



A More Detailed Look at Taxes and Growth

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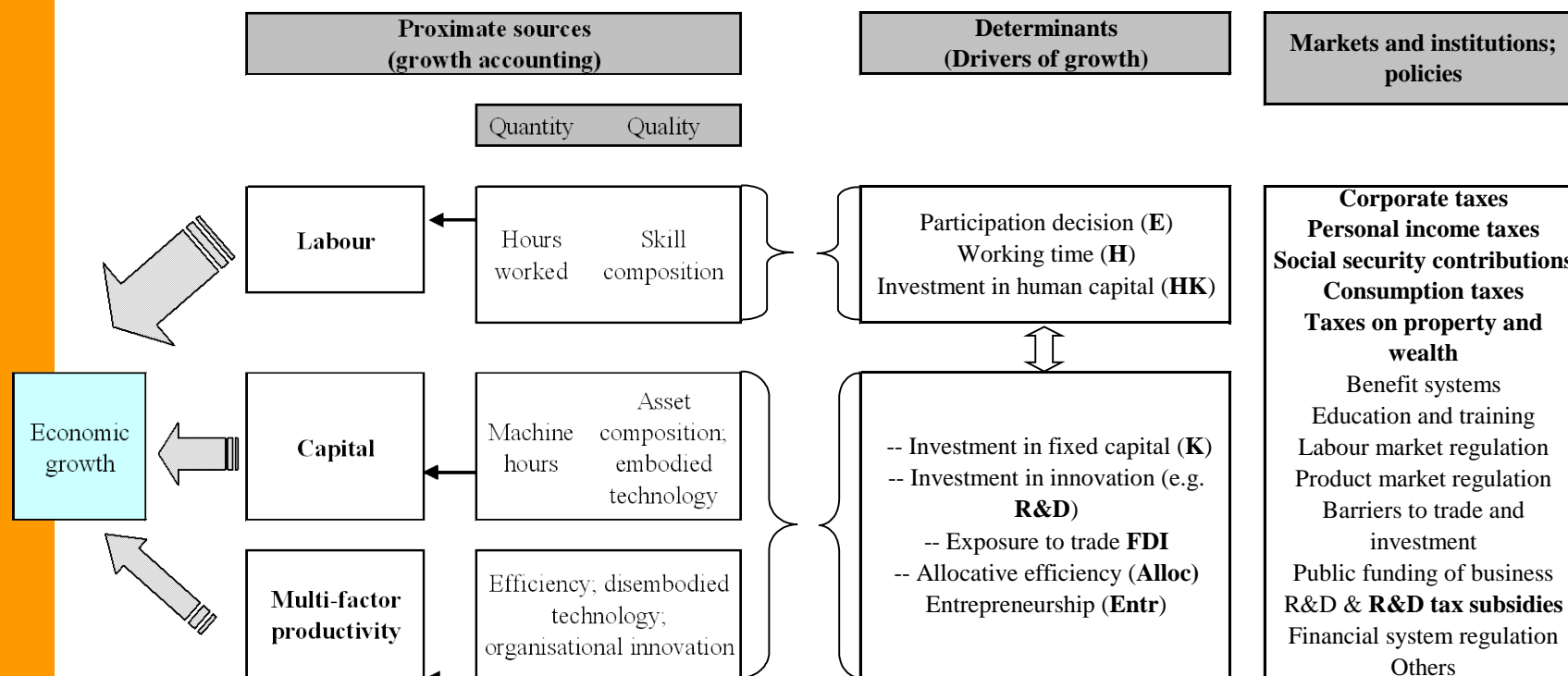
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Today's presentation

- How the tax system affects growth
- Aims of the OECD Tax and Growth Study
- The OECD tax and growth ranking
- The relevance for non-OECD countries
 - Is total revenue more important than tax mix?
 - Are border taxes the most harmful to growth?
 - Are distributional effects different?
- Concluding questions

Tax systems and growth



Aims of the OECD study

- Does the tax structure, as opposed to the level of taxes, matter for GDP per capita and its rate of growth?
- To what extent do different tax provisions affect investment and productivity (TFP)?
- To answer these questions, the study analysed how changes in tax structure in OECD countries affected investment, productivity growth and GDP per capita

The tax and growth ranking 1

- **Recurrent taxes on immovable property** can offset other tax preferences and improve capital allocation
- **Taxes on property transactions** also offset other tax preferences but discourage reallocation of housing – and labour
- **Other property taxes** can also distort capital allocation and savings

The tax and growth ranking 2

- **Consumption taxes** can affect labour supply, while excises and border taxes can distort production, but VAT is mainly non-distortionary
- **Personal income taxes** are more harmful because they are more progressive (marginal tax > average tax) and because they discourage savings

The tax and growth ranking 3

- **Corporate taxes** are most harmful as they discourage investment and productivity improvements. They also reduce foreign direct investment and increase compliance costs. Finally, corporate taxes often have a large number of distortionary tax preferences for particular activities, distorting the allocation of resources

Is total revenue more important for non-OECD countries?

- OECD countries generally have much higher tax to GDP ratios than non-OECD countries
- So, in non-OECD countries, lack of government revenue to finance investment in education, healthcare and infrastructure may be a major barrier to increased growth.
- So, increasing revenue could be more important than improving the tax mix

Are border taxes the worst for growth?

- OECD countries raise very little revenue from border taxes
- Non-OECD countries continue to raise large revenues from these taxes despite reductions in tariffs
- Are border taxes more harmful to growth than corporate taxes in non-OECD countries?

Equity in non-OECD countries

- In OECD countries, a move from income to consumption taxes is seen as regressive
 - But property taxes can be slightly progressive
- Are things different in non-OECD countries?
 - Is it harder to use social expenditures to reduce inequality?
 - Are income taxes really progressive?
 - Are consumption taxes really regressive?
 - What role could there be for property taxes?

Concluding questions

- Are the links between tax and growth different in non-OECD countries?
 - Is total revenue a the main issue?
 - Are borders taxes the worst for growth
- Is the trade-off between growth and equity different in non-OECD countries?
 - Are income taxes so progressive?
 - Are consumption taxes so regressive?
 - Do property taxes have a role?