Improving productivity by improving the tax system

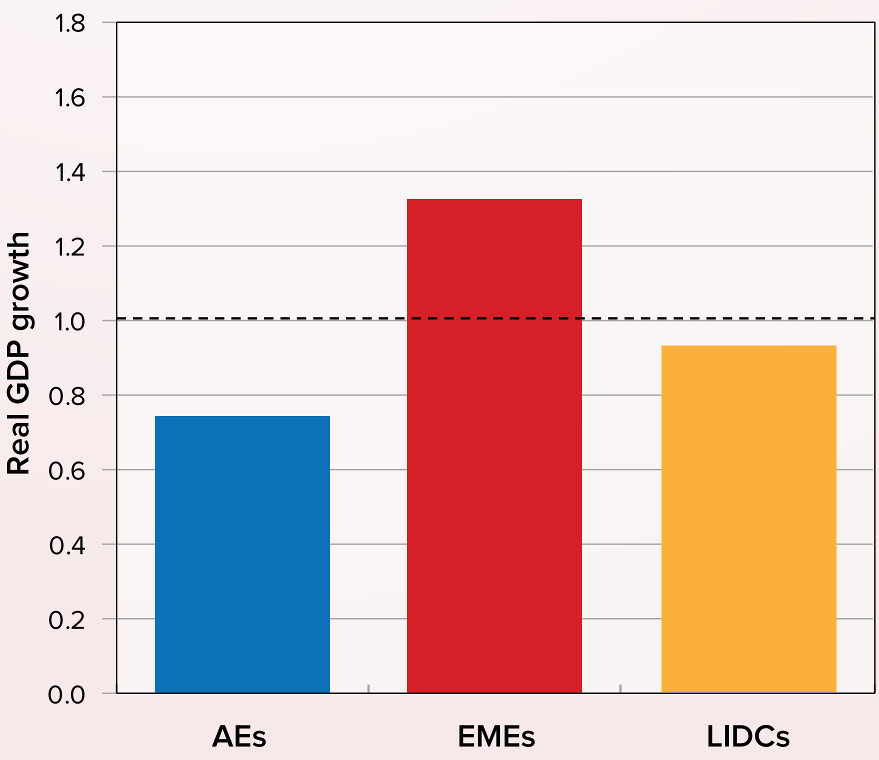
Higher productivity from eliminating barriers that hold more productive firms back could lift real GDP growth by roughly 1 percentage point a year for 20 years.

For emerging market and low income developing countries, ¼ of these gains could potentially be realized by upgrading the design of the tax system.

Sources: ORBIS; World Bank, Enterprise Surveys; and IMF staff estimates.

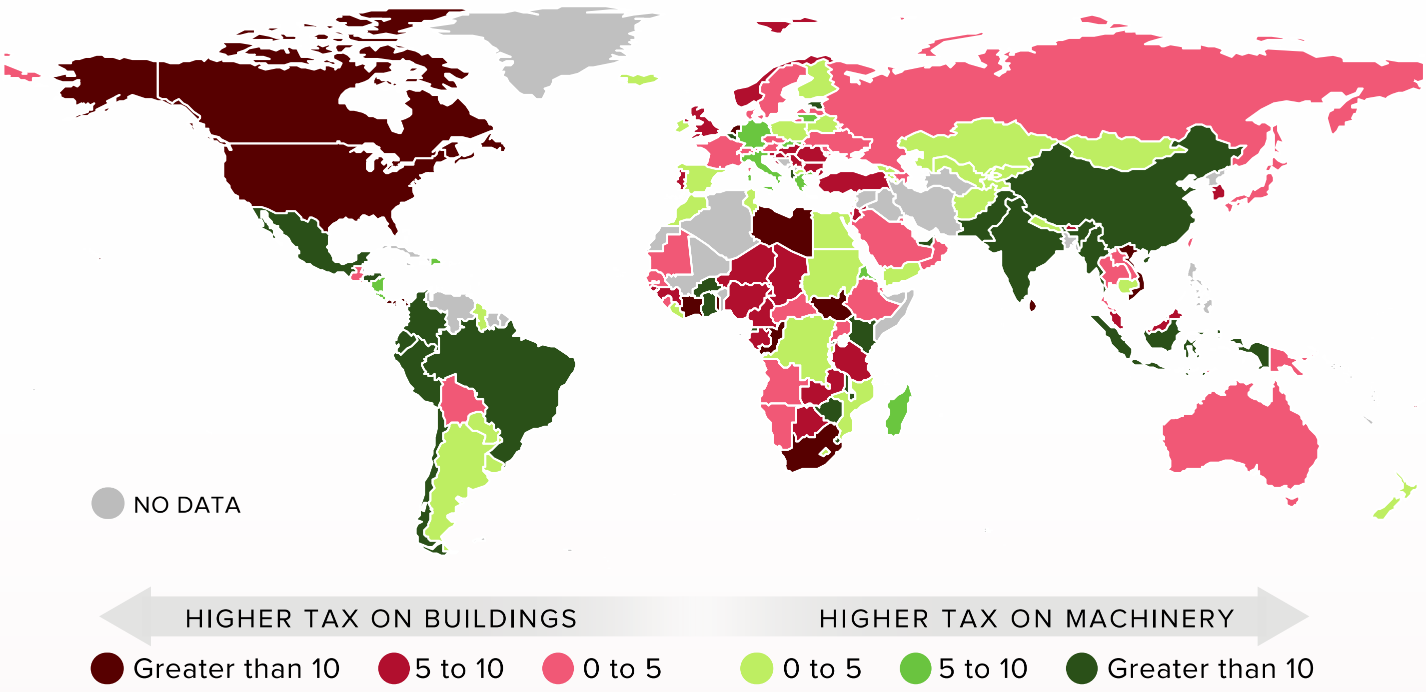
Note: The figure shows medians across country groups.
AEs = advanced economies;
EMEs = emerging market economies;
LIDCs = low-income developing countries.

Estimated annual real GDP growth gain from improving allocation of capital and labor



TWO EXAMPLES OF POSSIBLE BARRIERS

Taxing machinery and buildings differently can steer investors away from investments that would be better for productivity.



(difference in percentage points)

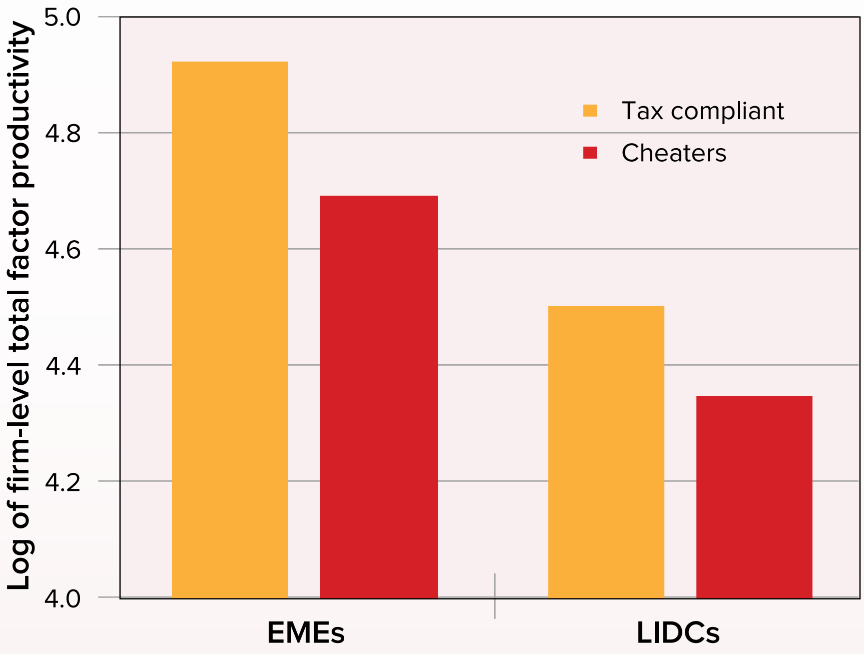
Sources: Oxford University Center for Business Taxation; and IMF staff estimates.
Note: EMTR=Effective marginal tax rate. Values in chart are the absolute difference between the EMTR for machinery and the EMTR for buildings for the latest year available.

Firm productivity and tax compliance

Companies that cheat on their taxes hurt total productivity because they reduce the market share of more productive, tax compliant businesses.

Sources: World Bank, Enterprise Surveys, and IMF staff estimates.

Note: The figure shows medians across country groups.
EMEs = emerging market economies;
LIDCs = low-income developing countries.



For more please see: "Upgrading the Tax System to Boost Productivity," Chapter 2, Fiscal Monitor April 2017