# Immediate tax policy responses to the Covid-19 pandemic – Limiting damage to productive potential

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Detected cases of Covid-19 are quickly rising in many countries, with major adverse effects on health and mortality. To fight the outbreak and spread of the virus, countries are imposing unprecedented measures. The result has been that economic activity has decreased sharply in many countries and greater uncertainty has eroded confidence. In the face of this crisis, the priority is to respond quickly to keep the productive capacity of economies intact as much as possible, avoiding the destruction of the economic base. In response to this emergency, a range of tax policy measures, alongside tax administration responses, could be considered by governments. These include:

**Adjusting the required advance payments on the basis of a revised expected tax liability** that more closely approximates the taxpayer's likely final tax liability, taking into account the expected impact on business turnover (instead of using last year's sales or profits as a proxy).

**Waiving or deferring employer and self-employed social security contributions, as well as payroll related taxes.** Hard-hit sectors that have been part of a shutdown or that have suffered significant economic consequences could benefit from the waiver of payroll related taxes and social security contributions that are paid by the employer or the self-employed, to immediately reduce labour costs. The sectors covered could be expanded as the economic consequences become more widespread.

**Deferring payments of VAT, customs or excise duties for imported items** (e.g. food, medicine, capital goods), avoiding abuse through careful administration.

**Speeding up refunds of excess input VAT**, accompanied by targeted measures to limit fraud risks.

**Deferring or waiving taxes that are levied on a tax base that does not vary with the immediate economic cycle**, e.g. recurrent business property taxes or business turnover taxes.

**Increasing the generosity of loss carry forward provisions.** One option is to turn loss-carry forward provisions into a loss-carry backward provision, where businesses could opt to receive a one-off cash payment that equals their accumulated tax losses multiplied by the statutory corporate income tax rate.

**Tax-exemption of over-time work in health and other emergency-related sectors.** In order to reward people for working extra hours and in potentially dangerous conditions, governments could provide a partial exemption of labour incomes from personal income taxation and social security contributions.

**Allow workers to receive partial payment of employment benefits or other forms of partial income replacement**, reducing the economic imperative for employers to have to turn to layoffs.

**Provide temporarily more generous welfare payments**, including through benefits provided through the tax system, to individuals and workers that are normally not entitled to such payments. This could include broader access to unemployment benefits, sick leave or family leave, also for self-employed workers; and increasing standard cash benefits delivered through the tax system to offset short-term impacts on lower income households.

**Preparing for recovery including through tax policy.** While the immediate focus is on maintaining liquidity and providing income support, governments need to prepare for a careful balance of fiscal stimulus and fiscal consolidation once the pandemic subsides.

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