





# Ground breaking news!

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- ‘Tax incentives result in little additional investment’
- ‘Most investors would have invested without the offer of tax incentives’

**Options for Low  
Income Countries'  
Effective and  
Efficient Use of Tax  
Incentives for  
Investment**

IMF, OECD, UN and World Bank, Oct 2015

A REPORT TO THE G-20 DEVELOPMENT  
WORKING GROUP BY THE IMF,  
OECD, UN AND WORLD BANK



# Investors are not driven by incentives - evidence

## 1. Incentives rank low in investor surveys

**Figure 2. Relative Importance of Tax Incentive**  
(Left: Relative Rank; Right: CI)





# X Redundant for more than 70% of investors in most countries (James)

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**Table 1. Redundancy of Tax Incentives Based on Investor Surveys /1**

Burundi (2011)	77	Rwanda (2011)	98
El Salvador (2013)	37	Serbia (2009)	71
Guinea (2012)	92	Tanzania (2011)	91
Jordan (2009)	70	Tunisia (2012)	58
Kenya (2012)	61	Uganda (2011)	93
Nicaragua (2009)	15 or 51 /2	Vietnam (2004)	85
Mozambique (2009)	78	Thailand (1999)	81



# Investors are not driven by incentives (evidence)

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## 2. They do not increase investment

- X No effect in 40 Latin American, Caribbean and African countries (IMF)
- X No relationship between tax holidays and investment in West and Central Africa (Van Parys and James)

## 3. They can even discourage investment

- X Investors in South East Europe said they invited corrupt behaviour and increased project costs and uncertainty (OECD)



# Incentives drastically reduce government revenues

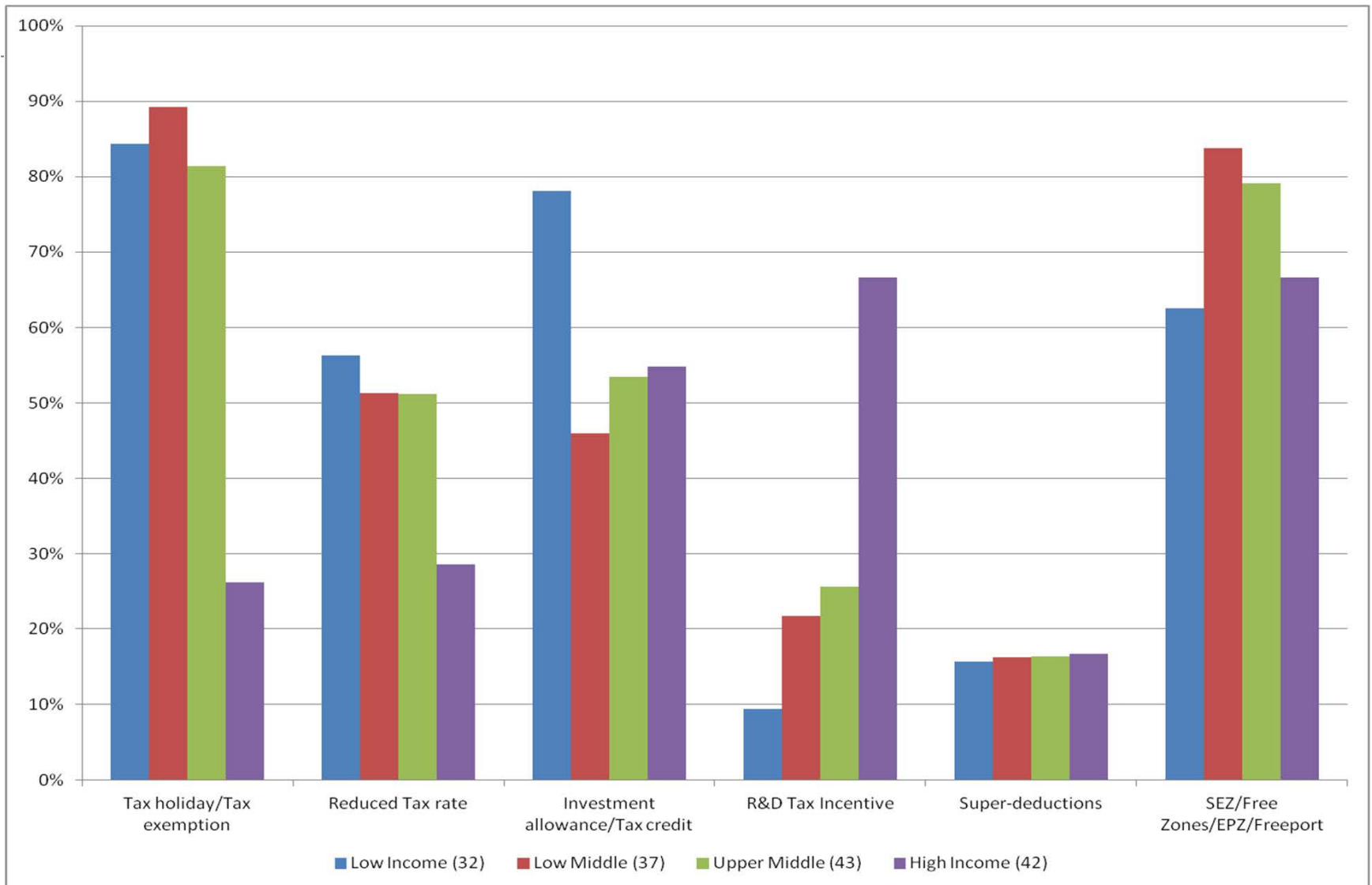
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- X A decrease of between 9.5 and 16% of GDP per year in the Caribbean (IMF)
- X A decrease of 1% of GDP in the Philippines only from the Board of Investment incentives (Reside)



# Types of incentives

Figure 1. Prevalence of Income Tax Incentives around the World /1





# Types of incentives - The good and the bad

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- x Tax holidays
- x Personal income tax exemptions
- x Corporate income tax exemptions
- x VAT exemptions
- ? Special economic zones
- ? Tariffs
- ? Tax credits
- ✓ Accelerated depreciation
- ✓ Favourable tax treatment for R&D



# Four Key Problems in Low Income Countries

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## 1. Widespread use of ineffective incentives

- The most ineffective are tax holidays, corporate and personal income tax exemptions

## 2. Regional competition: 'race to the bottom'

- Threat of investor choosing neighbour
- Regions are collectively worse-off

## 3. Inadequate analysis of costs and benefits

- Weak data availability
- Hard for governments to make informed decisions

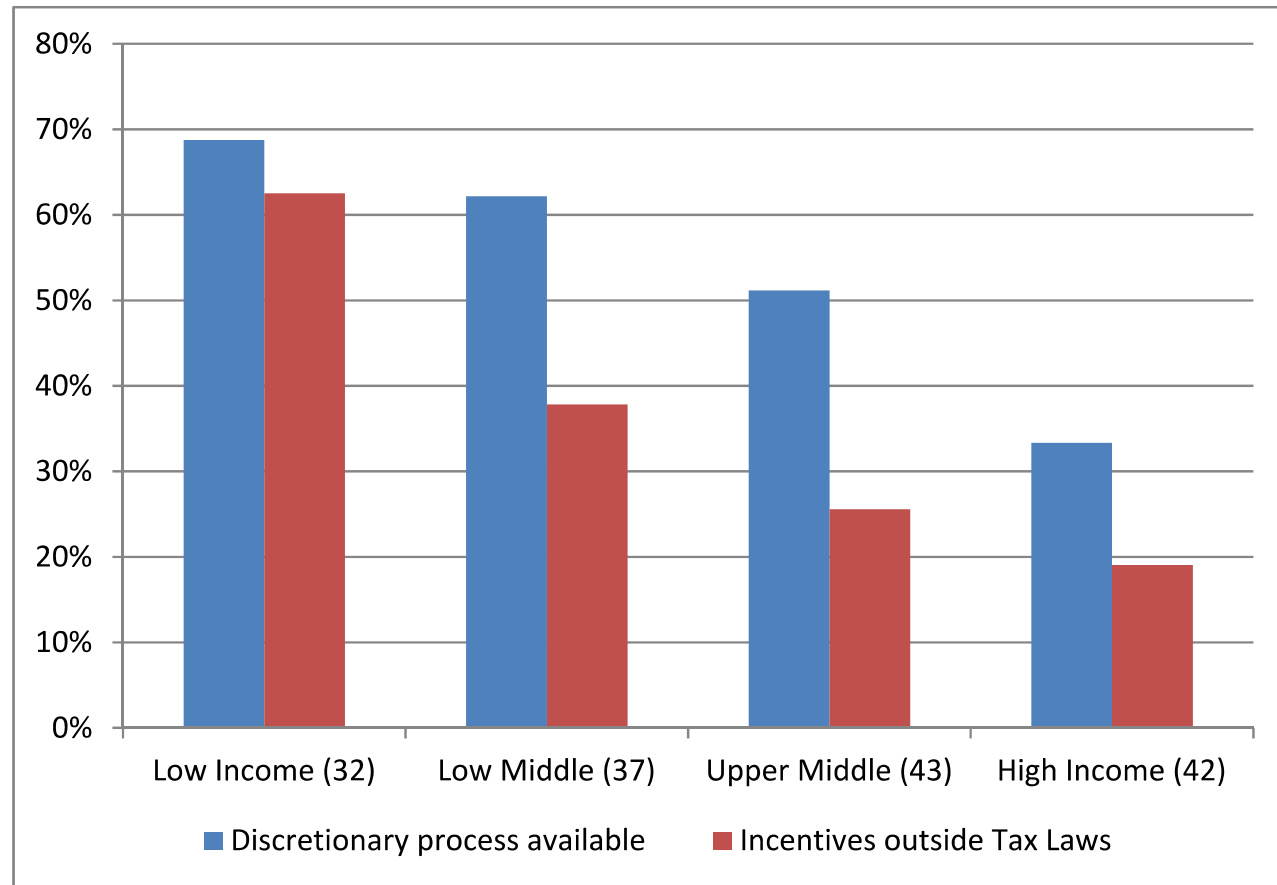
# Four Key Problems



## 4. Weak governance: lack of transparency, clarity, discretion

- Over 60 % of all low-income countries provide incentives outside the tax law
- Close to 70% allow for discretionary processes
- Multiple pieces of legislation and ministries

Figure 4. Governance of tax incentives by income group/1





# Four Key Solutions

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## 1. Improve effectiveness and efficiency of investment tax incentives

- Favour incentives that lower investment costs (rather than reducing tax on profits)
- Target incentives with clear criteria (size, sector, location)
- Proceed cautiously with economic zones: Hong Kong, Singapore, Korea, China had success, but India and Africa did not. Be careful!



# Four Key Solutions (cont'd)

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## 2. Increase regional coordination and cooperation

- Common reporting standards and data collection
- Codes of conduct, frameworks, protocols (EU, SADC, EAC, WEAMU, Central America)

## 3. Increase information available on costs and benefits

- Calculate the tax cost annually
- Several countries assess, evaluate and report foregone revenues as part of tax expenditure reports (Philippines, Malaysia)
- OECD Taskforce on Tax and Development



# Four Key Solutions (cont'd)

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## 4. Improve tax governance

- Consolidated under tax law (Ministry of Finance)
- Transparent and regularly evaluated (legal, economic and administrative)
- Subject to parliamentary approval
- Fiscal costs reviewed annually



# Conclusions/Principles

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1. Time for a change
2. Collect data, calculate revenue foregone and report annually (tools available to help)
3. A new generation of tax incentives that are effective and efficient



**Thank You!**

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