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State Interventionism in Tax System - Example of Action in a COVID-19 Crisis

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ABSTRACT

The following article presents and classifies changes in tax systems of selected countries as well as counts them as the response to the emergence of the crisis caused by the COVID-19 pandemic. Such actions were undertaken the context of state interventionism in the tax system. In order to achieve the objective of presenting the state interventionism in the context of tax rates, an analysis of the literature on the phenomenon described, as well as specialised industry reports, were analysed.

Among the research methods used are literature studies as well as review and an analysis of reports published by the OECD that dealt with the subject described and analysed in the paper.

The article focuses on the presentation of the change in the individual tax burden in the countries selected for analysis. It also focuses on the presentation of tax interventionism as an opportunity for the state to influence the economy against the negative effects of the crisis. It should be noted that crises and crisis situations play an crucial role in the economic life of a country, but their course and ultimate consequences depend on the measures taken by individual countries to reduce the negative effects of their outbreak. The COVID-19 pandemic had a significant impact on changing the macroeconomic perspective and situation of many countries around the globe. The pandemic outbreak had also a negative impact on the functioning of companies (especially SME sector). As a result, governments have decided to introduce various relief measures, including changes in the functioning of tax systems. This should be considered as the state interventionism.

Keywords: *taxation system, interventionism, state, crisis, COVID-19*

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1. Introduction

The role, importance and scope of state activity in the economy is one of the important issues in economics and contemporary economic policy. The state is an active player in economic life (Gwiazdowski, 2007). Through its decisions (both market and regulatory), it influences the actions that are taken by individual participants. The state is also a unique participant that takes part, and collects part of the money flowing through the market, mainly through the tax system and other compulsory payments (fees or social security contributions for instance).

The state and its influence on most economic processes, sometimes generates controversial economic problems that have been known to economists for decades. This state interventionism in the economy has been discussed for years (Kosikowski, 2018). The action called interventionism, in fact, can be done by various methods, from legal regulation to active participation of the state as an enterprise (through state-owned companies for instance). The neoliberal policy that has been operating over the last decades, which resulted in the abandonment of the welfare state, determined the abandonment of all forms of state interventionism, including those related to taxes and the tax system. Currently, there is no single, coherent and fully acceptable socio-economic theory that comprehensively describes the issue of the economic activity of the state (Małecka-Ziembińska, 2012). Among others, there is an opinion in the literature that 'the state constitutes the largest economic actor, an institution that regulates the activity of the other actors' (Markowski, 1992).

As mentioned, the state, carries out a range of activities through its decisions and its market activity (Wolański, 2016). Taxes and the design of the tax system play an important role in this issue. Indeed, taxes are not only an elementary source of revenue for the state budget. Taxation issues play an important role in the economy of any state (regardless of the regime or approach to economic freedom), its citizens and the enterprises and institutions that operate in the market. Taxes are cited as the primary instrument of the state's influence on the economy, as they cover all natural and legal persons that operate in the market (Jaszczyński, 2017).

In the era of the COVID-19 virus pandemic, national governments have faced a number of challenges. In order to prevent negative consequences of an economic nature, particular countries have opted for a number of measures to support the slowdown of the economy. These mechanisms include *inter alia* direct subsidies, temporary exemptions from tax obligations, deferrals or payment of tax in instalments (IPiSS , 2021; Janecki, 2022). The analysis presented in this article focuses on aspects related only to changes in the rates of individual taxes, which were in principle intended to have the indirect character of state interventionism, but direct in its consequences. The paper does not cover statistical approach as well as the economic consequences of the particular actions. Such approach was decided mainly because of the short period after the outbreak of the crisis as well as the fact that is impossible to clearly evaluate the results of the decisions made by analyzed governments.

The following paper contains an analysis of literature and specialist reports (OECD). The aim of the research was to present the phenomenon of state interventionism, with particular emphasis on activities related to the tax system. Moreover, the research focused on the analysis of the above-mentioned phenomena during the extraordinary period of crisis, which was caused by the negative effects of the COVID-19 pandemic. The research period covers actions taken by selected (analyzed) countries in the period 2020-2021.

2. Materials and Methods

State interventionism and the tax system

In principle, the situation of businesses is a derivative of state fiscalism, which should be understood as the state's policy defined as its desire to achieve the highest possible budget revenues, which are achieved by imposing successive tax burdens (Wyrzykowski, 2013). However, it should be noted that taxes cannot be levied indefinitely, as this discourages economic activity.

Tax is the basic and one of the oldest categories in economic, fiscal, legal, as well as political and social sciences. It is characterized by a high degree of complexity. State tax policy should therefore lead to a compromise between the fiscal, social and economic objectives of taxation (Ofiarski, 2013). In modern tax systems, pursuing only fiscal objectives is not the right method. Indeed, taxes can have other functions, including, an intervention role in the event of a crisis (Owsiak, 2016).

The tax is imposed unilaterally by a public law entity, i.e. the state. The one-sided nature of the tax means that the entity charged with it has no direct influence on the amount of the benefit. As a result, it is unacceptable to negotiate the tax amount, because the one-sidedness of the tax is a manifestation of the "tax power" of the state authority, and the tax amount is specified in legal regulations (Głuchowski, Patyk, 2011).

As a rule, the higher the level and extent of interventionism and state involvement in the economy, the greater the demand for state public revenue. In turn, if tax preferences (concessions, exemptions, preferential rates or other mechanisms) are an instrument of influence on the economy, they will reduce the level of tax revenues in the short term, but in the long term, due to an expected increase in activity or efficiency, they may contribute to an increase in tax revenues (Małecka-Ziembińska, 2012).

The literature points out that the use of direct and indirect tools to influence entrepreneurs should only be temporary, and that their use is usually linked to the presence of a specific economic situation - e.g. poor economic condition, recession, inflation (Gajl, 1992). It is also noted that if taxes are used for such purposes, then they are an instrument of intervention (Nizioł, 2007), which is why there are suggestions to separate functions of taxes – e.g. the intervention function. In principle, it includes negative instruments in tax constructions of an inhibitory or discriminatory nature (Gajl, 1992).

The intervention function, understood as discouraging or encouraging certain activities (Smoleń, Górniak, 2007). High taxation of given goods or services, aimed at limiting their consumption, may either cause a decrease in the purchase of taxed goods and thus tax revenues (reduction of the fiscal function) or the transfer of transactions of taxed goods to the so-called grey market.

When taking tax measures to combat the effects of the crisis, it seems crucial to properly define the tax structure, mainly the upper tax rates, as exceeding them may be disadvantageous for the taxpayer and the state budget (Szlęzak-Matusewicz, 2008). Continuously raising taxes to increase budget revenues is not economically justified. The relationship between the increase in the tax burden and public revenues was presented by A. Laffer, who formulated the theory that public revenues from taxes increase together with the increase in the fiscal burden, but only up to a certain level (positive correlation), i.e. up to a certain tax rate (Szlęzak-Matusewicz, 2008).

Increasing the tax burden results in decreasing government revenue. Laffer illustrated his theory with a curve that indicates the relationship between an increase in the tax burden and government revenue. The curve presents that once a certain level of tax rates is exceeded, increasing them further can result in a decrease in the tax revenue the state receives.

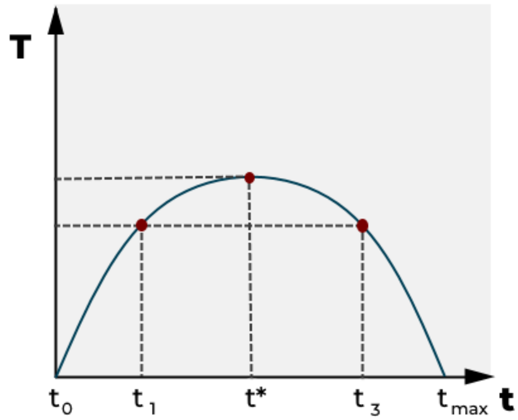

Figure 1.10: Laffer curve.
T → revenue for the state budget
t → tax rate
t* → rate of taxation maximising budget revenue
rates t1 and t3 yield the same budgetary revenue
Source: own elaboration. own based on (Gwiazdowski, 2007)

In order to determine the potential outcome of a change in tax rates, it is very important to determine where the market is on the Laffer curve. Aiming for the maximum may be counterproductive, as exceeding the point results in a drop in revenue that may not be possible to make up for through further tax increases.

The states that were first affected by the 'coronacrisis' had to primarily take measures to protect the population. Over time, however, these also included economic activities (Hologa and Winiarski, 2021). It should be noted, in fact, that in order to reduce the spread of the virus, the governments of individual countries decided on an ongoing basis to introduce further measures that affected the functioning of societies, including, above all, the closure of numerous sectors of the economy (Stawicka, and Stawicki, 2020). It should be noted that even a partial, small, exemption from tax payments can result in a reduction of budget revenues, while the provision of direct grants or loans has resulted in an increase in the level of state expenditure. This is why, careful interventionism policy of the state is needed.

3. Discussion of Findings

Government decisions in the context of tax rates

The primary objective of the actions of individual governments at the beginning of the COVID-19 crisis was to provide basic financial and economic security to citizens in the context of closing economies (Czech and others, 2020).

Among the most important elements are maintaining employment security for workers, maintaining liquidity for companies, strengthening stable financial system, increasing the level of public investment (European Commission, 2020).

A large part of the aid offered by states concerned the granting of tax preferences. A tax preference is any deviation from generally accepted tax rules resulting in a reduction of the final tax burden (Majchrzycka-Guzowska, 2019). The OECD's proposed definition of a tax preference, which recognises it as a transfer of public funds, also emphasises its universality and the lack of a specified recipient (OECD Report: Tax and development, 2022).

The tables below present and summarise the number of changes in each tax, together with the governments' preliminary assessment of the consequences of their application. It has been determined that the impact of the applied changes may have a negative impact on the budget (reduction in revenue), a positive impact (increase in revenue), a neutral impact on the budget or an impact that cannot be estimated at this stage (unspecified).

The first of the analyses concerns changes to the PIT i.e. income tax. This tax, contrary to many opinions, affects not only individuals, but also entrepreneurs who run so-called sole proprietorships. Income tax, can also affect, among other things, the allocation of resources, the creation of consumption and the propensity to take risks. This, in turn, is part of the state's policy of interventionism, i.e. the involvement of power to influence the economy (Stiglitz, 2004).

Table 1. Number of PIT tax changes and their estimated impact on the state budget during the COVID-19 crisis.

Country	Reduction	Increase	Neutral	Unspecified	Total
Austria	3				3
Belgium	4	1			5
Bulgaria			1		1
Croatia	1		2	2	5
Czech Republic	4				4
Estonia	2				2
Finland	6				6
France			1		1
Germany	30			5	35
Greece				4	4
Ireland	4		12	1	17
Italy	15		1		16
Latvia	1		2		3
Lithuania	2				2
Luxembourg	1	2	1	2	6
Netherlands	6	5	1		12
Norway	8	1			9
Poland	7	1	8		16
Slovakia		1	1		2
Slovenia	6		1		7
Spain	3	5		1	9
Sweden	5	4	1	3	13

Switzerland	1			1	2
United Kingdom	2	1	1	1	5
Total	**111**	**21**	**33**	**20**	**185**

Source: compiled from OECD (2022). *Tax Policy Reforms 2022: OECD and Selected Partner Economies*

The highest number of changes in income tax was recorded in Germany - 35 (of which, 30 changes will result in a reduction of tax revenue to the budget). The smallest number of changes was recorded in Bulgaria and France - 1 each. Among the specific mechanisms, which were to facilitate the functioning of enterprises in this period, in terms of PIT, one should mention: extended tax allowances, delayed deduction of losses, extension of the deadline for filing tax returns, increase or reduction of the amount of tax, deferral of tax payment or complete exemption from tax.

Table 2. Number of CIT tax changes and their estimated impact on the state budget during the COVID-19 crisis.

Country	Reduction	Increase	Neutral	Unspecified	Total
Belgium	9				9
Bulgaria			1		1
Croatia			1	1	2
Czech Republic	3				3
Finland	2		2		4
France	2	1	2		5
Germany	4			3	7
Hungary	2				2
Ireland			6		6
Italy	16	1		1	18
Lithuania			1		1
Luxembourg			1	1	2
Netherlands		6	1		7
Norway	3	1			4
Poland	7	2	9		18
Portugal	3	2		3	8
Slovakia	1	1			2
Slovenia	3		1		4
Spain	3	1		2	6
Sweden				2	2
Switzerland	1				1
United Kingdom	2	1	1		4
Total	**61**	**16**	**26**	**13**	**116**

Source: compiled from OECD (2022). *Tax Policy Reforms 2022: OECD and Selected Partner Economies*

In the case of CIT, there were fewer changes compared to those made for PIT taxpayers. The reason may be that CIT payers are a smaller group. In this case, the highest number of changes were proposed by Poland and Italy (18 each). The smallest were Bulgaria, Lithuania and Switzerland (1 each).

A few noteworthy solutions proposed by the various governments are: accelerated tax refunds, tax credits, delayed deduction of losses, extension of the deadline for filing tax returns, tax deferral and full tax exemption.

Table 3. Number of VAT tax changes and their estimated impact on the state budget during the COVID-19 crisis.

Country	Reduction	Increase	Neutral	Unspecified	Total
Austria	1				1
Belgium	2	2			4
Bulgaria	3				3
Croatia	2		2	1	5
Czech Republic	1				1
Estonia	1	1			2
Finland	4				4
Germany	3	1		3	7
Greece				11	11
Hungary	4		1		5
Ireland	2		2	1	5
Italy	1				1
Latvia	1	1	2		4
Lithuania	3	1			4
Luxembourg	1				1
Netherlands	1	1			2
Norway	2				2
Poland	6		1		7
Portugal	1	1	1	2	5
Slovakia	2	1			3
Slovenia	2		1		3
Spain	4	1		1	6
Sweden		1			1
Switzerland	5		1		6
United Kingdom	1	3	7		11
Total	**53**	**14**	**18**	**19**	**104**

Source: compiled from OECD (2022). *Tax Policy Reforms 2022: OECD and Selected Partner Economies*

In the most important, from the point of view of the budget, tax, i.e. value added tax (VAT), the fewest changes were introduced. The number of individual reforms is presented in Table 6. Most of them, as in the case of previous taxes, will, in the opinion of those in power, result in a reduction of tax revenue. The largest number of changes in this tax was proposed by the United Kingdom and Greece - 11 each. The smallest number was proposed by Sweden, Luxembourg, Italy, the Czech Republic and Austria. In these countries, 1 change in VAT was reported, due to the outbreak of the COVID-19 pandemic.

In regards to the specific solutions offered to VAT taxpayers, the following should be mentioned: accelerated refund, extension of the deadline for filing tax returns, deferral of tax payment, tax reduction, total tax exemption.

It should be noted that the activities carried out are consistent with the postulate that taxes are collected mainly for economic and social purposes, in order to implement a specific policy of redistribution and stimulation by the state.
Stimulation was especially needed during the COVID-19 economic crisis. What is more, taxes are an important instrument of necessary state intervention in the economy. Regardless of the diversity of views, it seems that tax rates should be set and the operation of the tax system should be managed in such a way that tax payers do not encounter barriers of unprofitability resulting from tax burdens. Allocation made through the market mechanism becomes ineffective when at least one of the indicated reasons occurs. Therefore, state intervention may be justified by the desire to eliminate the sources of market failure or to minimize the effects of such failure (Bator, 2012).

4. Conclusions

The tax system cannot be built for current needs, especially political ones (excluding significant, unpredictable changes - e.g. violent economic and political crises or armed conflicts). It must take into account the fact that the state role is to support and stimulate economic development, as well as enable citizens to consume the income they earn (the risk of excessive taxation of society's assets and income). However, the crisis caused by the outbreak of the COVID-19 pandemic has become one of such situations i.e. to temporary change the tax system in order to influence the economy. Governments often use this mechanism in crisis situations to stimulate the economy, and there is no novelty about that. Nonetheless, it was one of the extraordinary periods in which such mechanism could be used in practice by more than one country (actually by vast majority of well developed countries).
The issue of confirming state intervention is one of the basic points of discussion among economists regarding the role of the state in the economy. The need for state intervention is therefore a subject of discussion among economists because it takes into account the questioning of the existence of market failures and the belief that state actions are also ineffective.
In contemporary economic theory, there is no controversy over the mere presence of the state in economic and social life. There is, however, a question about the extent and nature of this presence, and the methods of interventionism - in this case taxation - used.
The COVID-19 pandemic had an impact on changing the macroeconomic environment of individual countries, which in turn had a negative impact on the operation of businesses. As a result, governments have decided to introduce various relief measures, including, changes in the operation of tax systems.
It should be noted that the countries analyzed in the article pursued a broad policy of interventionism in the economy. A manifestation of this policy was, among others, interference with tax rates. It can be noted that, as a rule, there is no clear attitude of the analyzed countries. The governments examined both raised and lowered individual tax rates. Thus, they experimented with the optimal level of taxation.
The tools of interventionism are used to obtain the right attitudes of economic entities, which are to lead to achieving a state of sustainable development (Wincewicz-Bosy, 2009).

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