



Tax Policy Reforms in Low- and Middle-Income Countries

Policy brief



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Tax Policy Reforms

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Key messages

This policy brief reviews the tax policy reforms introduced by low- and middle-income countries that responded to the 2022 edition of the OECD tax policy reform questionnaire. It covers tax reforms that were announced, legislated, and implemented in the calendar year 2021 for the following 26 countries: Albania, Argentina, Armenia, Bosnia and Herzegovina, Brazil, Bulgaria, Cabo Verde, Colombia, the Cook Islands, Costa Rica, Georgia, Honduras, Kenya, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, Senegal, South Africa, Togo, Tunisia, Türkiye, Ukraine, and Viet Nam.

The OECD plans to develop this work further in collaboration with member countries of the [OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting \(BEPS\)](#). By monitoring tax policy developments in low- and middle-income countries, the Secretariat aims to inform policy makers in countries around the world of newly introduced tax measures as well as the context in which reforms were implemented, in order to provide input into tax policy discussions and support the assessment and design of future tax reforms at both the domestic and international level. This work will be enriched if more low- and middle-income countries respond to the questionnaire each year; the Secretariat will endeavour to support countries to facilitate their responses.

The current policy brief focuses primarily on middle-income countries, as more country responses are required before inferences can be drawn for low-income countries too – Togo was the only low-income country to respond to the questionnaire in 2022.

The policy brief identifies differences and similarities in tax policy measures between high- and middle-income countries, as well as between lower middle-income countries (LMICs) and upper middle-income countries (UMICs). Comparisons between these country groups are therefore made in each sections of the policy brief, which cover the taxation of (1) personal income and social security contributions, (2) corporate income, (3) goods and services, (4) environmentally harmful and related products, and (5) property.

Several characteristics that determine differences in tax policy measures can be observed in the policy brief. The persistence of the COVID-19 pandemic and countries' fiscal space to respond to its economic impact were key factors in tax policy decisions in 2021. Fundamental differences in countries' economic structure and the design and use of the tax system, including the capacity of the tax administration, played an important role too.

LMICs more commonly extended pandemic-related tax administration measures, while UMICs transitioned towards a greater use of tax policy measures. LMICs used these administrative measures, such as tax filing and payment extensions, accelerated repayments and structured debt repayment plans, across the personal and corporate income tax (PIT and CIT) regimes and for taxes on goods and services. These administrative measures helped support business liquidity, including for micro, small- and medium-sized enterprises and the self-employed/unincorporated businesses. UMICs, on the other hand, were more likely to have introduced base narrowing measures across these three key tax categories to incentivise consumption, investment, and employment. The generally larger fiscal space and more developed labour and corporate taxation systems in UMICs were likely important factors in the differences observed.

The middle-income countries with the most developed tax and transfer programmes and comprehensive data registries were those most capable of targeting pandemic-related support to vulnerable households. Digitalisation of tax records played a central role in targeting; several countries made support contingent on previously unregistered households and businesses providing data to tax administrations, while some administrations were able to cross-reference databases to verify the needs of recipients. These experiences demonstrated the advantages of tax administrations and

Ministries of Social Affairs having access to and sharing pertinent data, how the digitalisation of records can enable tailored approaches to tax and transfer policy, and the benefits of higher formalisation rates (for both taxpayers and administrators).

Most high- and middle-income countries introduced changes to their PIT regimes, many of whom narrowed the PIT base. For both country groupings, base changes (largely measures narrowing the tax base) were far more common than rate changes. Almost all countries introduced these measures to support low-income households, particularly those most affected by the pandemic. Middle-income countries were more likely than high-income countries to use PIT regimes to support small businesses, several of whom introduced or amended existing presumptive tax regimes to encourage greater formalisation. Changes to social security contributions (SSCs), particularly cuts to SSC rates, were more common in high- than middle-income countries.

Reducing the compliance costs of entering the formal economy was the primary motivation identified by the middle-income countries that reformed their presumptive tax regimes in 2021. OECD research has shown that presumptive tax regimes are often sub-optimally designed. Common design weaknesses include heavy tax administration burdens, complex rules, lack of control and enforcement from the tax administration, and equity issues such as the equal treatment of businesses from different sectors with different profitability rates (Mas Montserrat et al., forthcoming^[1]). The changes introduced to presumptive tax regimes illustrate that middle-income countries are beginning to address a number of these common design weaknesses.

A handful of countries introduced PIT levies and almost a third of countries increased health taxes, many to strengthen the capacity of the healthcare sector that had been exposed by the pandemic. However, none of the countries covered in the policy brief reported the introduction of new healthcare-related SSC measures to raise additional revenues for financing the health system. Health taxes may offer significant tax revenue potential for many low- and middle-income countries and can concurrently induce individuals to live a healthier lifestyle (in turn helping them to become more resilient to health shocks). Healthcare is just one facet of low- and middle-income countries' social protection systems that requires more effective financing.

Fewer middle-income than high-income countries made changes to their CIT base, but both groups of countries favoured base narrowing measures to rate changes. Measures specific to research and development, patent boxes, and intellectual property regimes were more common in high-income countries, whereas several middle-income countries provided investment incentives in special economic zones. UMICs with greater fiscal space sought to encourage investment through tax incentives and were more likely to implement permanent measures applicable to all sectors. In contrast, CIT measures introduced by LMICs were largely temporary, centred on short-term liquidity measures, and restricted to firms that could demonstrate disruption of their activity as a result of the pandemic.

As members of the OECD/G20 Inclusive Framework on BEPS, all of the countries covered in the policy brief supported a significant strengthening in international tax cooperation as signatories of the [Two-Pillar Solution to reform the international taxation rules](#).

Changes to the base of taxes on goods and services were more common in high-income than middle-income countries. A greater proportion of high- than middle-income countries extended the duration of reduced value added tax (VAT) rates applied to sectors struggling with pandemic-related falls in activity. Almost all countries maintained exemptions, reduced rates and zero rates on COVID-19 related medical products, however. Accompanying supportive administrative measures were often maintained or expanded, particularly in LMICs. Excise taxes on products with negative health externalities (alcohol, cigarettes, and sugar-sweetened beverages) were as likely to be raised in middle-

income countries as in high-income countries, with almost a quarter of the countries covered in the policy brief reforming these taxes to raise revenues and improve the health of citizens.

Many of the countries covered in this policy brief narrowed the VAT base in response to consumption-related challenges created by the pandemic. This approach allowed for a rapid response to support struggling sectors and households where targeting was difficult and immediate help was required. However, it also had its drawbacks. While low- and middle-income countries appear to have been less affected by the impact of consumption stimulus measures on inflation than high-income countries (Jordà, 2022^[2]), the often-broad nature of these base narrowing measures also provided tax reductions to households that did not need support. Untargeted measures therefore increased foregone tax revenues and may have limited the generosity and duration of support measures for the most in-need households. As low- and middle-income countries continue to improve the digitalisation of, and the link between, their tax and benefit systems, they can move towards more fiscally efficient targeted income support.

Changes to environmentally related taxes were as uncommon in middle-income countries in 2021 as they were in high-income countries. Five of the 26 countries covered by the policy brief made changes to the bases of environmentally related taxes. Three countries introduced or increased the rate of their existing carbon taxes, while a small number of countries changed fuel excise duties, mineral extraction tax bases, and vehicle registration fees. Unlike many European high-income countries, very few middle-income countries covered in the policy brief changed excise duties in response to rising energy prices in the fourth quarter of 2021.

Changes to property taxes were slightly less common in the countries covered in this policy brief than in high-income countries in 2021. Of the countries that introduced property tax reforms, both high- and middle-income countries noted that the measures intended to address equity concerns. Raising revenues was a frequently reported motivation for measures by middle-income countries, while discouraging the use of property as an investment vehicle was more commonly mentioned by high-income countries.

Introduction

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This policy brief reviews the tax policy reforms introduced by the low- and middle-income countries that responded to the 2022 edition of the OECD tax policy reform questionnaire. It covers tax reforms that were announced, legislated, and implemented in the calendar year 2021 for the 26 countries who responded to the OECD’s annual tax policy reform questionnaire, and which are classified as low- or middle-income according to World Bank country classifications by income level (see Table 1).¹

The OECD plans to develop this work further in collaboration with member countries of the OECD/G20 Inclusive Framework on Base Erosion and profit Shifting (BEPS). By monitoring tax policy developments in low- and middle-income countries, the Secretariat aims at informing policy makers in countries around the world of newly introduced tax measures as well as the context in which reforms were implemented. This work will provide input into country’s tax policy discussions and support the assessment and design of future tax reforms at both the domestic and international level.

Monitoring tax policy reforms in low- and middle-countries has been made possible by a larger number of countries responding to the OECD’s annual tax policy reform questionnaire. The OECD Secretariat has produced a tax policy reforms publication focusing on OECD countries and a growing number of partner countries since 2016. However, on the request of the G20, the annual questionnaire was sent to all Inclusive Framework jurisdictions in 2021, and this was again the case in 2022. Responses increased from 66 to 71 countries between 2021 and 2022, and the Secretariat hopes that more countries will respond in future years.

Table 1. Questionnaire responses from low- and middle-income countries

Income Group	East and South Asia & the Pacific	Europe & Central Asia	Latin America & the Caribbean	Africa & The Middle East
Low income				Togo
Lower-middle income	Pakistan	Ukraine	Honduras	Cabo Verde
	Viet Nam			Kenya
				Morocco
				Nigeria
				Senegal
				Tunisia
Upper-middle income	Cook Islands	Albania	Argentina	South Africa
	Malaysia	Armenia	Brazil	
		Bosnia and Herzegovina	Colombia	
		Bulgaria	Costa Rica	
		Georgia	Mexico	
		Türkiye	Peru	

Notes: All 26 countries are members of the Inclusive Framework on BEPS. Colombia, Costa Rica, Mexico and Türkiye are also OECD members. Five countries do not provide revenue statistics to the OECD and are therefore not included in tax revenue analysis: Albania, Armenia, Bosnia and Herzegovina, Georgia, and Ukraine. Revenue data for Pakistan has not been included due to inconsistent coverage.

The policy brief is structured in five sections according to the major tax categories that are covered. The sections cover, respectively, the taxation of individuals through the personal income tax and social security contributions, the taxation of corporations, taxes on goods and services (value added taxes, excise taxes, etc), environmentally related taxes, and taxes on property.

The policy brief identifies differences and similarities in tax policy measures between high-income and middle-income countries, as well as between lower and upper middle-income countries (LMICs)

and UMICs).² In each section comparisons are made between the associated tax revenue structures and tax policy reforms introduced by the three groups of countries. More country responses are required before inferences can be drawn for low-income countries too – Togo was the only low-income country to respond to the questionnaire in 2022. While the current countries included in the policy brief are fairly heterogeneous, an increase in questionnaire respondents in future years will allow for more accurate comparisons and conclusions to be drawn.

Macroeconomic conditions were dominated by the COVID-19 pandemic

Awareness of the structure of tax revenues and macroeconomic conditions is important for understanding changes in tax policy. Tax policy developments are closely connected with economic trends: tax revenues are affected by changes in macroeconomic conditions and economic developments are important factors behind tax reforms. Furthermore, countries may be more able to introduce reforms in the tax categories where they have a more established tax regime, or in the tax categories from which they currently collect relatively lower tax revenues (and therefore may have greater revenue potential).

The COVID-19 pandemic dominated the global economy for a second year in 2021. The speed at which economic activity recovered was largely dependent on containment of the virus, with recovery patterns varying across geographies and sectors.

Global GDP growth reached 5.8% in 2021 after a decline of 3.4% in 2020, reflecting a rebound from the deep COVID-19 crisis. The COVID-19 pandemic hit economies mostly in the second quarter of 2020, before rebounding, but by the end of 2021 real GDP was back above pre-pandemic levels in most economies. However, despite the swift recovery, the effect of the crisis was still visible at the end of 2021. In Q4 of 2021, the gap between the GDP level recorded and the GDP level projected before the pandemic was still significant at the global level (above 2%) (OECD, 2022^[3]).

Foregone growth to date has not been distributed equally. The loss has been greater for middle-income countries than for high-income countries, and greatest of all for low-income countries (OECD, 2021^[4]). Amongst the largest middle-income economies, the gap between the GDP level recorded and pre-pandemic projections was especially large for India and Indonesia, and to a lesser extent for Brazil and South Africa. In those countries that recorded relatively slow recoveries, this has often been due to delays in vaccinations, the greater size and importance of the informal sector and international tourism, poorer quality health systems and more limited fiscal space. There is a risk that scarring results from the crisis, notably due to lasting income losses and to education disruptions affecting the future of many children (Hanushek and Woessmann, 2020^[5]).

Employment growth in low- and middle-income countries has remained below that observed in high-income economies, owing largely to lower vaccination rates and tighter fiscal space. The impact has been particularly acute in low- and middle-income countries that had higher levels of inequality, more divergent working conditions, and weaker social protection systems prior to the pandemic. In addition, countries with higher reliance on exports of labour-intensive goods and commodities struggled to adjust to volatile demand resulting from pandemic-related shifts in economic growth, while tourism-dependent economies suffered heavily from border closures and lost revenues (ILO, 2022^[6]).

Annual inflation in low- and middle-income countries rose to 4.3% in 2021 (up from 3% in 2020), remaining above the average of 2.8% for high-income countries (0.7% in 2020). The rebound in global economic activity, supply-chain disruptions, and soaring commodity prices combined in 2021 to push global inflation to its highest level since 2008, while the rate recorded in low- and middle-income countries was the highest level since 2011 (Reinhart and Graf Von Luckner, 2022^[7]).

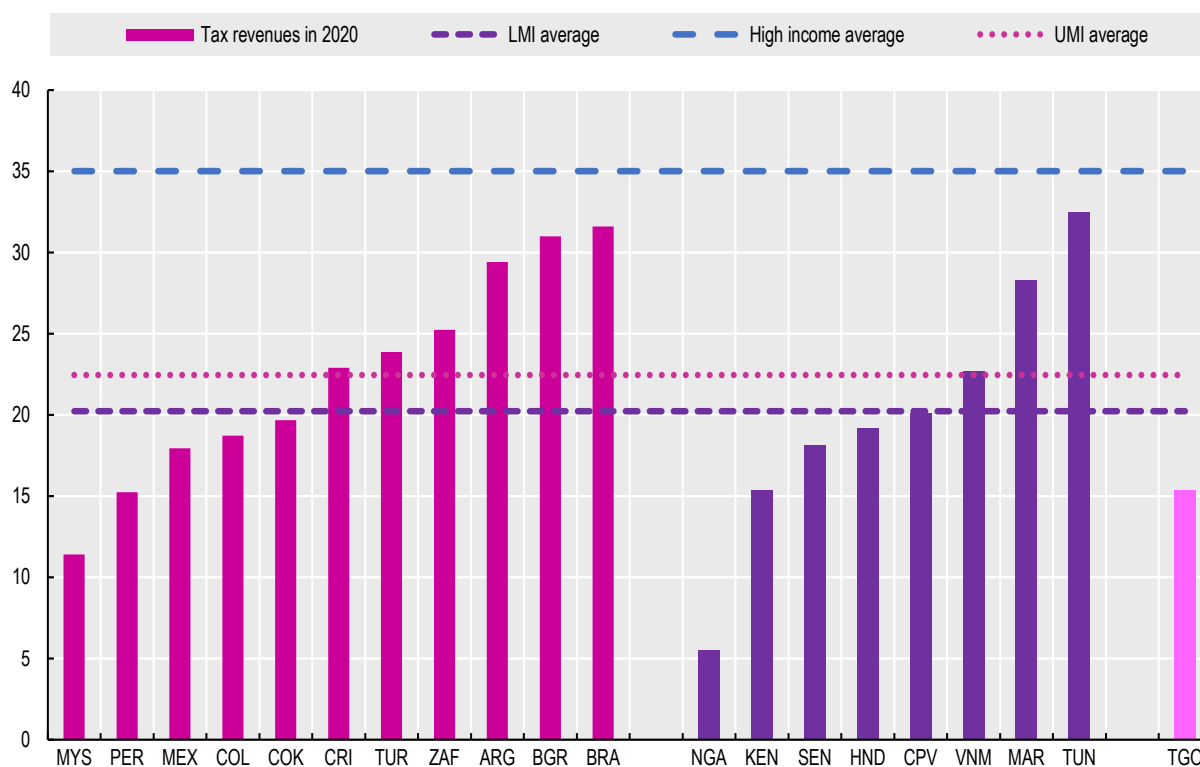
Tax revenues in middle-income countries are notably smaller than in high-income countries, on average, and their composition is less equally balanced

Tax revenues in middle-income countries represent a smaller share of GDP than in high-income countries.³ As illustrated by Figure 1, tax revenues in UMICs amounted to 22.4% of GDP in 2020, on average, while in LMICs the equivalent figure was 20.2% of GDP, notably smaller than tax revenues in high-income countries (35% of GDP on average).

Total tax revenues in middle-income countries diverge significantly. Tax revenues as a percentage of GDP in 2020 range from 11.4% in Malaysia to 31.6% in Brazil within the UMICs group, and from 5.5% in Nigeria to 32.5% in Tunisia in the LMICs group. Togo, the only low-income country to respond to the tax policy reforms questionnaire had the third smallest tax revenue to GDP ratio, at 15.4% of GDP.

Figure 1. Tax revenues in low- and middle-income countries, 2020

As a percentage of GDP



Note: The high-income average reflects the unweighted average of the 34 OECD high-income countries. The upper and lower middle-income country averages are the unweighted averages of the 11 UMICs and 8 LMICs illustrated in Table 1, respectively. Revenues are the sum of taxes collected by all levels of government. See Revenue Statistics [Interpretative Guide](#) for more detail.

Source: OECD Global Revenue Statistics Database.

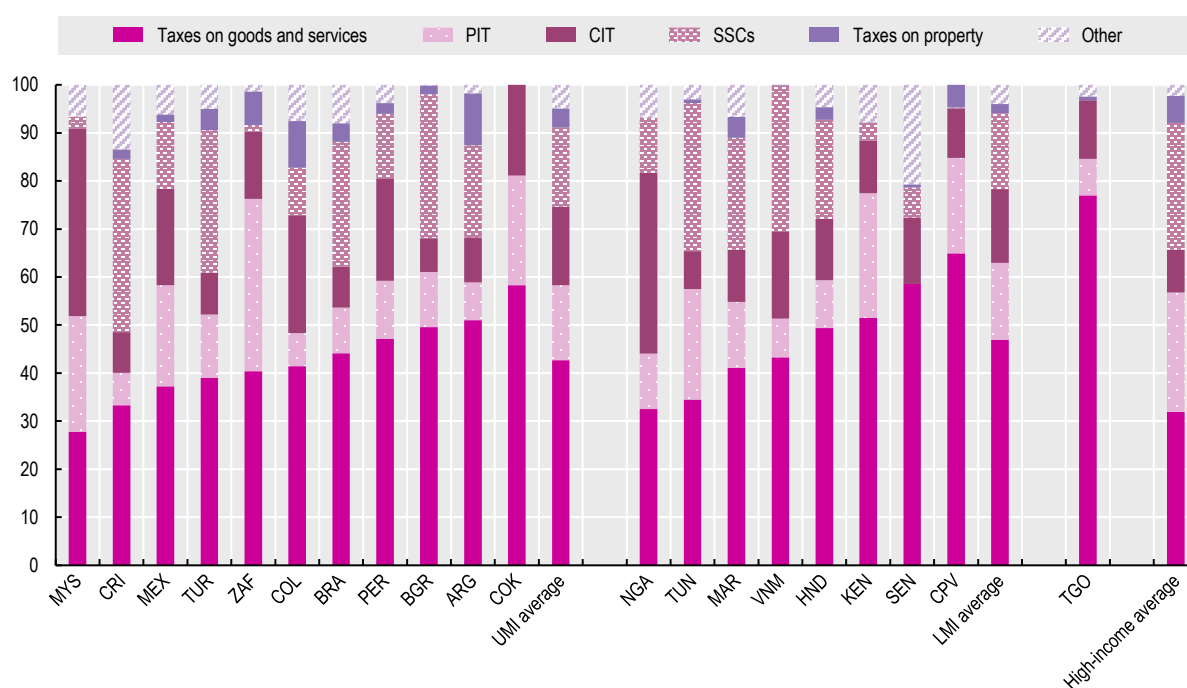
The composition of tax revenues is more uniform in middle-income countries than in high-income countries – almost all middle-income countries raise the largest share of their tax revenues from taxes on goods and services. High-income countries can roughly be split into three groups: those that raise the largest proportion of their total tax revenues from income taxes (both corporate and personal), the countries where taxes on goods and services (including value added taxes (VAT)) contribute the largest share, and the remaining countries who raise the majority of their tax revenues from social security contributions (SSCs). All but two of the 19 middle-income countries covered in the policy brief would fit into the second

group – tax revenues from goods and services contributed 44.6% of total tax revenues on average across middle-income countries in 2020. Malaysia (38.9%) and Nigeria (37.6%) raise most of their tax revenue from corporate taxes.

However, tax revenues in high-income countries tend to be more evenly split across tax categories than in middle-income countries – high-income countries are therefore less dependent on revenues from a single tax category. On average, the most part of tax revenues in high-income countries (over 90%) are split between taxes on goods and services (31.9%), SSCs (26.4%), personal income taxes (PIT) (24.8%) and corporate income taxes (CIT) (8.9%). LMICs are more reliant on taxes on goods and services (47.0%), followed by PIT (16.0%), SSCs (15.9%) and CIT (15.3%). These differences are slightly less accentuated for UMICs who are less reliant on taxes on goods and services (42.7%) and PIT (15.6%), and slightly more reliant on SSCs (16.5%) and CIT (16.3%). There are, however, large variations between countries within each middle-income sub-group (Figure 2).

Figure 2. Tax structures in low- and middle-income countries, 2020

Tax revenues from selected tax categories as a percentage of total tax revenue



Note: The high-income average reflects the unweighted average of the 34 OECD high-income countries in 2019. The upper and lower middle-income country averages are the unweighted averages of the 11 UMICs and 8 LMICs illustrated in Table 1, respectively. Revenues are the sum of taxes collected by all levels of government. Personal income tax revenues refer to tax category 1100, corporate income tax revenues refer to tax category 1200, social security contribution revenues refer to tax category 2000, property tax revenues refer to tax category 4000 and goods and services tax revenues refer to tax category 5000 under the OECD classification of taxes. See Revenue Statistics [Interpretative Guide](#) for more detail.

Source: OECD Global Revenue Statistics Database.

Personal income taxes and social security contributions

Source: Shutterstock/Oleggg



Over three-fifths of countries covered in this policy brief introduced or announced changes to their personal income tax (PIT) regimes in 2021. Only one country made a change to its PIT rates (Armenia), but changes to the PIT base were far more common. Most measures narrowed the PIT base as countries sought to support low-income households, particularly those most affected by the pandemic, and encourage employment, investment, and consumption. Base narrowing measures included a widening of tax brackets, raises in the basic tax allowance, the introduction and extension of PIT exemptions and tax administration measures, as well as tax incentives. Changes to social security contributions (SSCs) were less common than PIT measures, but nevertheless sought to improve equity and encourage greater hiring of workers. Like PIT regimes, several countries also extended pandemic-related measures introduced during 2020.

Similarly, almost all high-income countries sought to lower the tax burden of PIT and SSCs in 2021 to support recovery from the pandemic. PIT rate changes were limited, focusing largely on rate reductions for low- and middle-income households, but base narrowing measures were frequent, often seeking to promote employment and provide in work-benefits. Analogous with the countries covered in this policy brief, few changes to the taxation of household capital income were introduced. SSCs were reduced in a small number of high-income countries through temporary rate cuts and base narrowing measures.

Middle-income countries used their PIT regimes more often than high-income countries to support small businesses. Many middle-income countries made support contingent on previously unregistered households and businesses registering with tax administrations or on portals for government income support measures, encouraging greater formalisation. LMICs tended to extend administrative measures for longer periods, while UMICs transitioned towards tax policy measures. Several middle-income countries also introduced or amended existing presumptive tax regimes to reduce the compliance costs of entering the formal economy.

Changes to SSCs, particularly cuts to SSC rates, were more common in high-income than middle-income countries. However, none of the countries covered in the policy brief reported the introduction of new healthcare-related SSC measures to raise additional revenues for financing the health system. In contrast, a handful of countries introduced PIT levies and almost a third of countries increased health taxes; most of these countries reported that they introduced these measures to strengthen the capacity of the healthcare sector, which had been under severe strain during the pandemic.

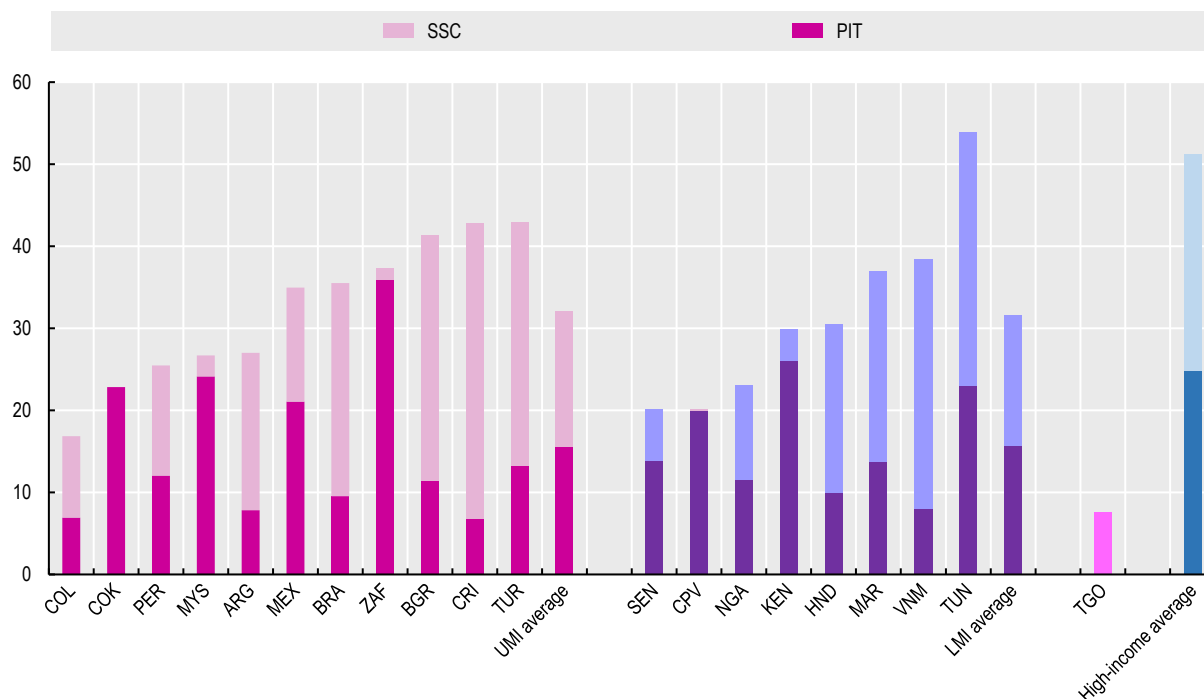
Social security contributions and personal income taxes provide the third and fourth largest shares of tax revenues in middle-income countries, respectively

PIT and SSCs are a notable source of tax revenue for most middle-income countries. Combined they contribute 31.9% of total tax revenues in middle-income countries, on average, roughly evenly split: SSCs make up just over 16 p.p. and the remaining 15.7 p.p. from PIT. In comparison, high-income countries receive 51.2% of total tax revenues from PIT (24.8 p.p.) and SSCs (26.4 p.p.) on average. UMICs rely marginally more on SSCs (16.5%) than PIT (15.6%), while LMICs are more evenly balanced between PIT (16%) and SSCs (15.9%). While the collective contribution of PIT and SSCs to total tax revenues appears greater in higher-income countries, any link between their relative proportion between one another and a country's level of income is much less clear.

The contribution of SSCs and PIT to total tax revenues varies widely within the middle-income groups (Figure 3). Among UMICs, South Africa collects just 1.4% of total tax revenue from SSCs but 35.9% from PIT, whilst Costa Rica obtains around 36.1% of total tax revenues from SSCs and 6.8% from PIT. Similarly, for LMICs, Kenya collects 26.0% of total tax revenues from PIT and just 3.8% from SSCs, amounting to almost the same total as Honduras, which generates twice as much revenue from SSCs (20.6%) than from PIT (10.0%). The two island-states Cabo Verde and the Cook Islands are the only two middle-income countries not to collect SSCs.

Figure 3. Tax revenues from personal income taxes and social security contributions in low- and middle-income countries, 2020

PIT & SSC revenues as a percentage of total tax revenues



Note: The high-income average reflects the unweighted average of the 34 OECD countries classified as high income. The upper and lower middle-income country averages are the unweighted averages of the 11 UMICs and 8 LMICS illustrated in Table 1, respectively. Revenues are the sum of taxes collected by all levels of government. Personal income tax revenues refer to tax category 1100 and social security contributions refer to tax category 2000 under the OECD classification of taxes. See Revenue Statistics [Interpretative Guide](#) for more detail. Darker colours represent PIT revenues, lighter colours represent SSC revenues.

Source: OECD Global Revenue Statistics Database.

PIT base narrowing measures were common across low- and middle-income countries

PIT reforms are important tools for governments to achieve different policy objectives, including raising tax revenues, stimulating economic growth, and enhancing the redistributive impact of the tax system. These reforms can involve the upward or downward adjustment of PIT rates and the broadening or narrowing of PIT bases but may require a trade-off between equity and efficiency. For instance, while PIT rate increases on those in the upper income brackets strengthen progressivity and fairness, in some cases they may also reduce economic incentives to work, save and invest.

Armenia was the only country covered in the policy brief to change its PIT rate in 2021. Armenia lowered its flat rate of income tax on salaries to 22% from the beginning of the calendar year. This one percentage point (p.p.) decrease from 23% in 2020 was part of a planned yearly incremental reduction in the income tax on salaries to 20% by January 2023.

In comparison, measures to changes the size of the PIT base were far more common. Albania announced that it would raise its basic tax allowance from ALL 30 000 (approximately USD 290) to ALL 40 000 (USD 390) from 2022 onwards and increased the base of its second tax bracket, with the top PIT rate applying from ALL 200 000 (USD 1 930), up from ALL 150 000 (USD 1 450).⁴ This measure is

expected to reduce the PIT burden on low-income households and support the progressivity of the tax system. **South Africa** also adjusted tax brackets upwards by more than inflation.

PIT exemptions were also provided in a few middle-income countries. **Peru** extended the expiration date for PIT exemptions for income derived from several sources, including from profits or interests in life insurance and interest income from deposits in the Peruvian financial system (excluding interest paid to corporations, which is subject to corporate income tax). **Argentina** increased the generosity of some of its existing PIT exemptions to support low- and middle-income households. **Türkiye** introduced a provision whereby social content creators (e.g., influencers) and app developers are subject to a 15% withholding tax (and not the personal income tax) if their earnings do not exceed the amount specified in the fourth income segment of the personal income tax return. Taxpayers previously liable to small business taxation were also exempt from income tax.

Several temporary PIT measures were introduced or extended in response to the COVID-19 pandemic. **Viet Nam** exempted individuals and households located in areas affected by the COVID-19 pandemic from personal income tax and other taxes on income for the second and fourth quarter of 2021.⁵ **Morocco** exempted the wages of employees who had involuntarily become unemployed due to the pandemic from PIT. **Bulgaria** provided a one-off increase in the tax incentives for households with children and children with disabilities in 2021.

Tax administration measures related to personal income taxes were also extended in several low-income countries. **Cabo Verde** and **Tunisia** extended the deadlines for personal income tax return filing in 2021 and Cabo Verde continued to provide immediate payments of invoices that the state owed to self-employed and unincorporated businesses suppliers. **Bosnia and Herzegovina** (Republic of Srpska) granted funds to business entities and entrepreneurs that had been prohibited from operating during the pandemic from the Republic's *Compensation Fund*, which companies' PIT and social security payments had contributed to. **Morocco** also extended the deadline for informal actors to register their employment status.

Some countries introduced PIT base narrowing measures to stimulate the economy. **Ukraine** introduced amendments to its tax legislation aimed at stimulating investment, promoting the development of the digital economy and the IT industry, through the establishment of a special taxation regime. Under this tax regime, specialist residents of "*Djia City*"⁶ are subject to a 5% PIT rate on their salaries for remuneration under gig contracts, tax rebates are provided for expenses incurred in acquiring shares of "*Djia City*" resident companies, and tax exemptions on dividend payments are available under certain conditions. **Morocco** introduced a temporary PIT exemption for the wages of young workers entering the labour market for the first time for the first three years of their employment, to encourage youth employment. This temporary measure will apply for the period 1 January 2021 to 31 December 2022. **Malaysia** extended and increased several tax credits, including for instance for fees of self-study courses, medical expenses, costs for childcare services, electrical vehicle charges, and contributions to pension funds.

Capital tax base broadening measures were introduced in Nigeria. **Nigeria** broadened its capital income tax base by removing certain tax exemptions on sales of shares. From January 2022, a 10% capital gains tax is applied to gains from the sale of shares above a threshold of NGN 100 million (USD 278 700) generated in any 12 consecutive months. The capital gains tax does not apply if the proceeds of the sale are reinvested in shares in the same or another Nigerian company within the same tax year.

Bulgaria introduced measures in 2021 that have narrowed its capital tax base. **Bulgaria** abolished the taxation of interest income on bank deposits (and their branches), where banks are established in an EU Member State or in another State that is party to the Agreement within the European Economic Area. The reform was described as responding to the decline in interest rates on bank deposits that had been seen in the years up to 2021, and corresponding lower tax revenues. The administrative burden on banks and taxpayers was therefore deemed disproportionate to the tax's revenue potential.

Presumptive tax regimes were established in several countries as countries sought to improve the taxation of small businesses and the self-employed

Mexico, Morocco, and Peru established new presumptive tax regimes in 2021 to replace previous tax regimes, or, in the case of Mexico, to temporarily coexist alongside the existing tax regime. Otherwise known as simplified tax regimes, presumptive tax regimes target taxpayers that are “*hard-to-tax*” businesses (i.e., the self-employed, unincorporated businesses, micro and small enterprises, farmers). Hard-to-tax taxpayers usually have low incomes, do not register voluntarily with the tax administration, do not keep complete books, do not file tax returns, and use cash payments which make it difficult for the tax administration to monitor them and ensure compliance. Given the high levels of informality associated with many low- and middle-income countries, presumptive tax regimes could form an important component of countries’ tax systems if well designed and enforced (Box 1).

Mexico reformed its tax frameworks for some individuals and unincorporated businesses. As described in Box 3, the 2022 tax reform established a new tax regime (“Simplified Trust Regime”) that aims to facilitate tax payments and simplify taxation for individuals operating businesses, carrying out professional activities, and leasing goods or with activities in the primary sector, with an annual gross income below MXN 3.5 million (USD 170 000). The new regime is optional and taxes gross income, without allowing deductions (not including VAT) at differentiated rates from 1% to 2.5% depending on the level of income. The rates therefore do not tax marginal income, but all income. A “Simplified Trust Regime” was also established for small, unincorporated businesses constituted by individuals and whose annual income is less than MXN 35 million (USD 1.7 million). Under this regime, profits are taxed at the corporate tax rate of 30% and the taxable base is determined according to an approximation of net income. Net income is determined on a cash basis (i.e., the amounts effectively received and paid, rather than on an accrual basis), and assets can be depreciated at higher depreciation rates than those foreseen under the standard CIT system, as long as the annual investment costs do not exceed MXN 3 million (USD 147 780).

Peru replaced its existing presumptive tax regime with a simplified scheme for smaller taxpayers with the general rate of income tax and reduced corporate tax rates. Morocco also replaced its presumptive tax regime in 2021 to simplify the tax administration of low-income taxpayers. Businesses with annual turnover no larger than MAD 500 000 for service providers (USD 55 620) and MAD 2 000 000 for commercial, industrial and craft activities (USD 222 470) can pay a single tax that encompasses income tax, professional tax, and the municipal services tax, as well as compulsory health insurance payments.

Box 1. Presumptive Tax Regimes

Presumptive tax regimes target taxpayers that are “*hard-to-tax*” businesses (i.e., the self-employed, unincorporated businesses, micro and small enterprises, farmers). Hard-to-tax taxpayers usually have low incomes, do not register voluntarily with the tax administration, do not keep complete books, do not file tax returns, and use cash payments which make it difficult for the tax administration to monitor them and ensure compliance (Thuronyi, 2004^[8]; Rajaraman, 1995^[9]). Given the high levels of informality associated with many low- and middle-income countries, presumptive tax regimes could form an important component of countries’ tax systems if well designed and enforced.

A presumptive tax regime levies tax on a presumed tax base that intends to approximate net taxable income by indirect means (Iordachi and Tirlea, 2016^[10]; Thuronyi, 2004^[8]). These regimes can be particularly relevant where actual taxable income is difficult to assess accurately (Logue and Vettori, 2011^[11]). This is the case, for instance, where businesses do not keep complete books or where cash payments are prevalent.

Presumptive tax regimes aim at encouraging tax compliance by reducing tax compliance costs and by levying lower tax rates as compared to the standard tax system (Loeprick, 2009^[12]; Balestrino and Galmarini, 2005^[13]). Tax compliance costs are associated with recording transactions, maintaining accounting records and financial statements, calculating tax liabilities, and following tax payment procedures (OECD, 2009). Small taxpayers with generally lower profits than larger ones tend to be disproportionately impacted by fixed compliance costs (OECD, 2009^[14]; OECD, 2015^[15]; ILO, 2021^[16]). By reducing the administrative burden (e.g., with simplified book-keeping rules), presumptive tax regimes contribute to reducing informality and broadening the tax base (Engelschalk, 2004^[17]).

For the tax administration, presumptive tax regimes reduce the administrative costs of monitoring hard-to-tax businesses and ensuring their compliance. Regular assessment of their books can be difficult, especially where non-compliance is extensive and administrative resources are limited (Bucci, 2020^[18]). Presumptive tax regimes allow the tax administration to easily determine the tax liabilities of many small taxpayers (Engelschalk, 2007^[19]) – without preventing the administration from conducting regular and thorough controls of at-risk businesses (Bulutoglu, 1995^[20]).

These regimes are present in many tax systems and differ widely in their design dimensions (e.g., the target group, the eligibility criteria, the presumption of the tax base and the tax liability, etc.) (Bucci, 2020^[18]). These multi-dimensional differences complicate cross-country comparability and thus the extraction of solid conclusions for an optimal design of presumptive tax regimes.

In a forthcoming working paper, the OECD discusses an analytical framework that allows for the systematic characterisation of country-specific presumptive tax regimes and the identification of their differences and commonalities. This benchmarking exercise would allow for an examination of the strengths and weaknesses of each regime so that countries can identify opportunities to improve the design of their presumptive regimes. The analytical framework can also play a role in identifying some of the key design questions worthy of receiving closer analytical attention in the future.

By discussing design features of presumptive regimes and identifying their issues, the working paper also lists a series of best practices for the design and administration of presumptive tax regimes. These best practices are accompanied by potential challenges the tax administration might face in their management and desirable conditions for their implementation.

Source: Mas Montserrat et al. (forthcoming^[11]).

Social security contributions were reduced in several countries to support low-income households and increase employment

Several countries have introduced SCC reforms, several of which involved temporary SCC reductions in response to the COVID-19 pandemic. To provide financial relief to households and companies, and to promote the economic recovery, several countries have reduced the SSCs paid by workers and employers for a discrete period, both through SCC rate reductions and base narrowing measures.

Bulgaria announced an increase in its minimum and maximum thresholds for SSCs for employees and employers to increase the progressivity of its SSC system, while the Cook Islands raised the standard deduction for SSCs. The minimum annual income threshold for SSCs in **Bulgaria** was raised from BGN 7 800 (USD 4 720) to BGN 8 520 (USD 5 150) – equal to the national minimum wage – while the maximum annual income threshold was increased from BGN 36 000 (USD 21 770) to BGN 40 800 (USD 24 670). The new thresholds also apply to self-employed workers, registered farmers, and tobacco producers, who were previously subject to a minimum threshold of BGN 5 040 (USD 3 050). The **Cook Islands** also raised the standard deduction for SSCs from NZD 13 800 (approximately USD 9 760) to NZD 14 600 (USD 10 325) to reduce the tax burden on lower-income families.

Several base narrowing measures were introduced to encourage hiring and skills development in 2021. Argentina introduced an employer SSC deduction for new hires participating in vocational training in knowledge-intensive sectors, to promote skills development in these areas. The government of the **Cook Islands** announced that it would introduce a temporary SSC deduction to encourage workers to take up secondary employment to help reduce labour shortages in the tourism sector. **Ukraine** altered SSC rates for hired employees of “*Diia City*” residents. The payment of a single contribution was established at the minimum insurance contribution level (at 22% of the minimum wage) regardless of the employee’s wage.

Argentina and Cabo Verde extended pandemic-related SSC measures into 2021, which it had introduced in 2020. These measures included reduced SSC employee payments to support employment and increase household disposable income, as well as tax administration measures such as extended filing deadlines for SSCs paid by employers and the self-employed, the suspension of late payment fees, and provisions for payments to be made in instalments. **Argentina** extended and expanded the 95% reduction in SCCs for employers providing health care services first introduced in March 2020 to cover 100% of SSC costs and for employers in all critical sectors affected by COVID-19, until June 2022.

Box 2. Digitalisation in North African countries during the pandemic

The pandemic catalysed the digitisation of government services and functions in many countries worldwide. In countries with large informal sectors and incomplete tax and social registries, innovative digital responses were often required to extend the social security net and government income support to previously unregistered households. Accelerating the digitalisation of tax administration procedures, such as VAT invoicing, declarations and filing procedures was also key to liquidity support measures for businesses.

Digitalisation of Household Income Support

Digital solutions were used in Egypt, Morocco, and Tunisia to extend income support to informal households. All three countries developed online platforms to register households in need of government support, verify eligibility, and extend support beyond the existing social registry (via which transfers were received). Benefits took differing forms varying from one-off payments, monthly transfers to temporary increases in need-based benefits for households. In this way, direct financial assistance was provided to those households in need, including individuals living in poverty, workers unemployed because of the pandemic, and those engaged in informal sector without health coverage.

Egypt extended support through its existing *Takaful* and *Karama* initiative, which included making income support payments for three months to informal workers that registered themselves via a digital government portal. Morocco similarly introduced monthly transfer programme to households and the extended the existing RAMED programme for individuals working in informal sector – text messages were sent via mobile with a link to an online portal, through which previously unregistered workers could claim income support. Tunisia supported households in the informal sector by using unique individual identifier numbers that allowed access to online portals from which government services and social benefits could be claimed. Beyond providing income support for vulnerable households, these measures have led to widespread registration of informal households and improvements in data quality.

Digitalisation for Tax Purposes

Innovative methods were required to keep tax administrative procedures operating when person-to-person contact was limited by mobility restrictions and lockdowns. In response, the three North African countries sought to digitalise elements of their tax administration. Egypt implemented a number of measures, including the introduction of e-invoicing for VAT reimbursements. In Morocco, SSC payments must now be declared electronically, and in Tunisia, withholding tax certificates are now issued through an online platform.

Impact of digitalisation on policy responses

Digitalisation efforts proved key to country responses to the COVID-19 pandemic. Countries can now build on initiatives to improve the depth and breadth of data coverage and the digitalization of government services. More comprehensive data would allow policy makers to tailor the generosity and duration of future support measures to the specific needs of individual taxpayers, and lower revenue forgone from untargeted measures, thus improving the effectiveness of future interventions. Moreover, efforts to further the momentum of tax system digitalisation, including filing procedures, VAT reimbursements and tax compliance, promises to reduce administrative burdens and improve compliance and formalisation rates – for the benefit of both taxpayers and administrators.

Source: IBFD (2022^[21]; ^[22]); ILO (2022^[23]; ^[24]; ^[25]); IMF (2022^[26]); PwC (2022^[27]).

Corporate income taxes

Source: Shutterstock/Arnold.Petersen



A smaller number of middle-income countries made changes to their CIT base than high-income countries, but both country groupings favoured base narrowing measures to rate changes.

Measures specific to research and development, patent boxes, and intellectual property regimes were more common in high-income countries, whereas several middle-income countries provided investment incentives through special economic zones. UMICs with greater fiscal space sought to encourage investment with the tax incentives they introduced and were more likely to implement permanent measures applicable to all sectors. In contrast, CIT measures introduced by LMICs were largely temporary, centred on short-term liquidity measures, and restricted to firms that could demonstrate disrupted activity as a result of the pandemic.

Over half of the countries covered in the policy brief introduced corporate income tax (CIT) policy measures in 2021. Changes to the CIT base were more common than rate changes. Colombia cut its statutory CIT rate in 2021 but announced an increase from the start of 2022, while Türkiye did the opposite, raising its CIT rate in 2021 but lowering it from 2022 onwards. Argentina replaced its flat rate with a progressive regime, while Morocco moved from a progressive CIT to a proportional system. Nine countries introduced base narrowing measures, largely to incentivise investment, while just three countries broadened their CIT bases. Low- and middle-income countries often cited supporting investment, boosting economic growth, and raising revenues as the reasons for CIT policy changes. Notably, middle-income countries did not introduce tax incentives for investment in the health sector.

In comparison, CIT rates were cut in seven high-income countries in 2021, while many more narrowed their tax base. Four high-income countries cut their headline statutory tax rate, while three reduced small- and medium-sized (SME) CIT and intellectual property regime rates. Many high-income countries narrowed their tax base by expanding the generosity of corporate tax incentives to stimulate investment and innovation, including to promote environmental sustainability.

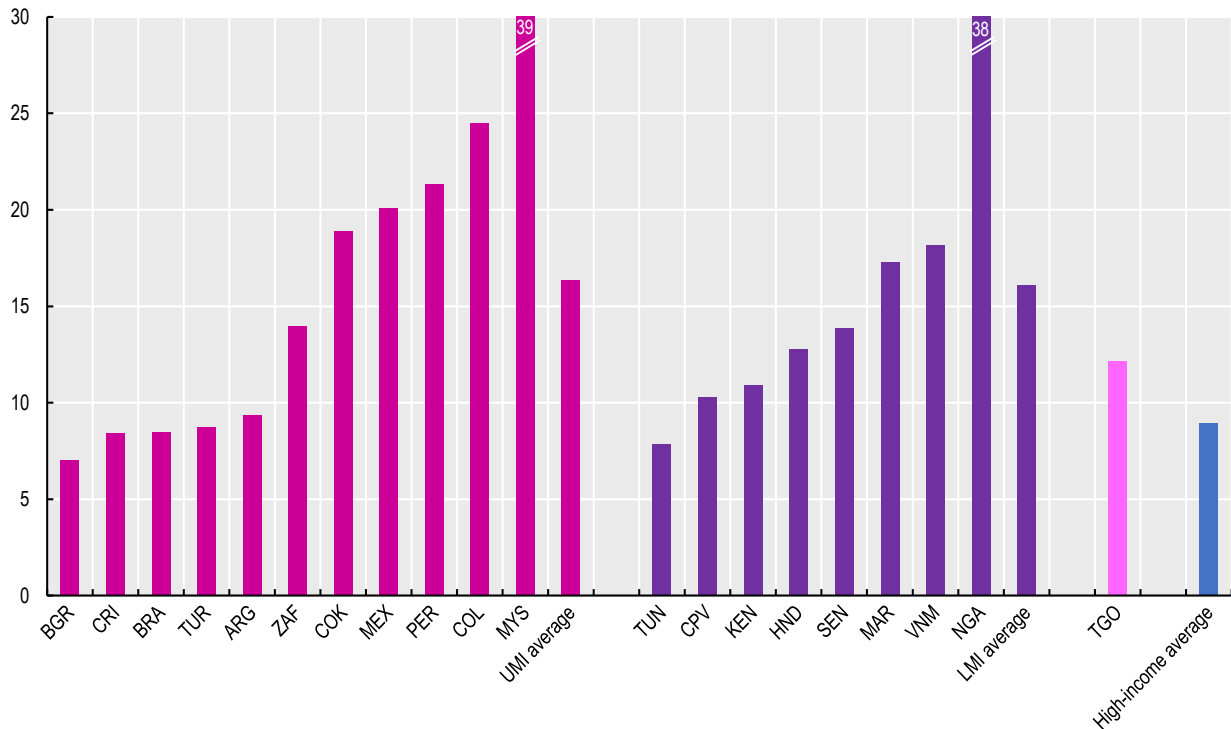
As members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, all countries covered in the policy brief supported a significant strengthening in international tax cooperation in 2021. All countries were signatories of the two-pillar solution to reform the international taxation rules and ensure that multinational enterprises pay a fair share of tax wherever they operate and generate profits.

CIT revenues contribute a slightly larger share of revenues in middle-income countries than in high-income countries

CIT revenues represent a slightly large share of total tax revenues in middle-income countries (13.6%) than in high-income countries (8.9%), when excluding outliers Malaysia and Nigeria. In comparison, these two fossil fuel-exporting economies receive 38.9% and 37.6% of total tax revenues from their CIT, respectively. As shown in Figure 4, LMICs receive between 7.9% (Tunisia) and 18.2 % (Viet Nam) of total tax revenues from CIT, whilst for UMICs, these figures range between 7.1% (Bulgaria) and 24.5% (Colombia). Many factors can determine differences in revenues from CIT including statutory CIT rates, the breadth of the CIT base, the degree to which firms are incorporated, the phase in the economic cycle and the degree of cyclicity of the corporate tax system, as well as countries' reliance on other taxes. Often CIT tends to represent a larger share of revenue in low- and middle-income countries with significant natural resources (Malaysia, Nigeria).

Figure 4. Tax revenue from corporate income taxes in low- and middle-income countries, 2020

CIT revenues as a percentage of total tax revenues



Note: The high-income average reflects the unweighted average of the 34 high-income OECD countries. The upper and lower middle-income country averages are the unweighted averages of the 11 UMICs and 8 LMICS with available data illustrated in Table 1. Revenues are the sum of taxes collected by all levels of government. Corporate income tax revenues refer to tax category 1200 under the OECD classification of taxes. See Revenue Statistics [Interpretative Guide](#) for more detail.

Source: OECD Global Revenue Statistics Database.

Significant CIT rate changes were made by a small number of low- and middle-income countries in 2021

Argentina, Colombia and Türkiye made notable changes to their CIT rates in 2021 and 2022.

Argentina announced in mid-2021 that it would replace the previous 30% flat rate corporate income tax with a progressive rate system from the beginning of the 2021 fiscal year for all resident legal entities and Argentine permanent establishments of non-resident companies. A 25% rate was imposed upon accumulated net taxable profit up to ARS 5 million (approximately USD 52 640), a minimum payment of ARS 1.25 million (USD 13 160) and a 30% rate on taxable profits between ARS 5 million and ARS 50 million (USD 526 400), and a minimum payment of ARS 14.75 million (USD 155 280) and a 35% rate on taxable profits above ARS 50 million. In conjunction, the withholding rate on dividend distributions to non-residents was cut from 13% to 7%.

In Colombia, the standard CIT rate was lowered to 31% in 2021 as part of the government's 2019 legislation to progressively reduce CIT rates (from 33% in 2019 to 30% by 2022). However, towards the end of Q3 of 2021, **Colombia** legislated an increase in the CIT rate to 35% under its Social Investment Act to be introduced from 1 January 2022. Under the same Act, Colombia announced that it would introduce two additional taxes on corporations. Firstly, a normalization tax (i.e., tax amnesty) applicable to income taxpayers that did not declare certain assets or claimed non-existent liabilities for tax purposes, as of 1 January 2022. The normalization tax rate was set at 17%.⁷ And secondly, a 3% surtax on the taxable

income of financial institutions earning more than 120 000 tax units (approximately USD 1.1 million) from 2022 to 2025. A small number of OECD countries impose taxes on the financial sector. Financial sector taxes gained attention in the aftermath of the global financial crisis. They are generally collected on top of ordinary corporate taxes and can be applied on different bases including bank deposits, capital assets and risk-weighted assets.

In Türkiye, the CIT rate was raised to 25% in 2021, having been increased to 22% for the fiscal years 2018-2020⁸. The government also announced in 2021 that it would lower the CIT rate to 23% from the start of the 2022 fiscal year. An exemption from CIT was provided to corporations established to provide export loan guarantees.

Malaysia announced in late 2021 that it would impose a temporary one-off tax for the 2022 fiscal year on companies that generated high earnings during the COVID-19 pandemic. For the first MYR 100 million (USD 24.2 million) of taxable earnings, companies will pay a 24% CIT rate, and a 33% rate for taxable earnings above MYR 100 million. Standard statutory CIT rates are either 17% or 24% depending on the type of company and taxable earnings⁹.

A small number of countries covered in the policy brief temporarily reduced taxes on small- and medium sized businesses (SMEs) to support firms who had experienced a fall in economic activity due to COVID-19. In **Cabo Verde**, for example, SMEs whose sales were particularly impacted by the pandemic were exempt from paying the islands' Unified Special Tax of 4% in 2021.

Changes to the CIT base were common in middle-income countries

As observed across high-income countries, it was more common for middle-income countries to introduce tax base than tax rate changes. Base narrowing measures were more widely implemented than base broadening measures as many countries used CIT incentives to encourage investment and growth as the impact of the pandemic waned.

Malaysia introduced several CIT base narrowing measures to incentivise investment in digital and green technologies and infrastructure, and support skill development. CIT rates for eligible new digital technology providers were lowered to between 0% and 10% for up to ten years, while existing digital technology providers could qualify for a 10% CIT rate, also for up to ten years. Digital infrastructure providers were also provided with an 100% investment tax allowance on capital expenditure for qualifying activities for up to ten years. The scope of the existing green investment tax allowance and green income tax exemption scheme was expanded to include rainwater-harvesting projects. Tax deductions were also provided for employees conducting a structured internship programme and for scholarships provided by companies.

Ukraine also made amendments to its tax legislation aimed at stimulating investment in the IT industry and the development of the digital economy. Temporary CIT preferences were introduced that will remain in place until the start of 2035, alongside value added tax and land payment tax incentives, for investors who make significant investments. The criteria for an investment to be classified as significant includes: the creation of 80 new jobs that have an average salary 15% higher than the average salary for the relevant type of activity in the region where the project is implemented for the previous calendar year, a total investment value of at least EUR 20 million (approximately USD 23.7 million) over the time span of the investment, and the implementation period of the investment project does not exceed five years. “*Diia City*” residents can choose whether to pay CIT within the general CIT regime or whether to pay CIT on special terms in accordance with the tax legislation and become a “*Diia City*” resident taxpayer on special terms. If a resident of “*Diia City*” chooses (switches) to pay CIT on these special terms, they will pay income tax at the basic rate of 9% for a specified list of transactions, and at an 18% rate for the taxation in relation to controlled (i.e., non-arm’s length) transactions and for the taxation of adjusted profits of a controlled foreign company.

Many countries have specific tax incentives to attract foreign direct investment, encourage industrialization, and create jobs. In some countries, special economic zones (SEZs) are created to act as a vehicle to encourage such investments. SEZs are geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements (including laws, regulations, and tax regimes) and systems that are often different from those that apply in the rest of the country. **Morocco**, which established the SEZ Casablanca Finance City (CFC) in 2010, decided to limit the duration for which resident businesses could benefit from the tax benefits provided under the previous CFC regime, to the end of 2022, broadening its tax base.

Viet Nam introduced several base narrowing measures, mostly to support firms who had experienced a fall in activity during the pandemic or incurred additional expenses as a result. Businesses with total revenues below VND 200 billion in 2021 (approximately USD 8.64 million) who could show a fall in revenue relative to 2020 were eligible for a 30% deduction in their taxable income. **Viet Nam** also allowed businesses to deduct COVID-19 related expenses including donations and the implementation of safety and prevention measures from taxable income where sufficient documentation could be provided.

Similarly, Tunisia provided CIT exemptions for the 2021 fiscal year for resident companies that could demonstrate a pandemic-related reduction in their turnover. Furthermore, no corporation tax on corresponding amounts was levied on banks and financial institutions that partially or totally waived interest on loans, nor on insurance companies that partially or totally exempt customers from the insurance premiums due.

Several middle-income countries extended tax administration measures to support firms during the pandemic and in their subsequent recovery. Common measures included CIT filing and payment extensions, as well as accelerated repayments and the removal of fines (**Cabo Verde, Morocco, Tunisia, Viet Nam**). Some countries also supported businesses in repaying overdue tax by providing structured repayment plans. Often these measures were restricted to businesses that could demonstrate a reduction in taxable income due to the pandemic.

Other base narrowing measures introduced by middle-income countries included tax exemptions on the privatization of public assets, capital investment deductions and annual amortization of assets. **Morocco** exempted the proceeds from the sale of holdings of public establishments, enterprises, and their subsidiaries to the private sector from tax. **Türkiye** enabled corporations that increase capital invested domestically from overseas cash holdings to deduct a proportion of this amount from total earnings to reduce their taxable CIT base and payments due on other taxes (excluding SSCs and VAT). And **Peru** established accelerated annual amortization of assets at 20% for the aquaculture, forestry, and wildlife sectors.

CIT base broadening measures were less common among low- and middle-income countries. **Kenya** replaced its thin capitalization rules based on debt-to-equity ratios with the interest restriction based on the interest to earnings ratio¹⁰. **Colombia** returned the percentage of the corporate income tax credit taxpayers could claim for the local turnover tax liability from 100% to its previous level of 50% for the fiscal year 2022. **Nigeria** introduced measures to limit the capital allowances that can be claimed by companies on qualifying expenditure used in generating tax-exempt income with the aim of making the tax system more equitable. In contrast, **South Africa** postponed planned measures to broaden the corporate income tax base – restricting net interest expense deductions and limiting the use of assessed losses carried forward – to 2022.

Box 3. The 2022 Mexican Tax Reform

Both chambers of the Mexican Congress approved the 2022 Tax Bill in November 2021. Its provisions entered into effect on 1 January 2022. The comprehensive reform aims to promote competitiveness and economic growth, facilitate voluntary compliance, broaden the tax base, and prevent tax base eroding activities. It concentrates on measures adopted within the OECD/G20 BEPS Project and on activities in relation to the digital economy.

Changes to the Federal tax code

Implemented changes to the federal tax code attempt to address tax evasion and avoidance behaviour and improve compliance by individuals and corporates. For instance, a change in tax residency to a low tax jurisdiction will no longer result in the automatic loss of Mexican tax residency. Voluntary compliance will be strengthened by implementing specific voluntary disclosure programmes following international best practices. Assessments by the tax authority of the effective control of entities and the transfer of business assets have been reinforced. Tax inspectors will also be allowed to question business reasons in relation to the tax-free treatment of mergers and spin-offs within five years prior and subsequent to the transaction. Additional measures combat criminal tax offences such as tax fraud or activities related to hydrocarbon black markets.

Income tax law changes

To support economic recovery and encourage investment, a preferential tax regime has been established for individuals and companies. Apart from eliminating formalities, annual incomes of individuals below USD 173 000 are subject to a maximum tax rate of 2.5%, which is levied on gross income without allowing for any deduction. Companies incorporated by individuals with incomes below USD 1.7 million profit from preferential depreciation rates. Other amendments include new reporting requirements for the transfer of shares among residents abroad, the limitation of corporate restructurings at tax cost for companies residing in Mexico, and alternative range-adjustment methodologies in transfer pricing.

Mexico City tax reform

Digital events whose transmissions are made live in the territory of Mexico City and require payments to access the event broadcasts are charged with an 8% tax on public shows. Moreover, individuals or legal entities that facilitate activities related to the delivery or reception of food, grocery, or other types of merchandise through online platforms (e.g., promotion, intermediation, administration) are subject to a 2% exploitation tax ("*aprovechamiento*") on gross commissions or fees charged. The Mexico City Tax Code has also been amended to now include a 5% tax on lodging services.

Taxation of the digital economy and technology-driven tax audits

Mexico joined the OECD Two-Pillar framework in July 2021 together with more than 120 other jurisdictions and together with more 135 other jurisdictions agreed to the [Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy](#) in October 2021. Further work is ongoing in line with the international agreements reached regarding the global tax reform around Pillars One and Two, which comprise the reallocation of taxing rights with respect to business profits and the establishment of a minimum global income tax for MNEs that are within scope.

Source: OECD annual tax policy reforms questionnaire; Baker McKenzie (2022^[28]).

Taxes on goods and services



Almost half of the countries covered in the policy brief made changes to the base of taxes on goods and services. Many countries extended the duration of reduced value added tax (VAT)¹¹ rates applied to sectors struggling from pandemic-related falls in activity, and maintained exemptions, lower rates and zero rates on COVID-19 related medical products. Accompanying supportive administrative measures were also often maintained or expanded, including automatic and accelerated refunds, and extended repayment schedules. Middle-income countries most cited encouraging consumption and boosting economic growth as central motivations for these changes. Excise taxes on products with negative health externalities (alcohol, cigarettes, and sugar-sweetened beverages) were raised in almost a quarter of the countries covered in the policy brief as governments highlighted the need to raise revenues and improve the health of citizens.

Most high-income countries registered base changes to VAT in 2021, while standard and reduced VAT rates were largely maintained. Most temporary VAT changes made in 2020 were reversed in 2021, though some countries maintained temporary sector-specific lower rates for sectors that suffered the largest fall in activity, such as tourism and accommodation. VAT exemptions and similar measures related to COVID-19 medical products were prolonged until at least the end of 2021 in almost all countries. Some countries applied reduced VAT rates to a wider range of goods and services on a permanent basis in 2021, while several countries also temporarily applied reduced VAT rates to electricity and natural gas during Q4 of 2021. Both types of measures narrowed these countries' VAT base.

Changes to the base of taxes on goods and services were therefore more common in high-income than middle-income countries. A greater proportion of high- than middle-income countries extended the duration of reduced value added tax (VAT) rates applied to sectors struggling from pandemic-related falls in activity. Almost all countries maintained exemptions, reduced rates and zero rates on COVID-19 related medical products, however. Accompanying supportive administrative measures were often maintained or expanded, particularly in LMICs. Excise taxes on products with negative health externalities (alcohol, cigarettes, and sugar-sweetened beverages) were as likely to be raised in middle-income countries as in high-income countries.

The narrowing of VAT base in response to consumption-related challenges created by the pandemic allowed for rapid support to struggling sectors and households where targeting was difficult and immediate help was required. However, it also had its drawbacks. While low- and middle-income countries appear to have been less affected by the impact of consumption stimulus measures on inflation than high-income countries (Jordà, 2022^[2]), the often-broad nature of these base narrowing measures also provided tax reductions to households that did not need support. Untargeted measures therefore increased foregone tax revenues and may have limited the generosity and duration of support measures for the most in-need households. As low- and middle-income countries continue to improve the digitalisation of, and the link between, their tax and benefit systems, they can move towards more fiscally efficient targeted income support.

Taxes on goods and services, in particular VAT, are the largest source of revenue in almost all low- and middle-income countries

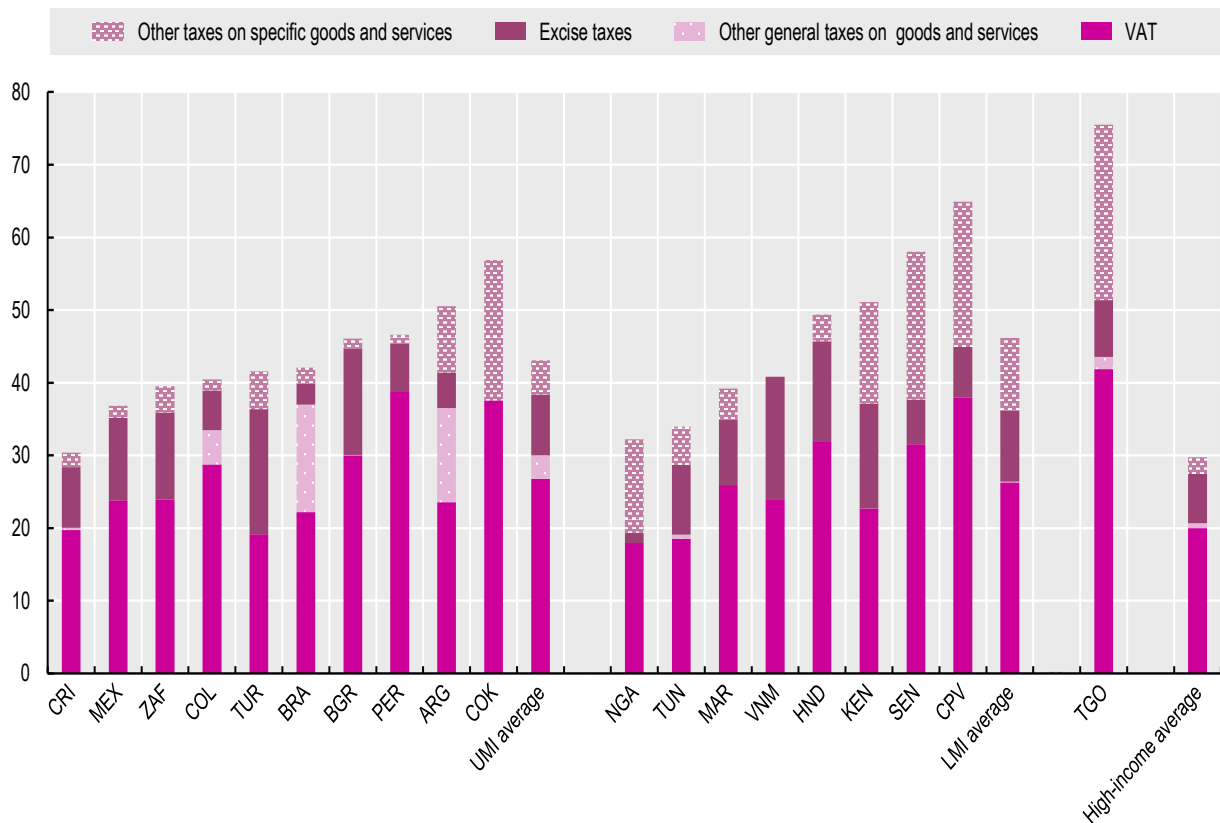
Taxes on goods and services form the major source of tax revenues for all but two of the countries covered in the policy brief. On average, taxes on goods and services – which includes VAT, sales taxes, and excise duties – account for 44.5% of total tax revenues in middle-income economies, almost 50% more than their contribution in high-income countries (29.8%). As illustrated in Figure 5, tax revenues from goods and services represented a slightly larger proportion of total tax revenues in LMICs (46.2%) than in UMICs (43.1%). There were significant variations between these sub-groups, ranging from 30.4% in Costa Rica to 56.9% in the Cook Islands, and from 32.2% in Nigeria to 64.9% in Cabo Verde.¹²

Of the tax revenues received by middle-income countries from taxes levied on goods and services, VAT represents two-thirds of total goods and services revenues, while excise duties contribute

one fifth. Other general taxes on goods and services and other taxes on specific goods and services represent 4.2% and 16.0% of total revenues from taxes on goods and services, respectively. Other taxes on specific goods and services – which includes customs and import duties, and taxes on exports – are often more commonly used in middle-income countries than in high-income countries and therefore provide a larger proportional contribution to revenues from taxes on goods and services (16.0% vs. 7.8%). A similar trend is seen for UMICs and LMICs (11.0% vs. 21.8%), suggesting a correlation between more generalised taxation rules for goods and services as a country's income increases.

Figure 5. Tax revenues from goods and services taxes in low- and middle-income countries, 2020

Consumption taxes as a percentage of total tax revenues



Note: The high-income average reflects the unweighted average of the 34 high-income OECD countries. The upper and lower middle-income country averages are the unweighted averages of the 10 UMICs (Malaysia not included) and 8 LMICs with available data illustrated in Table 1. Revenues are the sum of taxes collected by all levels of government. General goods and services tax revenues refer to tax category 5110, value added tax or general sales tax revenues refer to tax category 5111, specific goods and services tax revenues refer to tax category 5120 and excise tax revenues refer to 5121 under OECD classification of taxes. See Revenue Statistics [Interpretative Guide](#) for more detail.

Source: OECD Global Revenue Statistics Database.

Almost half of the countries covered in the policy brief made changes to the base of taxes on goods and services, but none changed their standard VAT rates

All middle-income countries covered in the policy brief reported that they had kept standard VAT rates at the same level in 2021 as at the end of 2020. A similar trend was seen in high-income countries, where only Germany and Ireland altered their VAT rates in 2021, reversing the six-month reductions in VAT rates that they had introduced in 2020.

Almost half of the middle-income countries covered in the policy brief narrowed their VAT base in 2021. Many countries extended temporary expansions in the scope of their reduced VAT rates from 2020 into 2021 to encourage greater consumption in struggling sectors. For example, **Colombia** made three changes to the sectors to whom reduced VAT rates apply in the calendar year 2021. It added hotels, restaurants, and tourism services to the zero-rate VAT and added airline tickets and related services to the goods and services to which its lower 5% reduced rate is applied. In **Viet Nam**, businesses, and self-employed workers in the accommodation, cultural and sports, hospitality and tourism, and transport sectors were able to benefit from 30% discounts on VAT rates for the last two months of 2021, where they were able to prove a year-on-year decline in activity caused by the pandemic.

Most middle-income countries who had introduced VAT exemptions or waivers on COVID-19-related medical supplies to reduce their cost in 2020, prolonged these into 2021. **Pakistan** introduced a waiver of the General Sales Tax (GST) on the import and supply of COVID-19 related medical items, and **Tunisia** exempted pharmaceutical products imported by the country's Central Pharmacy from VAT. **Kenya** also exempted many health products and technologies from VAT in 2021

A small number of middle-income countries also temporarily expanded the scope of zero rate VAT and VAT-exempt items in the second half of 2021 to support households and businesses facing rising food and energy prices. **Costa Rica** exempted fuel transportation and distribution services from VAT from September 2021, while **Senegal** applied a 0% VAT rate to flour from September 2021 in response to the rise in global food prices.

A small number of MICs also made permanent additions to the scope of reduced rate VAT regimes, some of whom cited equity concerns as their principal motivation for changes. **Kenya** reduced the VAT rate on staple foods such as maize. **Mexico** lowered the VAT rate on female sanitary products to zero. Lowering the VAT rate on female sanitary products has become increasingly widespread over the last decade, with Mexico following in the footsteps of Kenya and South Africa, as well as some high-income countries. The equity implications of reducing the rates applied to female sanitary products is more complex than might first appear, however (de la Feria and Walpole, 2020^[29]).

A small number of middle-income countries also narrowed their VAT bases by applying zero or very low rates to certain goods. **Türkiye** lowered the VAT rate on used mobile phones from 18% to 1%, and **Albania** reduced the VAT rates applied to both the supply of agricultural inputs and the compensation rate for agricultural producers to 0%.

Some MICs extended administrative measures implemented during the pandemic to support companies with continued liquidity challenges. In **Cabo Verde**, the government prioritised accelerated tax refunds for companies to support firms facing liquidity difficulties. In **Albania**, the VAT exemption threshold for imported machinery and equipment was raised ten-fold from ALL 50 million (USD 483 000) to ALL 500 million (USD 4.83 million). **Georgia** introduced a fully automated VAT Refund system so that taxpayers can be credited directly without requesting payment. **Viet Nam** granted extensions of up to five months for VAT payments.

Improving the collection of VAT on digital supplies by non-resident vendors has become critical to VAT strategies in low- and middle-income countries. In 2021, a small number of MICs reported the adoption, or announced the forthcoming adoption, of [OECD standards on the collection of VAT on digital supplies by non-resident vendors](#). These countries included **Kenya, Nigeria, Ukraine, and Viet Nam**. The scope of transactions covered by these new rules and the applicable VAT rate varies across these countries, but all countries now apply the same rate for wholly domestic and non-digital supplies.

Excise taxes are an important component of low- and middle-income countries' taxes on goods and services

Excise taxes continue to offer a powerful tool in raising revenues and encouraging behavioural change. Excise taxes can cover a wide range of products, but those that are common in most countries and raise significant revenues for governments are excise duties on alcohol, tobacco, and fossil fuels. In recent decades, governments have increasingly used these taxes not only to raise revenues, but also to influence behaviours and deter harmful consumption (see Box 4). This sub-Section covers non-energy excise duties (for environmentally related excise duties, see the following section).

Excise duty increases were common amongst low- and middle-income countries in 2021, especially on tobacco products. Countries that raised the excise duty burden commonly cited raising revenues and improving health as the key reasons as their principal motivations. Increases in excise duty rates on tobacco products were reported in **Albania, Armenia, Cabo Verde, Kenya, South Africa, Türkiye** as well as seven high-income countries. **Armenia** also noted that excise duties on tobacco products would be indexed to inflation from 2022 onwards, while **Peru** announced plans to tax tobacco substitutes from mid-2022, with further rate increases scheduled for the following three years in line with inflation. Contrary to this general trend, **Togo** reduced the excise duty on tobacco products in 2021 to better align its rates with other countries in the region, following several years of progressive increases.

Increases in excise duties on alcohol were less common than for tobacco. Increases in excise duties on alcohol were reported in **Armenia, South Africa** and **Türkiye** in 2021. Taxes on soft drinks continue to be an area of interest for countries. **Nigeria** introduced a new excise duty of NGN 10 (USD 0.03) per litre on non-alcoholic, carbonated, and sweetened beverages in 2021. **Senegal** extended its tax on edible dietary fats (depending on the product, the rate imposed is either 10% or 15%). **Cabo Verde** also introduced an excise duty exemption for products that are intended to be consumed for sanitary purposes.

Kenya changed excise taxes on several products and services in 2021. Excise duty rates were increased for imported sugar confectionary, commission on loans, services related to betting and lotteries, furniture products and several food items; rates were decreased for telephone and internet data services; and a new excise duty was introduced for jewellery and plastic items. To encourage regional trade, excise duties are not imposed on most goods from countries belonging to the East African Community.

A small number of countries extended measures to ease the administrative requirements of paying excise taxes from the pandemic into 2021. **Viet Nam**, for example, temporarily extended the deadline for paying excise tax on domestically manufactured and assembled cars to support the struggling sector.

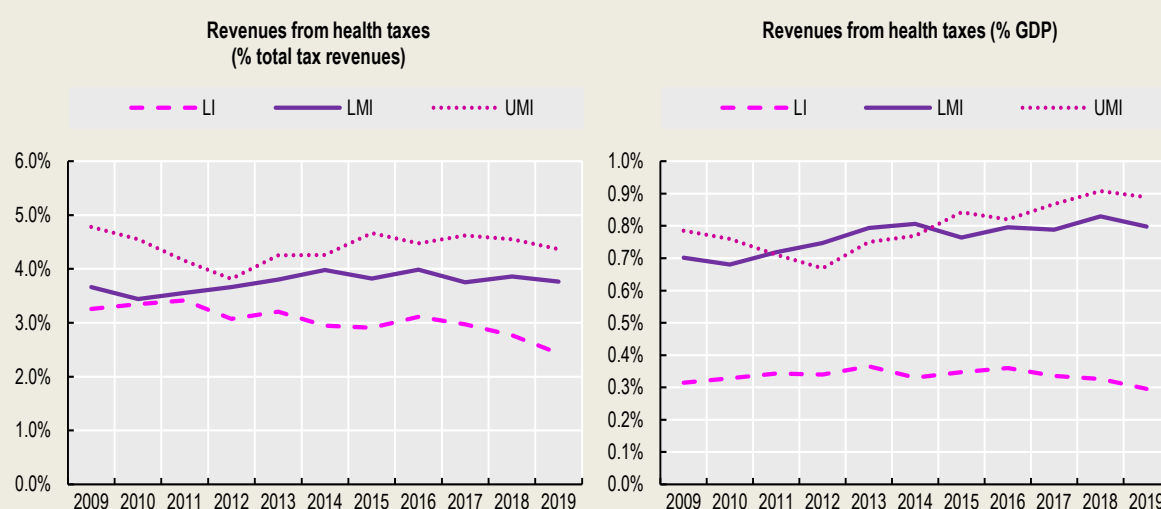
Box 4. Health Tax Design in Low- and Middle-Income Countries

Health taxes are imposed on products whose consumption is deemed harmful to health

Excise duties on tobacco and alcohol have a long history across the world, and taxes on sugar-sweetened beverages (SSBs) have become increasingly common in recent years. As of September 2021, 15 middle-income countries had implemented such taxes, and a growing number of countries are considering similar measures as evidence of the negative health effects of unhealthy diets has become more prevalent and recent evaluations highlight how the introduction of health taxes can be successful (South Africa, for example). Adoption of taxes on foods high in sugar, salt and fat remains very limited.

Across the 32 low- and middle-income countries where data is available, health tax revenues accounted for 3.3% of total tax revenues and 0.6% of GDP on average in 2019. Health taxes contribute to a slightly larger share of total tax revenues than in high-income countries (2.4%), but a slightly smaller share of GDP (0.8%). Revenues from health taxes are on average higher for UMICs (3.9% of total tax revenues, 0.8% of GDP) than LMICs (3.2% of total tax revenues, 0.6% of GDP) and low-income countries (2.7% of total tax revenues, 0.4% of GDP).

Figure 6. Revenues from health taxes



Notes: Detailed information is not available for all countries, and for those countries who are able to provide complete information, it is likely that health tax revenues are underestimated due to insufficient decomposition of components. See Brys, Colin and De Melo (2023^[30]) for an in-depth discussion.

Source: OECD Global Revenue Statistics Database

Scope exists to strengthen the role of health taxes

Many countries could increase the rates and broaden the base of the health taxes they currently levy on unhealthy consumption. Scope exists to enlarge the base by taxing other goods that are unhealthy when consumed excessively (such as foods high in sugar, salt, and fat) or the inputs that are used in the production of these unhealthy consumption goods. Since the beginning of the COVID-19 crisis, several countries have (or are) considering increasing the role of health taxes to help restore public finances and/or finance healthcare systems, such as Bangladesh, Egypt, Fiji, Ghana, India, Indonesia,

Kazakhstan, and Nigeria. Measures range from the introduction of COVID-19 specific fee on tobacco or alcohol products, introduction of new taxes (such as on SSBs) or increases in health tax rates.

Health taxes can be a part of countries' health protection and promotion policies

Earmarking a proportion of the revenues from health tax revenues to specific health programmes or general governmental health spending can support health protection and promotion policies. While earmarking tax revenues entails many disadvantages and is often considered not to be first best, earmarking health tax revenues to broad health-related spending could be considered in certain cases, in particular if the health tax revenues are only a small component of total health expenditure (i.e., soft earmarking). Indeed, some countries have a long history of doing so. For example, The Philippines has earmarked revenues from alcohol and tobacco taxes to finance universal health care and health programmes since 2012. Revenues from SSBs and e-cigarettes taxes have also been allocated similarly, more recently. Thailand hard earmarks a portion of its tax revenues from tobacco, alcohol and SSBs for financing the Thai Health Promotion Foundation.

Environmentally related taxes



Source: Shutterstock/Fahroni

Environmentally related taxes aim to increase the cost of polluting products or activities, which discourages their consumption and production. Environmentally related taxes can therefore cover a broad range of areas including agrochemicals, energy, road use, vehicles, waste, water abstraction and water pollution. Among these, taxes on energy use, in particular fuel excise and carbon taxes, can be particularly effective tools to reduce emissions of greenhouse gases (OECD, 2022^[31]).

Changes to environmentally related taxes were uncommon in low- and middle-income countries in 2021. Five of the 26 countries covered by the policy brief made changes to tax bases of environmental relevance. Indonesia announced the introduction of a carbon tax for 2022, while South Africa and Ukraine increased the rate of their existing carbon taxes. Albania and South Africa raised fuel excise duties, Ukraine broadened the tax base for rents from the use of subsoil for the extraction of minerals, and Viet Nam temporarily reduced its registration fee rate.

Similar to high-income countries, the degree to which low and middle-income countries deploy environmentally related taxes varies widely and effective carbon prices remain low. Furthermore, rising energy prices led many countries to lower energy taxes towards the end of 2021.

South Africa raised its carbon tax rate by 5.2% at the start of 2021, increasing the rate from ZAR 127 per tonne of carbon dioxide equivalent (approximately USD 8.6) to ZAR 134 (approximately USD 9). This change was part of a pre-defined annual revision, by inflation plus 2%. Fuel excise levies were also increased for 2021. Fuel excise taxes were increased by ZAR 0.01 to ZAR 0.08 (equivalent to USD 0.005) per litre for petrol and ZAR 0.09 (USD 0.006) per litre for diesel from 7 April 2021, while the general fuel and Road Accident Fund levies were raised by a combined ZAR 0.26 per litre of fuel (approximately USD 0.02) at the beginning of the calendar year. **Albania** announced that it would equalise the excise duty on liquefied petroleum gas by mid-2022.

Ukraine tripled the rate of environmental tax for CO₂ emissions starting in 2022, from UAH 10 per tonne of carbon dioxide equivalent (approximately USD 0.4) to UAH 30 (approximately USD 1.1). An environmental tax of UAH 0.2 per tonne of CO₂ was introduced in 2011 (equivalent to USD 0.03) with the aim of reducing greenhouse gas emissions and raising tax revenues. Ukraine also implemented several base broadening measures to its taxes on mineral extraction. These changes included reclassifying which raw materials are taxed so that they are better aligned with industry standards and introducing different tax rates for rents on the use of subsoil for the extraction of iron ore (based on official price data).

Viet Nam temporarily halved its vehicle registration fee for six months between December 2021 and May 2022. This measure was aimed at stimulating consumption in the transport industry, which experienced a notable fall in output due to the COVID-19 pandemic.

Box 5. Indonesia's Carbon Tax

Indonesia passed the Law on the Harmonization of Taxation Regulations in October 2021, within which it introduced a carbon tax. The tax will be payable on the purchase of “goods containing carbon” and on activities that produce greenhouse gas emissions. The revenue generated from the carbon tax may be used to finance the country’s climate change mitigation and adaptation activities through the national budget. The carbon tax was initially due to enter into force from 1 April 2022, but this date was postponed until 1 July 2022 to facilitate the implementation of the tax.

The minimum carbon tax rate is set at IDR 30 per kilogram of CO₂ equivalent (approximately USD 2.4 per tonne), less than half of the originally proposed rate of IDR 75 (Ministry of Finance, 2021). While low, according to the law, the tax rate will be set to be “higher than or equal to the carbon market price per kilogram of carbon dioxide or its equivalent”, when the cap-and-trade carbon emissions trading system will be operational. For the initial phase beginning in 2022, the carbon tax will apply to coal power plants only. The carbon tax will be levied on the amount of emissions that exceeds a given cap, based on intensity criteria depending on the power plant size. Starting from 2025 onwards, the full implementation of the carbon trading system and an expansion in the number of sectors that are subject to the carbon tax will be considered depending on several factors, including economic conditions, the readiness of actors and impact assessments.

Indonesia is the fourth Asian country to implement a carbon-pricing mechanism, after China, Japan, and Korea. Other middle-income countries in the region, such as Thailand and Viet Nam, are also considering implementing an emission trading system.

Property taxes



Changes to taxes on property were relatively rare among the low- and middle-income countries covered by the policy brief in 2021. Argentina, Nigeria, Peru, and Ukraine were the only countries to report changes to taxes on property among the 26 countries that responded to the OECD's annual tax policy reform questionnaire. These countries noted that the reforms intended to raise revenues and address equity concerns. The relatively limited contribution of property tax revenues to total tax revenues – 3.2% on average across middle-income countries (see Figure 7) – and limited data available on cadastral registers may indicate why property tax reforms among low- and middle-income countries were uncommon in 2021. On average, UMICs receive a greater proportion of total tax revenues from taxes on property than LMICs (4.8% vs. 1.9%), with the majority of revenue derived from recurrent taxes on immovable property and taxes on financial and capital transactions (2.2 p.p. and 2.0 p.p. vs. 1.6 p.p. and 1.6 p.p., respectively).

In comparison, over a quarter of high-income countries introduced property tax reforms in 2021. Most high-income countries increased property tax rates: seven high-income countries altered transaction taxes, two reformed their recurrent immovable property taxes and one altered their wealth tax. Most measures sought to address inequities in the housing market by targeting individuals or entities who use properties predominantly as an investment vehicle, as well as higher net worth individuals.

Argentina made changes to its existing net wealth taxes to increase the tax burden on the wealthiest. Argentina increased the progressivity of its wealth tax schedule by including two additional bands at the top. Prior to 2021, net wealth over ASR 18 million (USD 189 492) was uniformly taxed at a rate of 1.25%. However, two net wealth tax bands were created in 2021. Net wealth between ASR 100 million (USD 1 052 734) and ASR 300 million (USD 3 158 202) is now taxed at 1.5%, while net wealth above ASR 300 million is taxed at 1.75%. While the reform has increased the tax burden on those with assets greater than ASR 100 million, it has also narrowed the wealth tax base by raising the tax-exempt threshold and by introducing additional exemptions.

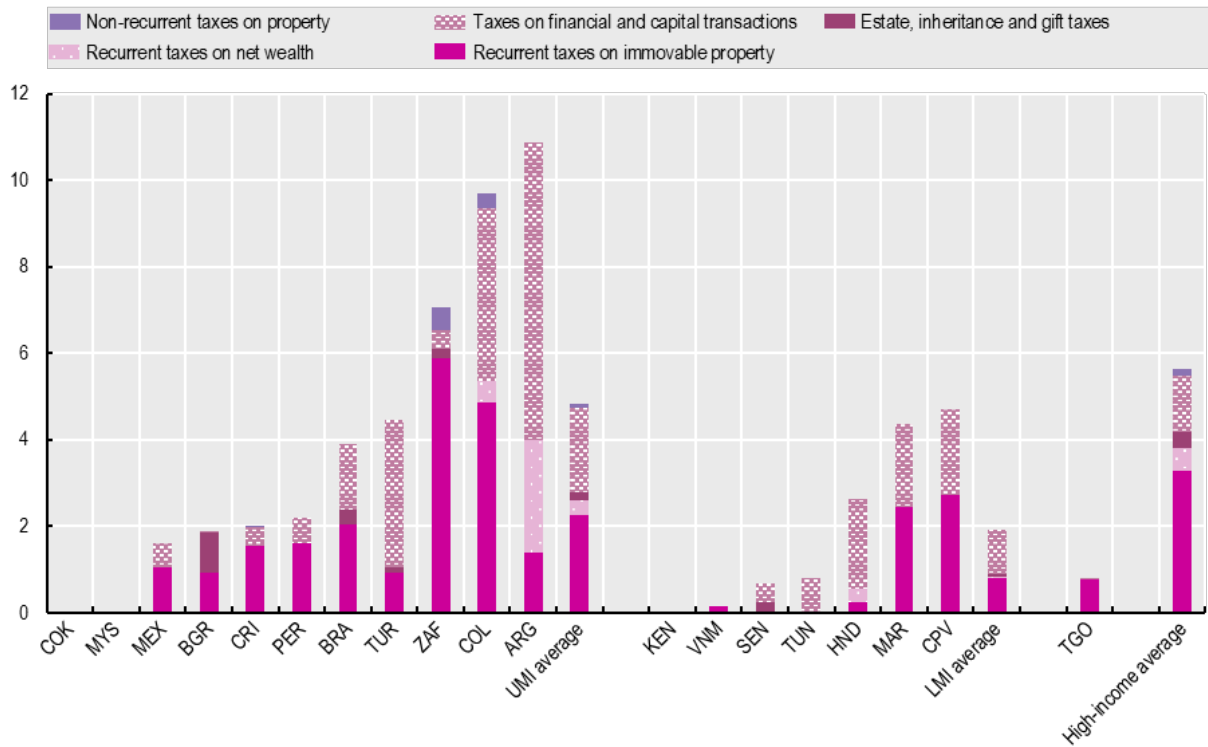
Peru introduced a temporary business wealth tax on net assets in 2021. Peruvian corporations were obliged to pay a wealth tax equal to 0.4% of the value of total net assets worth over PEN 1 million (approximately USD 258 000). The wealth taxes paid acts as a credit that can be offset against a company's advanced income tax payment or its annual income tax regularization payment. Any remaining balance has to be paid to the Tax Administration.

Argentina and Nigeria both broadened their property tax base. Argentina broadened the base of its tax on debits and credits on bank accounts to include transactions related to crypto assets and crypto currencies. A 0.6% tax is now levied on crypto exchanges carried out by intermediaries located in the country. The taxation of crypto assets, crypto transactions and income derived from crypto exchanges has become an increasingly important topic on MIC governments' policy agendas in recent years, and more tax policy reforms on crypto assets can likely be expected in the coming years. In **Nigeria**, policy makers removed an exemption to the capitals gain tax. A capital gains tax of 10% will now apply on gains from the disposal of shares where the proceeds are NGN 100 million (approximately (USD 247 800) or above in any 12 consecutive months. Exemptions apply where proceeds are re-invested in the shares of any Nigerian company.

Ukraine introduced a new property transaction tax from 2022. A transactions tax will apply to a third and more of the value of the sale of real estate assets. A rate of 18% PIT will be applied. This rate does not apply to the sale of inherited property, however.

Figure 7. Tax revenues from property taxes in low- and middle-income countries, 2020

Property tax revenue as a percentage of total tax revenues



Note: Data is not available for Nigeria. The high-income average reflects the unweighted average of the 34 OECD high-income countries. The upper and lower middle-income country averages are the unweighted averages of the 11 UMICs and 8 LMICS illustrated in Table 1, respectively. Revenues are the sum of taxes collected by all levels of government. Recurrent immovable property tax revenues refer to tax category 4100, recurrent net wealth tax revenues refer to tax category 4200, estate, inheritance, and gift taxes refer to tax category 4300, financial and capital transaction tax revenues refer to tax category 4400 and non-recurrent property tax revenues refer to tax category 4500 under the OECD classification of taxes. See Revenue Statistics [Interpretative Guide](#) for more detail.

Source: OECD Global Revenue Statistics Database.

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Notes

¹ See [World Bank Country and Lending Groups](#), last updated 1 July 2022. The tax policy reform questionnaire collects information from country delegates to the OECD on the tax policy reforms that were implemented, legislated, or announced in their country during the specified calendar year. The agreed criteria for reporting tax policy reforms include: (i) any change in the rates of the main tax categories (PIT, CIT, SSC, VAT) or any significant change in the rates of the other tax categories; (ii) a change in the tax base that is expected to change revenue from that base by more than 5% of total tax revenue or 0.1% of GDP; and (iii) any politically important systemic reform.

² The 34 high-income OECD member countries are used as a proxy for high-income countries to enable comparisons with the 26 middle-income countries that responded to the OECD's annual tax policy reform questionnaire. This applies for macroeconomic, tax revenue and tax policy comparisons made throughout the policy brief.

³ Average tax revenue statistics used in this policy brief for upper middle-income countries refer to the unweighted average of the following 11 countries: Argentina, Brazil, Bulgaria, Colombia, Cook Islands, Costa Rica, Malaysia, Mexico, Peru, South Africa, and Türkiye. Average tax revenue statistics for lower middle-income countries refer to the unweighted average of the following eight countries: Cabo Verde, Honduras, Kenya, Morocco, Nigeria, Senegal, Tunisia, and Viet Nam. Average tax revenue statistics for middle-income countries refer to the unweighted average of these 19 countries. The high-income country average represents the unweighted average of the 34 high-income OECD member countries.

⁴ The exchange rate used generally reflect the [OECD conversion rates](#) (national currency per US dollar, purchasing power parity). Where country exchange rate data is not available from the OECD, the [World Bank official annual exchange rate](#) has been used (local currency units per US dollar, purchasing power parity).

⁵ Other taxes on income for the self-employed and unincorporated businesses include VAT, natural resources tax, and environmental protection tax arising from business activities.

⁶ “*Djia City*” is a special legal and tax regime that aims to create favourable investment conditions for the development of Ukraine's digital economy and IT sector.

⁷ For assets repatriated to Colombia before 31 December 2022 and kept in the country for two years, the tax rate will be reduced to 8.5%. The law also states that 50% of the normalization tax due must be paid in advance in the 2021 fiscal year.

⁸ Not all firms were subject to this 25% CIT rate, however. From the start of 2021, Türkiye lowered the corporate income tax rate by 2 percentage points for five accounting periods (from the accounting period

of their initial public offering) for corporations whose shares are offered to the public for the first time to be traded on the Borsa Istanbul Equity Market, and who are subject to a corporate tax rate of at least 20%. For details on non-qualified companies see note 12 at the end of the third chapter of OECD (2022^[3]).

⁹ Taxable earnings below MYR 600 000 (approximately USD 145 000) are subject to a CIT rate of 17% for resident companies with paid-up capital of MYR 2.5 million or less, gross income of MYR 50 million or less and that does not control or is not controlled by another company with paid-up capital of more than MYR 2.5 million. A CIT rate of 24% is applied for all taxable earnings above MYR 600 000, and for all taxable earnings of non-resident companies and resident companies that do not meet these criteria.

¹⁰ Earnings is defined as earnings before interest, taxes, depreciation, and amortization (EBITDA).

¹¹ Also known as Goods and Services Tax, under the acronym GST in a number of countries.

¹² The range comparisons for UMICs and LMICs do not include Malaysia and Nigeria, respectively, due to the large contribution of corporate income tax to total tax revenues in both countries. See section on Corporate income tax for more detail.

Tax Policy Reforms in Low- and Middle-Income Countries

POLICY BRIEF

This policy brief reviews the tax policy reforms introduced by low- and middle-income countries that responded to the 2022 edition of the OECD tax policy reform questionnaire. It covers tax reforms that were announced, legislated, and implemented in the calendar year 2021 for the following 26 countries: Albania, Argentina, Armenia, Bosnia and Herzegovina, Brazil, Bulgaria, Cabo Verde, Colombia, the Cook Islands, Costa Rica, Georgia, Honduras, Kenya, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, Senegal, South Africa, Togo, Tunisia, Türkiye, Ukraine, and Viet Nam.



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