



# Taxation in COVID Times – Global Challenges and The Case of Israel

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## Tax Purposes

- State revenues: without revenues the government cannot pursue its goals.
- Policy instrument.

# Tax Justification

- Taxpayers enjoys domestic services (e.g. infrastructure, political and economic stability, state protection from violence, natural disasters etc., regulation and enforcement).
- These services help taxpayers produce income.
- The tax is their participation share in the governmental efforts to supply these services, ensuring a due business environment.

# Tax avoidance in COVID Times

Different motivations:

- Cash/credit shortage (short-medium-long term).
- Protest against government functioning during the crisis.
- Taking advantage of the crisis.

## **The questionnaire**

- Unanimous.
- 46 participants.
- Employees and self employed.
- Varied ages, sizes of businesses, places of living in geographic terms and in terms of living style.

## **Results**

**High correlation between the refusal to pay taxes and all three different motivations.**

## **Disappointment From Israeli Government's Functioning**

- Compensation – too little (compared to other countries), too late.
- No compensation for 1<sup>st</sup> year businesses.
- Communication and administrative failures.
- Waste of money for political reasons.
- Refusal to compensate from summer 2021 to now.
- No solution for sectors particularly hurt (tourism, theater etc.)

## **What Can the Government Do? OECD Recommendations**

**Not to give up tax enforcement but to make it easier for taxpayers to coop with the crisis in administrative terms:**

- Talk to them and express understanding and sympathy.
- Extend deadlines for reporting and payment.
- Give up fines and interest for delayed payments, introduce flexibility.

# Israeli Government Follows OECD Recommendations: The New Plan (2022)

- Extension of deadlines for tax payment and reporting.
- Avoid money spending for political reasons and focus aid for those who need it.
- Compensation after strong public pressure.
- Paying to government suppliers earlier, to ease cash and credit shortage.

## Results

- 55% of Israelis do not pay taxes.
- In 2021, tax revenues grew substantially, despite COVID.
- However, self employed taxes decreased.

**Is it because they refuse to pay taxes and can control it, or because income decreased?**

# Policy Questions

- How should governments handle tax payments during crises?
- What could poor governments do to avoid tax avoidance during crises?
- To what extent is it legitimate for tax payers to avoid tax payments for the three reasons mentioned?
- How does your government deal with this challenge?