

# TOWARDS A FAIR, REGIONALLY-INTEGRATED, AND EFFICIENT TAX SYSTEM IN ASEAN



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# OUTLINE

- International corporate tax challenges
- The ASEAN context
- Quantification
- BEPS and all that
- Concluding

# INTERNATIONAL CORPORATE TAX CHALLENGES

# Two, intertwined issues

- Tax avoidance
  - Exploiting rules to reduce liability
  - The focus of current policy initiatives
- Tax competition
  - Strategic tax setting by governments to reflect and exploit both real and/or avoidance responses
  - Arguably the deeper issue

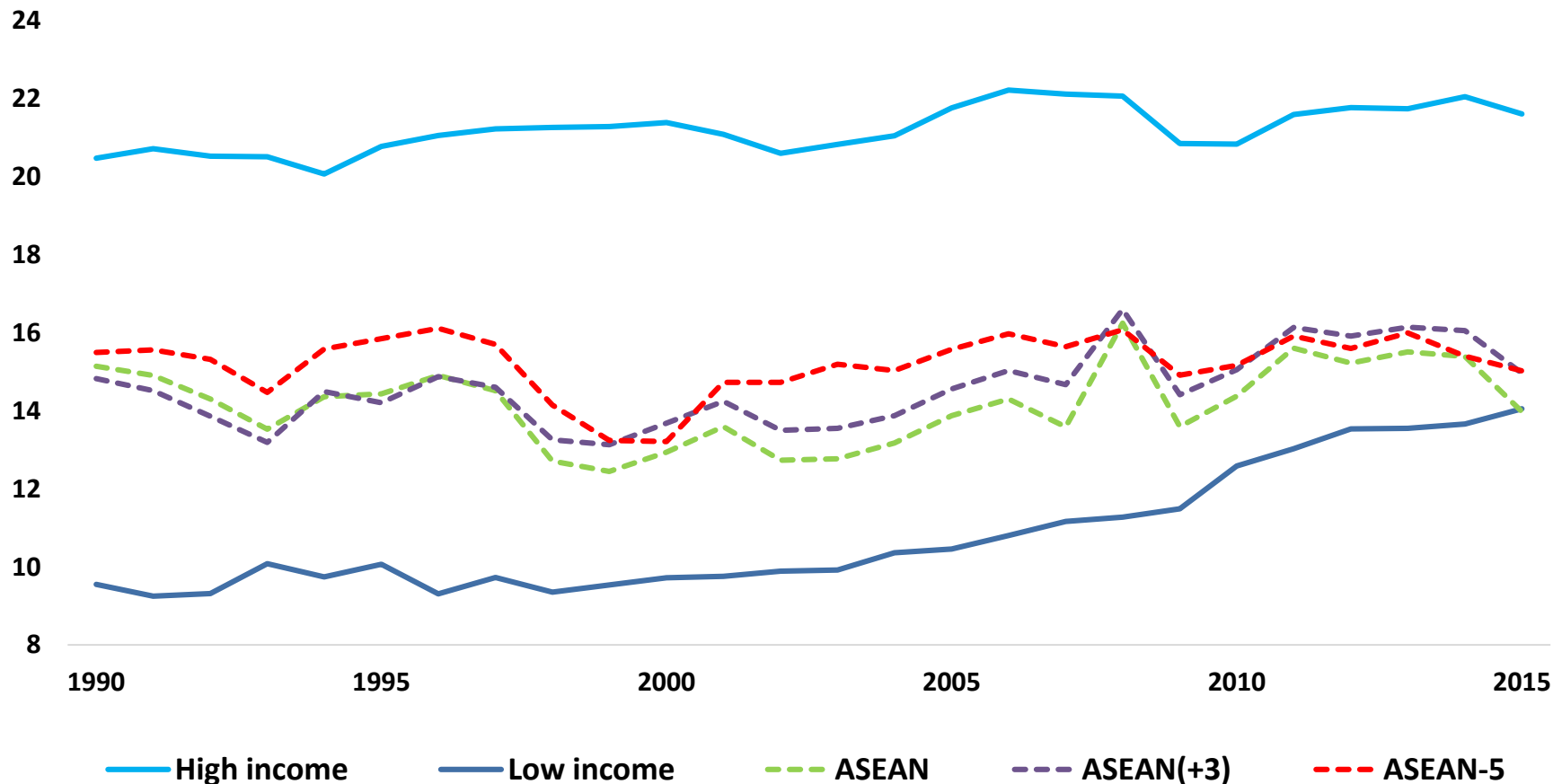
Common feature: Both tend to reduce revenue

# Tax competition may be about to intensify

- Making avoidance harder may lead to more explicit tax competition, if governments have tolerated/facilitated it to attract activity/ tax base,
- Tax reform in the US, which may involve
  - Lower rate
  - Move to territoriality

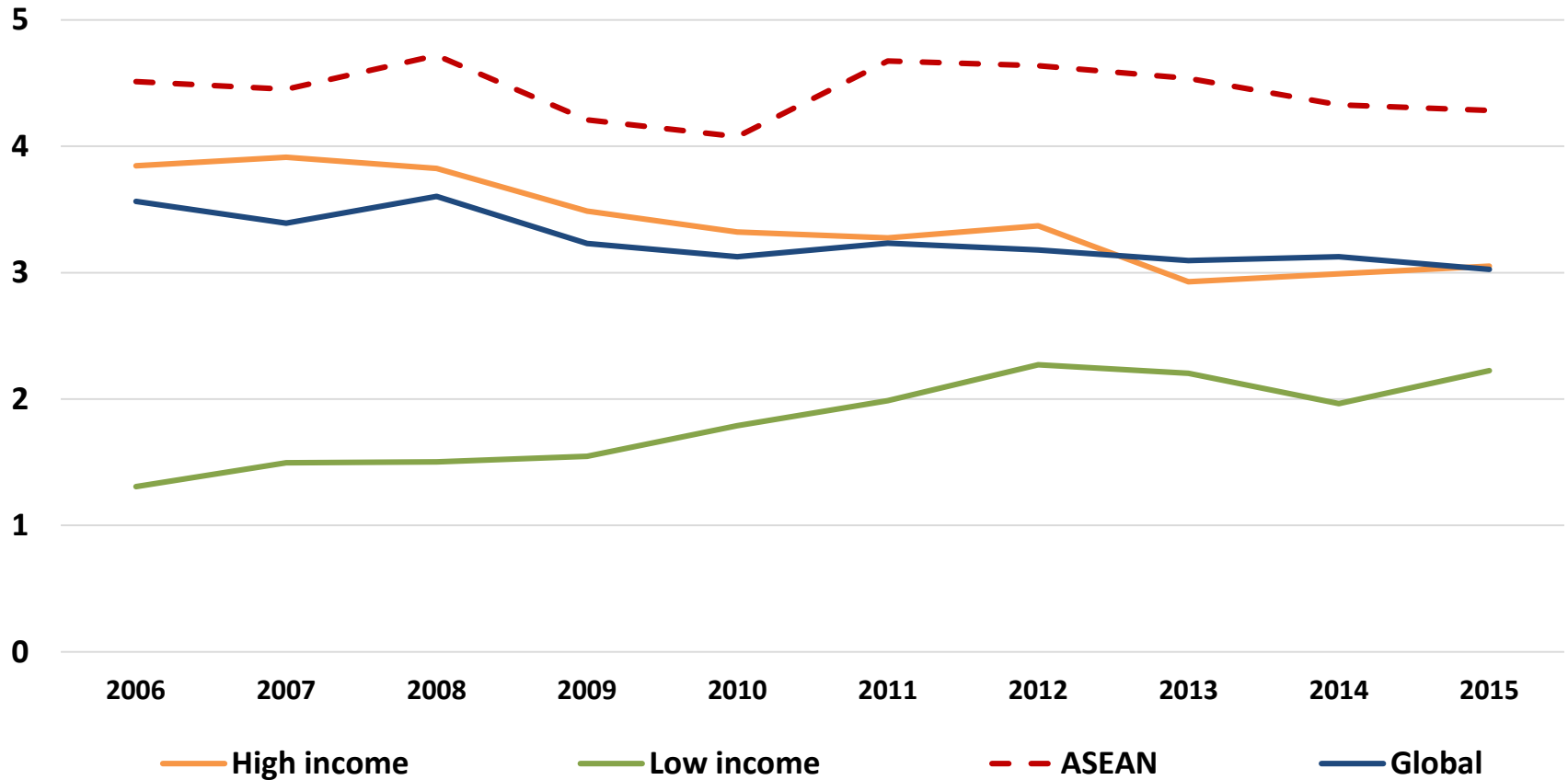
# THE ASEAN CONTEXT

# Total tax revenues are on the low side



Tax revenue in percent of GSDP (unweighted); Source: IMF World Revenue Longitudinal Dataset (WoRLD)

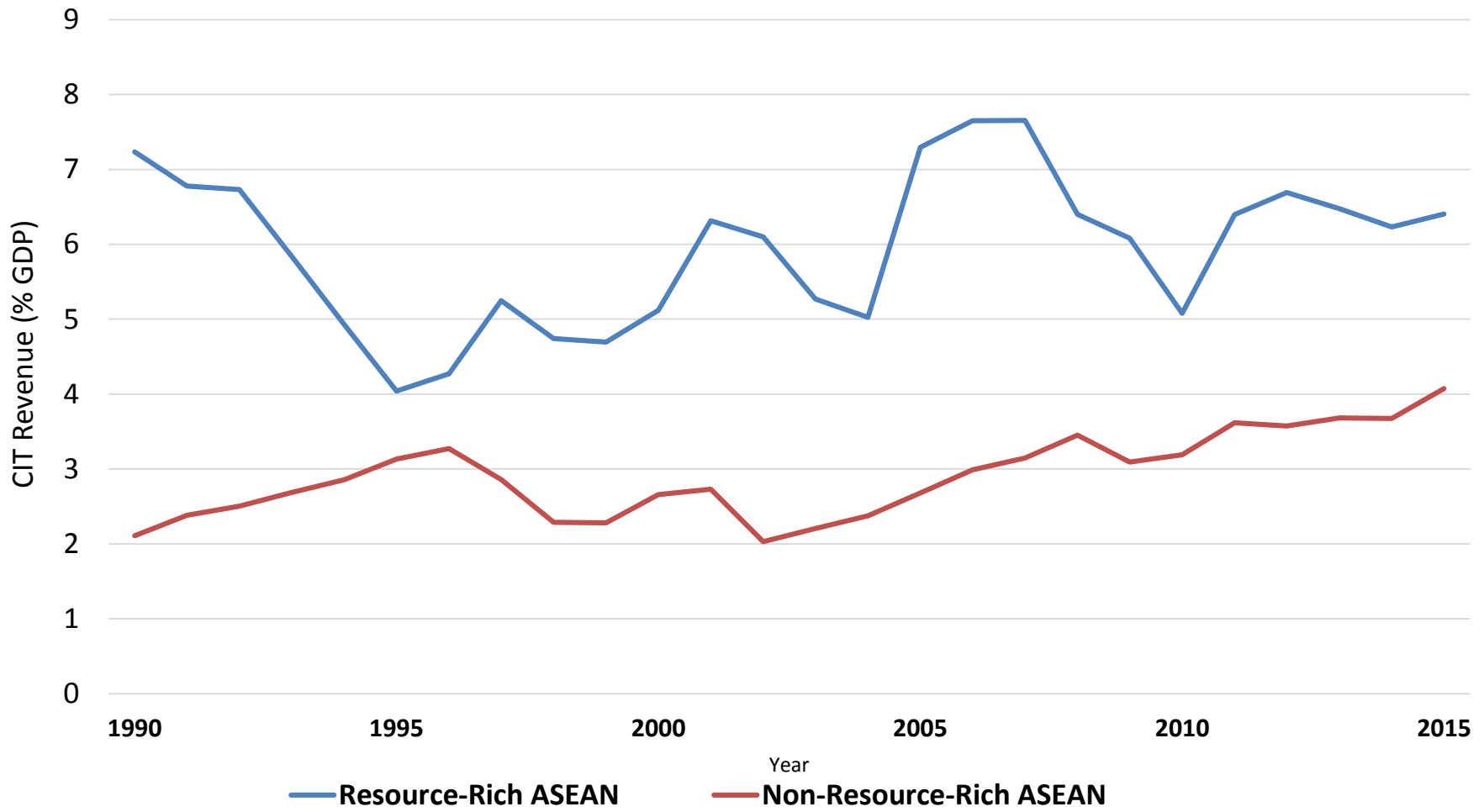
# But CIT receipts are on average high...



CIT receipts in percent of GDP, unweighted average. *Source: WoRLD*

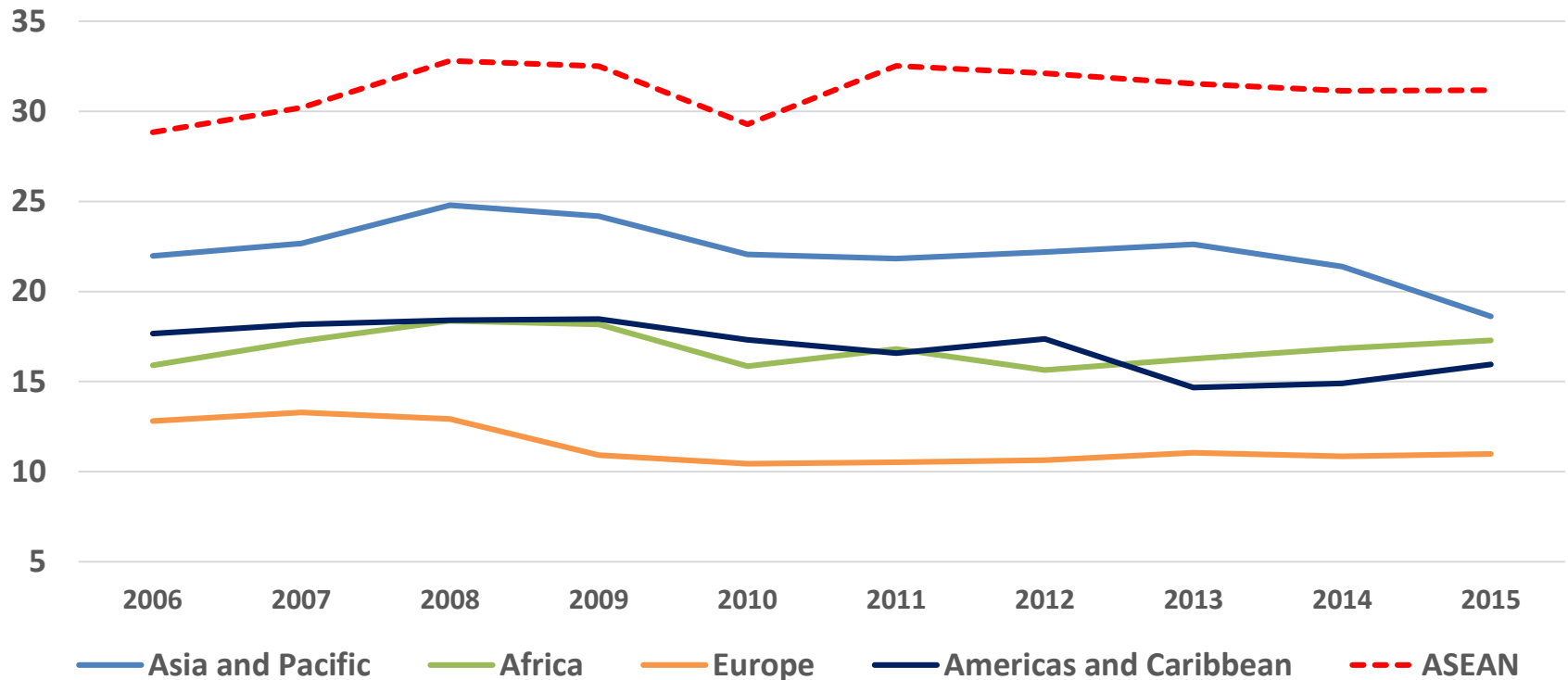


# ...though resources make a difference



Resource-Rich ASEAN: Brunei, Indonesia, Malaysia, Myanmar, Vietnam. *Source: WoRLD and FADTP.*

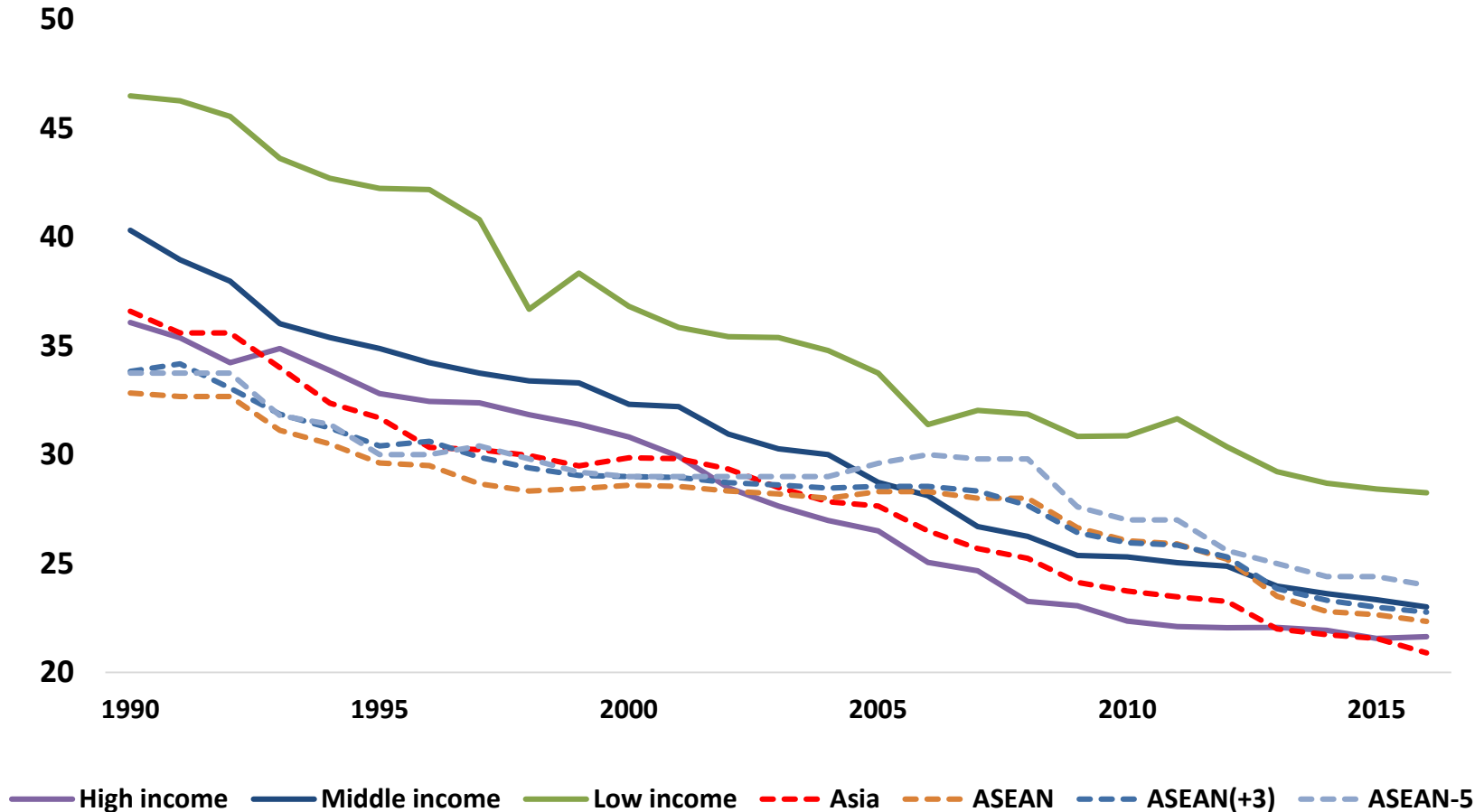
# A corollary: Heavy reliance on CIT revenue



Share of CIT in total tax revenue: *Source: WoRLD*

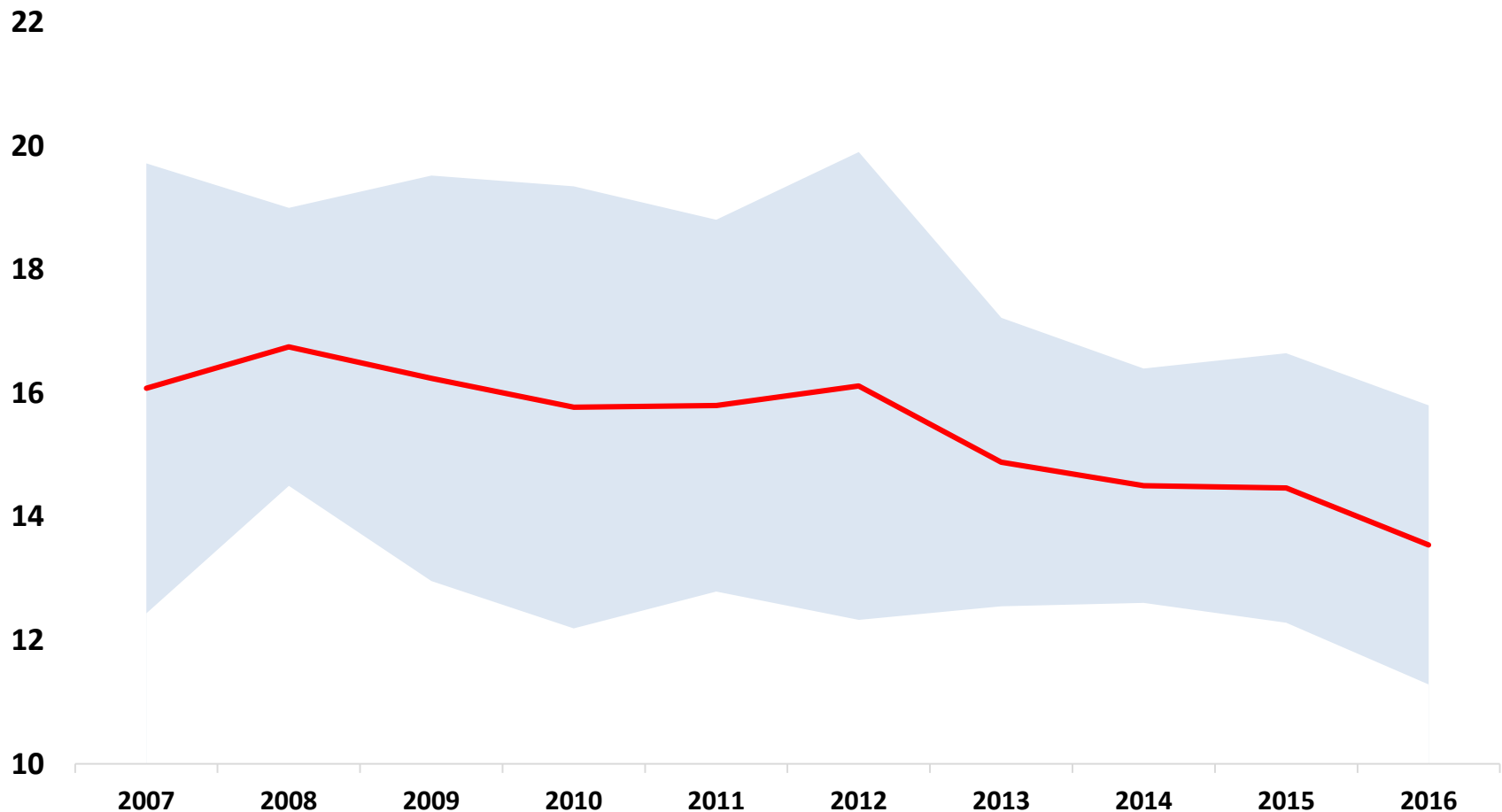
The converse of this being low reliance on VAT

# Statutory CIT rates: competitive tumbling, but no longer especially low



Source: IMF corporate tax database

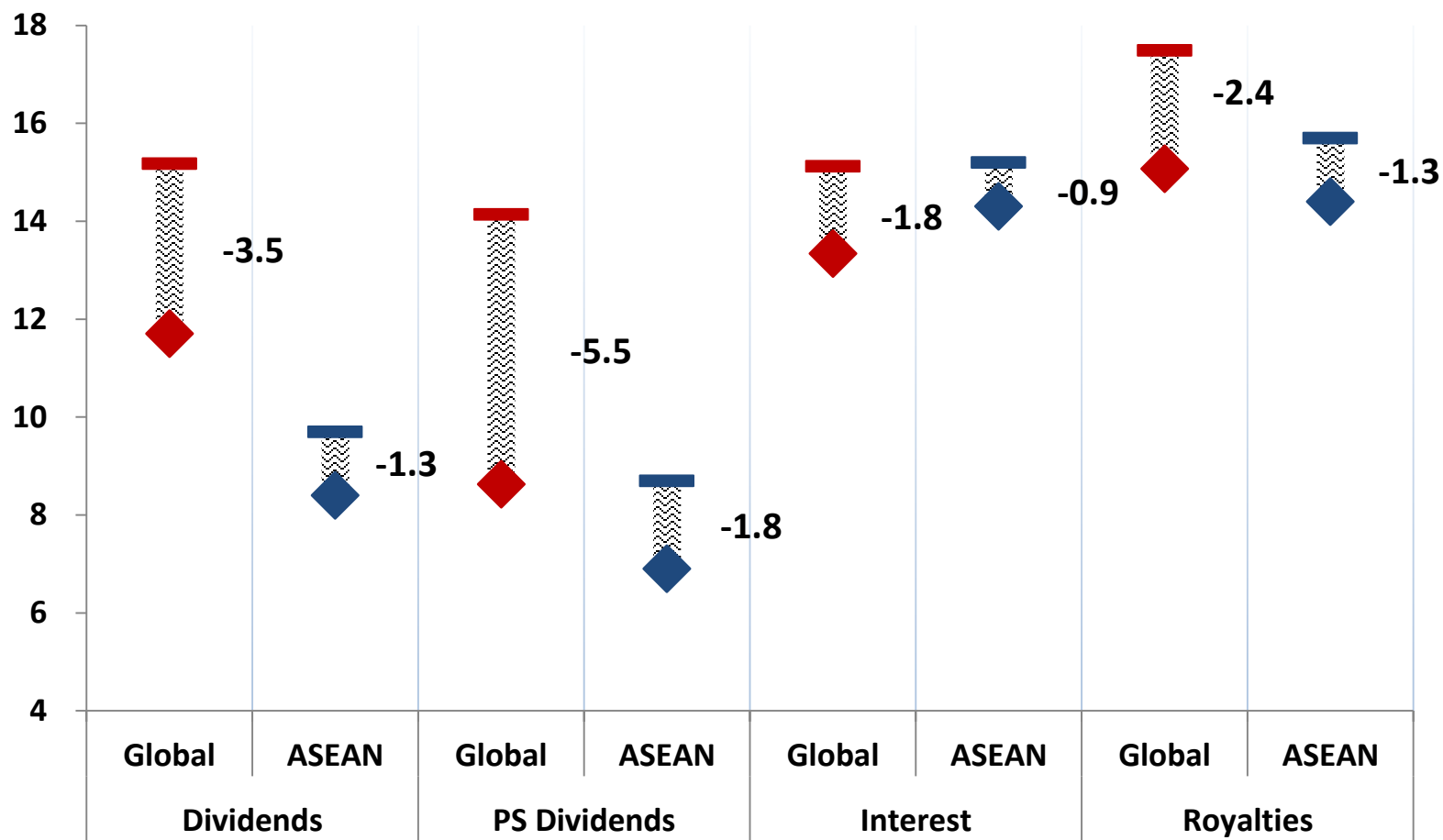
# Effective rates are lower and also falling



Source: Bureau van Dijk ORBIS database and IMF Staff

Note: Mean (red line) and one standard deviation (gray area) are shown

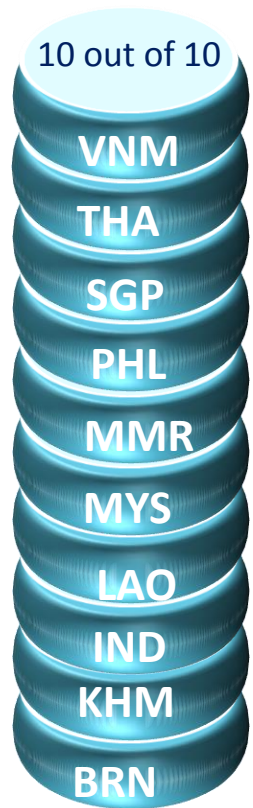
# Similar story on withholding (2000-10)



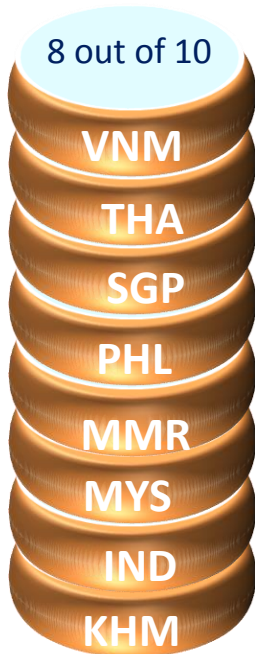
Source: IBFD and IMF Staff

# Signs of competition too in providing incentives

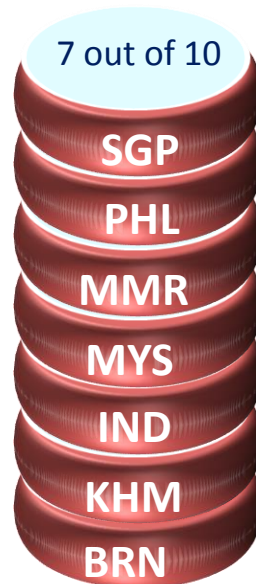
## Tax Holidays



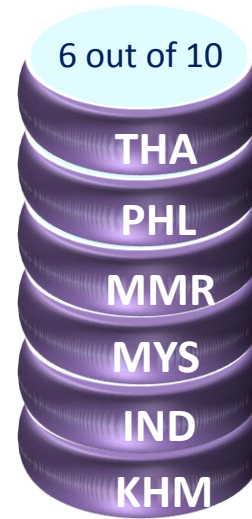
## Preferential Rates



## Accelerated Depreciation /Investment Allowances



## SEZ/Export Zones



## Exemptions from Indirect Taxes



## Exemptions from WHT



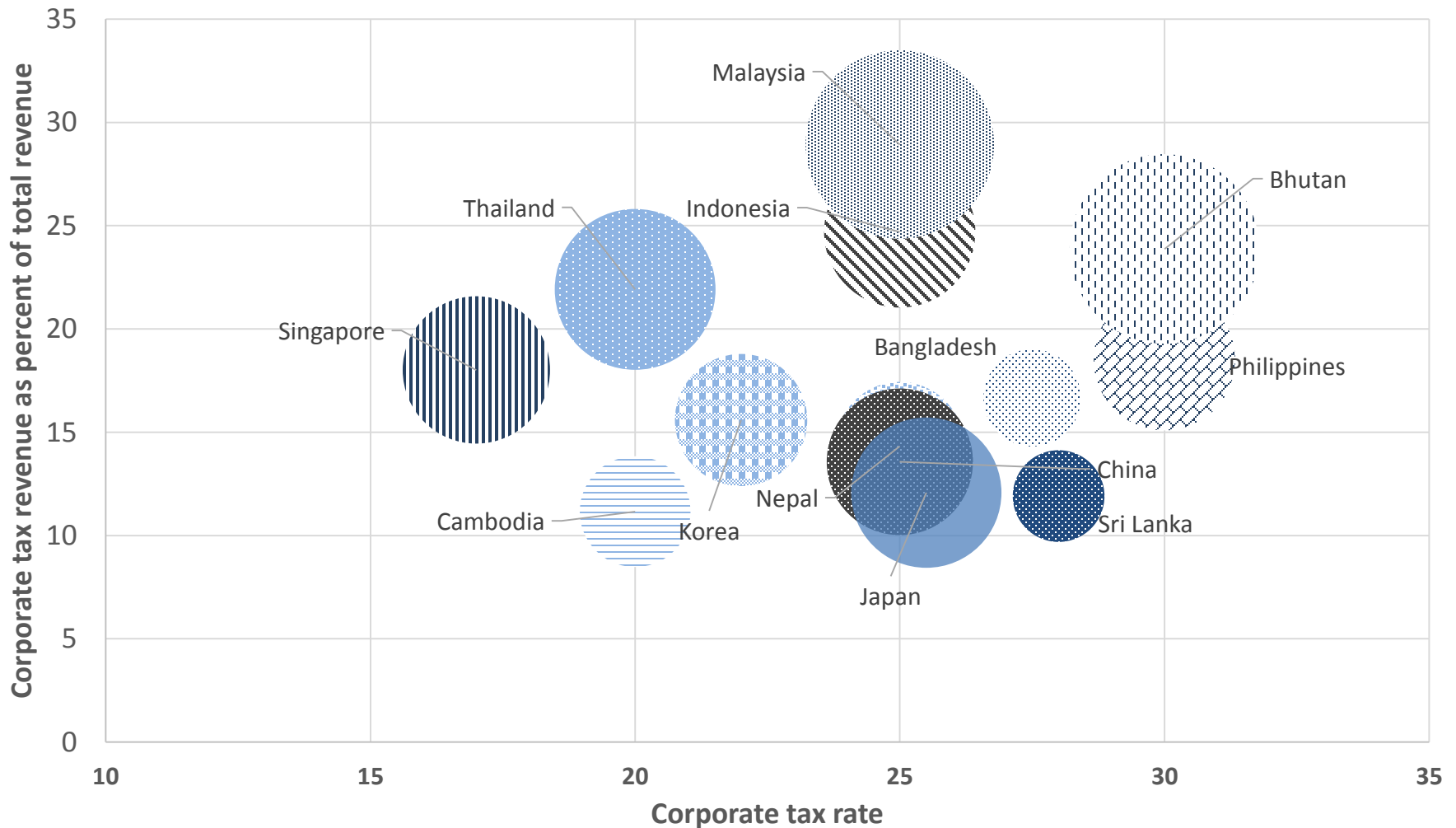
Source: country legislations

Note: BRN stands for Brunei Darussalam, KHM for Cambodia, IND for Indonesia, LAO for Laos, MYS for Malaysia, MMR for Myanmar,<sup>14</sup> PHL for Philippines, SGN for Singapore, THA for Thailand, and VNM for Vietnam.

# Broad Prognosis

- Special challenges in resource ASEAN
- In non-resource ASEAN, CIT revenues reasonable by international norms...
  - May reflect high share of profits in GDP and relative unimportance unincorporated businesses (?)
- ...but
- Throughout ASEAN, heavy reliance on CIT and downward pressures on rates put a premium on protecting CIT revenues
  - And perhaps considering strengthening other revenue sources, notably VAT

# Every country is different

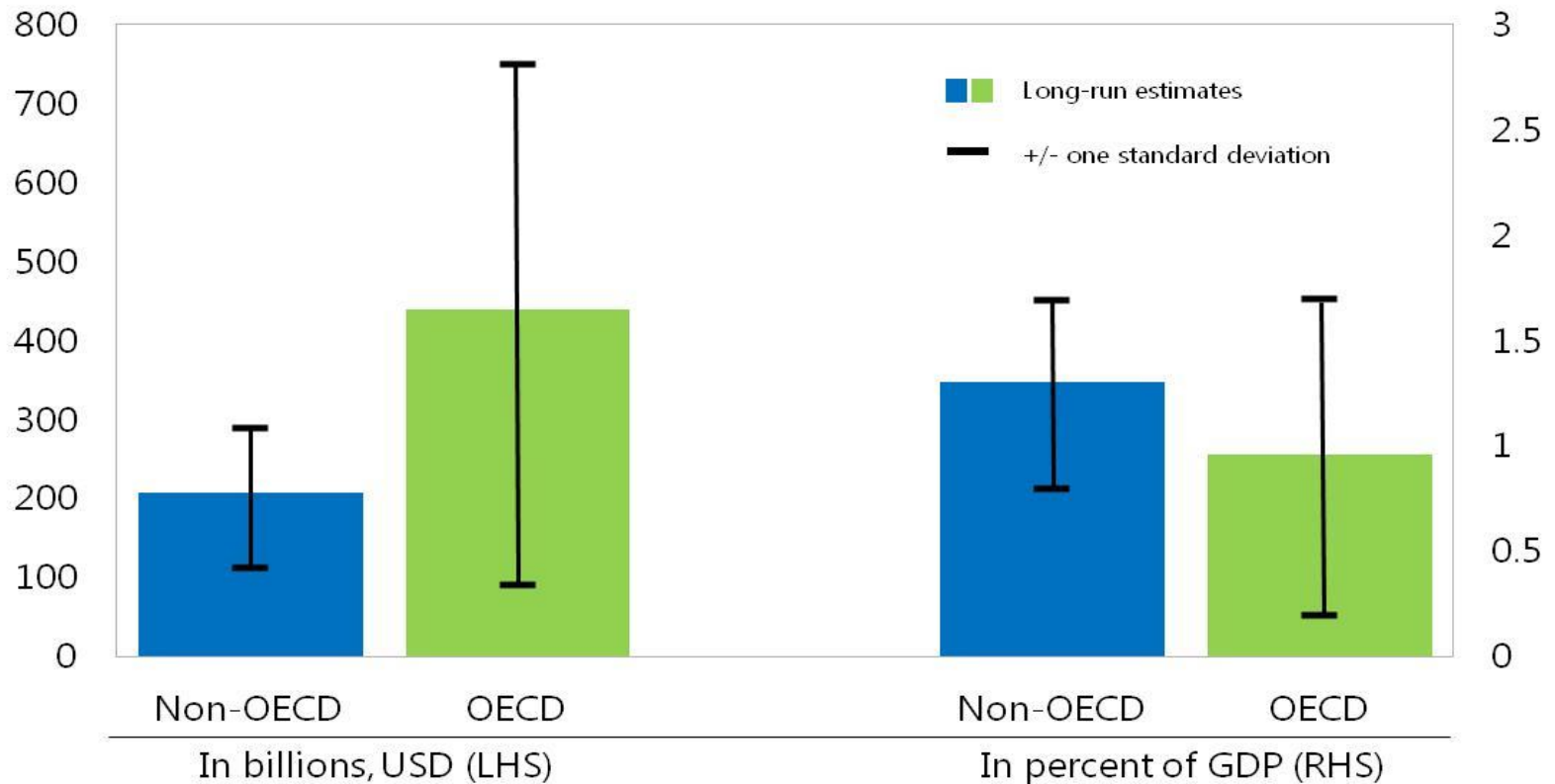


Source: WoRLD and Corporate tax database



# QUANTIFICATION

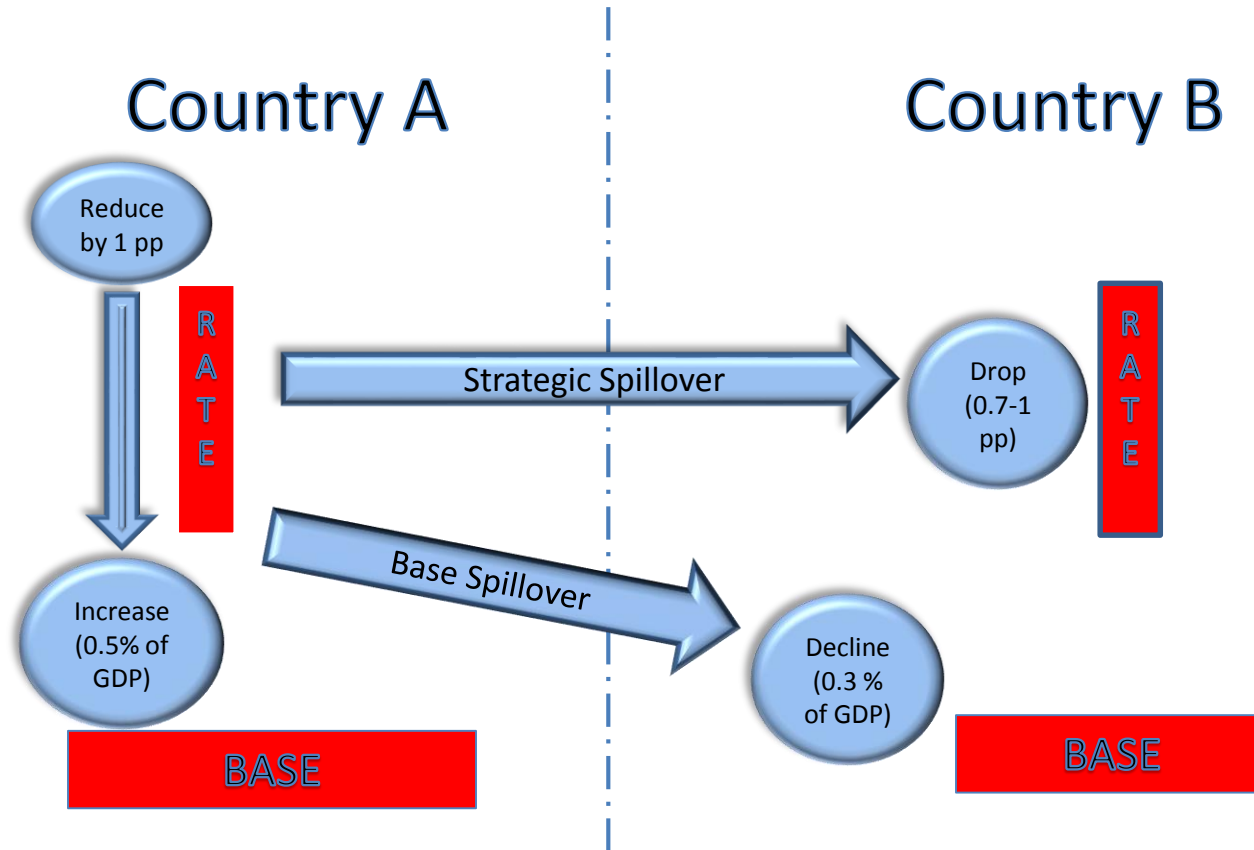
# Avoidance: Some speculative estimates



Short-run estimates

	USD, billions	Percent of GDP
Non-OECD	28	0.2
OECD	95	0.2

# Tax competition: Some dynamics



# 'BEPS' AND ALL THAT

# G20-OECD 'BEPS' project

- Unprecedented effort to address key avoidance devices
  - retaining essence of current international framework
- 15 Action areas
  - Including Multilateral instrument to amend treaties to implement treaty-related minimum standards
- Implementation through OECD's 'Inclusive Framework'
  - 100+ members, including 6 ASEAN

# The BEPS areas and outcomes

BEPS Action Item	Minimum Standard	Revision of Standard	Common Approach	Best Practice
Action 1: Digital economy			✓	
Action 2: Hybrids			✓	
Action 3: CFC				✓
Action 4: Interest deductions			✓	
Action 5: Harmful tax practices	✓			
Action 6: Treaty shopping	✓			
Action 7: Permanent Establishments		✓		
Action 8 – 10: Transfer Pricing		✓		
Action 11: Data/analysis				
Action 12: Mandatory Disclosure Rules				✓
Action 13: TP documentation and CBC reporting	✓		✓	
Action 14: Dispute Resolution	✓			✓
Action 15: MLI				

# For lower income countries...

- Differing circumstances and needs may require tailoring of BEPS recommendations
- Not all international tax issues, including some especially important to them, are covered by BEPS project
  - Platform for Collaboration on Tax (IMF, OECD, UN and World Bank) works on these

**CONCLUDING**



- Tax competition evident in ASEAN as elsewhere...
  - Not least through incentives
- Particular challenges in resource countries
- High reliance on CIT makes protecting it key for all
- Identifying and addressing country-specific avoidance risks is critical for this
- But more is needed to address problems of tax competition, which may intensify