An International Perspective on US Tax Reform and OECD Work to Promote International Tax Standards

Tax Foundation/ Congressional Staffers Briefing

By Jeffrey Owens and Mary Bennett
OECD Centre for Tax Policy and Administration

5 June 2006
Washington
PART I
Tax Revenue as % GDP (2004)

Note: Countries have been ranked by their total tax to GDP ratios.
*) 2003 figures
**) IMF data, for China and India data cover only Central government
Change in tax as % of GDP

1975 to 2004

Countries ranked by their change in tax as % of GDP
*) Series start with earliest data available
**) 2003 figure

*) IMF Data, central government. For Singapore PIT and CIT are aggregated
VAT – Tax rates and revenues\(^1\) (2003)

1) Countries ranked from highest VAT standard rate to lowest rate

*) IMF data, Central government only
Top personal and corporate tax rate

Countries ranked from lowest CIT rate to highest rate
Includes Central, State and Local taxes, except for China, India and Singapore
Top Statutory Marginal Tax rates on Dividend Income

Countries ranked by highest actual top marginal tax rate on dividend

*) 2004 Figures

**) 2004 KPMG and IBFD
The tax wedge – income tax and social security contributions as % of labour costs

Single individual at average earnings

2004

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How does the US Tax System Compare to other leading economies?

<table>
<thead>
<tr>
<th>Country</th>
<th>TAX / GDP</th>
<th>% OF TOTAL TAX REVENUES</th>
<th>% PIT</th>
<th>% CIT</th>
<th>% CONSUMPTION</th>
<th>TOP PIT RATE</th>
<th>CIT RATE</th>
<th>TAX WEDGE</th>
<th>TOP RATE ON DIVIDENDS</th>
<th>STANDARD VAT RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>31.6</td>
<td>38.5</td>
<td>16.7</td>
<td>29.7</td>
<td>29.7</td>
<td>48.5</td>
<td>30</td>
<td>28.6</td>
<td>48.5</td>
<td>10</td>
</tr>
<tr>
<td>Canada</td>
<td>33</td>
<td>34.6</td>
<td>10.4</td>
<td>26.1</td>
<td></td>
<td>46.4</td>
<td>36.1</td>
<td>32.3</td>
<td>56.1</td>
<td>7</td>
</tr>
<tr>
<td>France</td>
<td>43.7</td>
<td>17.5</td>
<td>5.7</td>
<td>25.5</td>
<td></td>
<td>55.7</td>
<td>35.4</td>
<td>47.4</td>
<td>57.3</td>
<td>19.6</td>
</tr>
<tr>
<td>Germany</td>
<td>34.6</td>
<td>23.5</td>
<td>3.5</td>
<td>29.4</td>
<td></td>
<td>47.5</td>
<td>38.9</td>
<td>50.7</td>
<td>52.4</td>
<td>16</td>
</tr>
<tr>
<td>Italy</td>
<td>42.2</td>
<td>25.1</td>
<td>6.6</td>
<td>25.7</td>
<td></td>
<td>46.1</td>
<td>33</td>
<td>45.7</td>
<td>44.8</td>
<td>20</td>
</tr>
<tr>
<td>Japan</td>
<td>25.3</td>
<td>17.5</td>
<td>13</td>
<td>20.3</td>
<td></td>
<td>50</td>
<td>40.9</td>
<td>26.6</td>
<td>64.5</td>
<td>5</td>
</tr>
<tr>
<td>Korea</td>
<td>24.6</td>
<td>12.7</td>
<td>15.3</td>
<td>37.1</td>
<td></td>
<td>39.6</td>
<td>29.7</td>
<td>16.6</td>
<td>48.7</td>
<td>10</td>
</tr>
<tr>
<td>New Zealand</td>
<td>35.4</td>
<td>41.9</td>
<td>13.6</td>
<td>35.2</td>
<td></td>
<td>39</td>
<td>33</td>
<td>20.7</td>
<td>39</td>
<td>12.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>36.1</td>
<td>28.7</td>
<td>7.8</td>
<td>32.7</td>
<td></td>
<td>40</td>
<td>30</td>
<td>31.2</td>
<td>47.5</td>
<td>17.5</td>
</tr>
<tr>
<td>United States</td>
<td>25.4</td>
<td>35.3</td>
<td>8.1</td>
<td>29.7</td>
<td></td>
<td>41.6</td>
<td>39.3</td>
<td>29.6</td>
<td>50.8</td>
<td>8.4</td>
</tr>
<tr>
<td>China</td>
<td>17.6</td>
<td>6.7</td>
<td>13.7</td>
<td>64.3</td>
<td></td>
<td>45</td>
<td>33</td>
<td>-</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>India</td>
<td>15.7</td>
<td>17.5</td>
<td>20.5</td>
<td>42.3</td>
<td></td>
<td>30</td>
<td>35</td>
<td>-</td>
<td>22</td>
<td>12.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>13.8</td>
<td>46.5</td>
<td>38.3</td>
<td>22</td>
<td></td>
<td>22</td>
<td>20</td>
<td>-</td>
<td>48</td>
<td>5</td>
</tr>
</tbody>
</table>
The US: A low tax – high tax country?

Overall tax burden low for developed country

Stable since 1975, but 4.5% fall in last five years

Relative high reliance on income taxes & low on consumption taxes

Tax administration increasingly effective

High CIT & PIT rates offset by tax reliefs
A fairer tax system:
- Similar treatment for similarly placed taxpayers (horizontal equity)
- Achieve desired allocation of tax burden by income level (vertical equity)
- Improved compliance

An efficient and competitive tax system:
- Promoting a competitive and flexible fiscal environment
- Making work, savings and investment pay

A simpler tax system:
- Reduce compliance costs for taxpayers
- Reduce administrative costs for tax authorities
Main characteristics of Tax Reform

- Lower tax rates; broader tax bases
- Move towards flatter personal income taxes
- Relief for taxation of dividend income
- Integrate social benefits into the tax system (earned income tax rates)
- Change in mix of income and consumption taxes (VAT)
- Reduction in complexity
- Introduction of environmental related taxes

The end game: low rate, broad base tax system with good taxpayer service and compliance
Successful tax reform requires administrative reform

- Tax administrations face challenges due to globalisation
  - Proliferation of tax shelters and abuse of tax havens
  - Changing attitudes towards compliance

- The response of OECD tax administrations
  - Move to integrated tax administrations
  - Administration by segment/function rather than by type of tax
  - Move to cumulative withholding and information reporting
  - Improved risk management
  - Better access to information
  - Use of new technologies

- Good compliance requires good taxpayer service and effective reinforcement

- Putting tax compliance on the good corporate governance agenda
Key elements for successful tax reform: experience of OECD countries

- Political champions who can mobilise popular support
- Clear and well-articulated principles
- A package approach, with gains and pains intricately linked
- Policy reform matched by administrative reform
- Limited time between announcement and full implementation
- Transition rules matter
- Education and guidance package available from Day One
PART III
The OECD initiative to counter offshore tax evasion

- The challenge: How to protect the revenue base?
- The response of OECD governments
  - Create a cooperative framework
  - Develop with offshore centers high standards
  - Follow US lead of negotiating tax information exchange agreements
- May 2006 survey shows that most of the 82 financial centers measure up well against the transparency/EOI standards
- Nevertheless further progress is required:
  - Cyprus, Hong Kong, Malaysia, Philippines and Singapore will only provide information if their own taxes are at stake
  - Only Andorra, Cook Islands, Samoa and Switzerland apply the principle of dual incrimination for tax purpose
  - Anguilla, Monserrat, Panama Turkey and Caicos have very limited powers to obtain information in both criminal and tax matters
  - Excessive bank secrecy needs to be relaxed for tax purposes in 20 plus countries
Agreement on the Models, Guidelines, and Best Practices
Monitoring their implementation
Providing a framework for resolving tax disputes
Extending the dialogue to developing countries and economies in transition