measures:[29] [30]

Governmental agencies declared tax relief and economic relief measures in response to the coronavirus (COVID-19) pandemic. The Bangladesh Bank revealed a moratorium on loan payments until 30 June 2020 (that is, borrowers will not be in default of their loans during this period). The government publishes details of a stimulus package for export-oriented industries, including assistance to salaries and funding of two-year loans to factory owners at a 2% interest rate.

The following tax relief measures are offered.

- There will be no import taxes on medical and protective products until 30 June 2020
- There will be exemptions or incentives offered to power generating companies (other than coal-based energy companies) if commercial production commences during the period 1 January 2020 to 31 December 2022:
    - Incomes of private power generation companies are exempt up to 31 December 2034
    - Incomes of foreign nationals are exempt for three years
    - Interest payment on foreign loans may also be paid off without imposition of withholding tax
    - Fees paid for royalties, technical know-how, and technical support could be made without withholding tax

[28] https://home.kpmg/us/en/home/insights/2015/03/taxnewsflash-asia-pacific.html

[29] https://home.kpmg/us/en/home/insights/2020/04/tnf-bangladesh-tax-relief-measures.html

[30] https://home.kpmg/us/en/home/insights/2020/04/tnf-bangladesh-update-on-tax-relief-COVID-19.html

    - Capital gains stemming from divestment is exempt

- If commercial production starts during the period 1 January 2023 to 31 December 2024, a 100% exemption from tax is offered for the first five years, and then a 50% exemption for the next three years followed by a 25% exemption for the next two years for a total of 10 years of some type of exemption.
- The withholding tax rate on export cash subsidy is lowered from 10% to 5%.

The National Board of Revenue (NBR) has not communicated any particular relief measures regarding the deadlines for filing tax returns or remitting tax payments in reply to the coronavirus (COVID-19) pandemic. Section 108A of the Income Tax Ordinance 1984 offers that income tax returns filed by employees are due the next business day after the end of “general holidays,” and taking in to account that Bangladesh is in a “general holidays” situation due to the pandemic (absent any instructions from the NBR), it looks like these provisions would apply. Nonetheless, VAT reporting and payment obligations have not been extended, and thus, for April 2020, the standard rules apply. The NBR offered an exemption from import duties and tax for certain health-related safety items and test kits until 30 June 2020.

Extension of tax deadlines:[31]

On 7 May 2020, the government authorized draft legislation to prolong the time for taxpayers to file their tax returns and to pay their taxes as relief measures in reply to the coronavirus (COVID-19) pandemic.

To modify the VAT rules, distinct draft legislation has been ratified. This has allowed the National Board of Revenue (NBR) to prolong the time-limit for submission of VAT returns.

Taxpayers that comply with the filing and payment deadlines, as extended under the relief measures, will no longer be subject to penalty or interest assessments.

5.2 Cambodia

Tax relief measures:[32] [33]

The Ministry of Economy and Finance on 25 February 2020 published guidance for the tax department to put measures to particularly support the garment and tourism sectors because of the adverse effects of the coronavirus (COVID-19) outbreak.

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[31] https://home.kpmg/us/en/home/insights/2020/05/tnf-bangladesh-tax-return-filing-tax-payment-relief-measures.html

[32] https://home.kpmg/us/en/home/insights/2020/03/tnf-cambodia-tax-relief-for-garment-tourism-sectors.html

[33] https://home.kpmg/us/en/home/insights/2020/06/tnf-cambodia-tax-relief-airlines-tourism-sector-banks.html

- For the garment sector, a “tax holiday” period varying from six months to one year has been put in place, in part to deal with factors such as a lack of production raw materials.
- Concerning the tourism sector, tax relief is being provided to taxpayers in the hotel businesses in the Siem Reap province (Angkor Wat) in the form of an exemption from all monthly taxes for the period February to May 2020 in addition to an exemption from “comprehensive tax audits” for the 2020 tax year. Taxpayers will need to still comply with their monthly tax return declaration obligations and utilize the online VAT management system and declare/pay their annual 2019 tax on income.
- An exemption from stamp duty is also being made available about some transfers of immovable residential property having a value of U.S. $70,000 or less.

The government also revealed extra tax relief measures for some sectors in response to the coronavirus (COVID-19) pandemic.

- The General Department of Taxation circulated Letter No. 13052 (28 May 2020) to offer guidance for tax administrative units on the implementation of tax relief for airline businesses, tourism-related enterprises, and banking and microfinance institutions.
- For airline businesses registered in Cambodia, there is an additional exemption of minimum tax for June and July 2020. During these two months, eligible airlines are not obliged to pay the monthly 1% prepayment of income tax.
- Some tourism enterprises (hotels, guesthouses, restaurants, and travel agency companies in various locations) are exempt from paying all types of monthly taxes for June and July 2020. These taxpayers must still comply with their tax return declaration obligations and must use the online VAT management system (E-VAT).
- For domestic banks and microfinance institutions in Cambodia, the withholding tax rate on interest from new loans (whether domestic or foreign sourced) is reduced to 5% in 2020 and to 10% in 2021. The withholding tax rate on interest from existing loans is lowered to 10%.

5.3 India

Tax relief measures:[34] [35]

India’s Finance Minister on 24 March 2020 disclosed measures that include tax relief in a reply to the coronavirus (COVID-19) pandemic. The tax relief measures include:

- A lowered rate of interest for certain tax payments made by 30 June 2020, and a waiver of late-filing penalties

[34] https://home.kpmg/us/en/home/insights/2020/03/tnf-india-tax-relief-measures-coronavirus.html

[35] https://home.kpmg/us/en/home/insights/2020/04/tnf-india-guidance-tax-relief.html

- A new tax dispute settlement mechanism, allowing an option to settle tax when a percentage is paid by 31 March 2020

The Central Board of Indirect Taxes and Customs (CBIC) also released a circular addressing difficulties faced by taxpayers in sticking to certain tax compliance requirements amid the coronavirus (COVID-19) situation. The circular concentrates on tax issues with clarifications for tax compliance during the COVID-19 pandemic, particularly concerning:

- Goods and services tax (GST)
- Zero-rated supplies
- Deposit due date of tax withheld at source
- Refund application timeline

Extension of tax deadlines:[36] [37]

India's Central Board of Indirect Taxes and Customs published guidance on offering relief and/or explaining actions by taxpayers facing difficulties about goods and services tax (GST) compliance requirements due to the coronavirus (COVID-19) pandemic.

- The deadline for filing the GST annual return for FY 2018-2019 has been moved to 30 September 2020. Additional relief is also offered for certain GST-related actions.

Other deadline extensions include:

- Postponement of the income tax return deadline for the 2018-2019 tax year to 30 June 2020 (this has been moved from an earlier deadline of 31 March 2020)
- Extension of the date for some tax procedural actions (generally postponed to 30 June 2020)

5.4 Myanmar

Tax relief measures:[38] [39]

At the end of April 2020, the government declared tax and economic relief measures in response to the coronavirus (COVID-19) pandemic. Amongst the tax relief measures, the following relief provisions are to be launched:

[36] https://home.kpmg/us/en/home/insights/2020/03/tnf-india-tax-relief-measures-coronavirus.html

[37] https://home.kpmg/us/en/home/insights/2020/05/tnf-india-postponed-filing-deadline-gst-return-actions.html

[38] https://home.kpmg/us/en/home/insights/2020/05/tnf-myanmar-additional-tax-economic-relief-measures.html

[39] https://home.kpmg/us/en/home/insights/2020/04/tnf-myanmar-tax-relief-provided-for-tourism-industry-certain-other-taxpayers-covid-19.html

- Introduction of waivers of the “specific goods tax,” customs duties, and commercial tax on “critical” medical items and products linked to the prevention, control, and treatment of COVID-19
- A 10% non-refundable tax credit relating to incremental wage bills
- A tax deduction of up to 125% of the amount of wages paid
- A 10% non-refundable tax credit for incremental investment in capital goods
- A one-time rise of capital depreciation equal to 125% of standard depreciation rates

The above-listed tax relief measures are in addition to formerly publicized tax reliefs, including:

- An exemption for advance income tax (charged at a rate of 2%) on exports until 30 September 2020
- Tax relief which is also offered to some taxpayers (including small and medium-sized entities, those in the hotels and tourism sector, and the “cut make pack” industries) in response to the coronavirus (COVID-19) pandemic.

Extension of tax deadlines: [40]

Some of the tax deadline extensions and deferrals linked to COVID-19 include:

- An extension of the due date to 30 September 2020 regarding paying income tax for the calendar quarters ending 31 March and 30 June 2020

- The deferral of the due date to 30 September 2020 for the payment of monthly commercial tax for the period 31 March to 30 August 2020

5.5 Pakistan

Tax relief measures: [41] [42]

The government authorized a fiscal stimulus package and certain emergency relief fund grants to alleviate the economic adverse effects of the coronavirus (COVID-19) pandemic. Regarding tax measures, the government authorized funds for making refunds of sales tax and income tax, refunds of customs duty drawbacks and customs duties, and changes to various rates of tax and customs duties.

- The rate of advance tax for some imported food items is lowered to 0% (from 2%).

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[40] https://home.kpmg/us/en/home/insights/2020/05/tnf-myanmar-additional-tax-economic-relief-measures.html

[41] https://home.kpmg/us/en/home/insights/2020/04/tnf-pakistan-tax-economic-relief.html

[42] https://home.kpmg/us/en/home/insights/2020/05/tnf-pakistan-tax-relief-construction-sector.html

- Individuals and associations of persons offering basic food items to government-owned departmental stores will pay a lowered rate of withholding tax of 1.5% (slashed from 4.5%).
- There is an exemption offered from the further customs duty of 2% charged to imports of soya bean oil, canola oil, palm oil, and sunflower oil.
- Extra measures offer fiscal and trade-related relief.

The Tax Laws (Amendment) Ordinance, 2020 contains measures meant to offer relief specifically to the construction sector – due to economic consequences of the coronavirus (COVID-19) pandemic.

- The Amendment Ordinance offers the status of "industry" to the construction sector and grants several time-bound tax relief measures for builders and developers that finalise their projects by September 2022. Several of these concessions are optional. Those who decide not to opt for the tax rates can continue to be taxed under normal tax regime.
- The Amendment Ordinance also offers immunity from audit concerning the source of investment, in accordance with the fulfilment of certain conditions.
- The Amendment Ordinance is quiet on any exemptions from sales tax or excise tax (duty) on construction material, and there is also no relief from capital gains tax on a commercial property or open plots.

5.6 Sri Lanka

Tax relief measures:[43]

In April 2020, the Department of Inland Revenue published a release reflecting tax amendments to the New Inland Revenue Act, 24 of 2017. There are also tax relief measures in reply to the coronavirus (COVID-19) pandemic. In accordance with the Inland Revenue release, the tax changes include:

- Changes to the tax rates applicable for companies and individual taxpayers, and
- Adjustments to the rules about withholding tax.

The adjustments generally have an effective date of 1 January 2020.

[43] https://home.kpmg/us/en/home/insights/2020/04/tnf-sri-lanka-tax-rate-changes-measures-2020.html

Extension of tax deadlines:[44] [45]

The Department of Inland Revenue revealed that some tax return deadlines were being extended to 31 May 2020, and this was a tax relief measure in response to the coronavirus (COVID-19) pandemic. The Inland Revenue release notes that the due date has been extended to 31 May 2020 for the following tax returns or forms:

- Yearly declaration of employer (PAYE tax return) – year of assessment 2019/2020
- Yearly statement of withholding tax – year of assessment 2019/2020
- Economic service charge return – year of assessment 2019/2020
- Compounded stamp duty returns for the quarter ending 31 March 2020
- Value added tax on financial services, provisional estimate for last six months of the Year of Assessment 2019/2020 (i.e. for financial institutions that had in returns on year of assessment basis)
- VAT returns for February, March and the quarter ending March 31, 2020.
- Transfer pricing disclosure form for the year of assessment 2018/2019

Withholding tax, an extension of payment deadline: The Inland Revenue Department publicised that withholding agents and taxpayers subject to withholding who are liable to make tax payments for February 2020 which were due 15 March 2020 and payments for March 2020 that were due 15 April 2020 are permitted until 30 April 2020 to make these payments – subject to no interest or penalties.

Stamp tax, an extension of deadlines: Some group of people are allowed to file returns and make payments of stamp tax by 30 April 2020 (rather than 15 April 2020) for the quarter ending March 31, 2020, on or prior to April 15, 2020. Eligible persons include:

- Any person issuing insurance policies
- Any authority issuing licenses
- Any service supplier, on the presentation of a claim, request for the payment of any money on the use of a credit card
- Any employer with more than 100 persons receiving receipts for payments made to the employees
- Any other individual issuing any other instrument of a specific category, considering the impracticability or inexpediency of stamping instruments of such category, at the time and in the manner prescribed

[44] https://home.kpmg/us/en/home/insights/2020/04/tnf-sri-lanka-extension-tax-return-deadlines.html

[45] https://home.kpmg/us/en/home/insights/2020/04/tnf-sri-lanka-tax-rate-changes-measures-2020.html

VAT, extension of deadlines and validity periods: Payments of VAT February and March 2020 are moved to a new due date of 30 April 2020. A comparable extension applies for VAT returns. Moreover, the period of validity of the extension letters (planned to expire prior to 30 April 2020) issued regarding credit vouchers due against the VAT deferred under deferment facility have been extended by one month from the expiration date. The period for any temporary VAT registration slated to expire before 30 April 2020 has been extended to 30 April 2020.

Extension of time, transfer pricing disclosure form: The period for submitting transfer pricing disclosure form is moved to 30 April 2020.

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7. Useful websites for further reading

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https://home.kpmg/xx/en/home/insights/2015/03/taxnewsflash-global.html

OECD:
http://www.oecd.org/tax/tax-and-fiscal-policies-central-to-governments-responses-to-COVID-19-crisis.htm

Acknowledgements

We thank the following experts who voluntarily provided suggestions for relevant literature or other advice to the author to support the preparation of this report. The content of the report does not necessarily reflect the opinions of any of the experts consulted.

- Mick Moore: CEO and Senior Fellow at International Centre for Tax and Development; Professorial Fellow at Institute of Development Studies.
- Giulia Mascagni: Research Fellow at International Centre for Tax and Development.
- Martin Hearson: Research Fellow at International Centre for Tax and Development

Suggested citation

Megersa, K. (2020). *Tax Reforms After COVID-19 and Financial Crises*. K4D Helpdesk Report 809. Brighton, UK: Institute of Development Studies.

About this report

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