Strategies for Regional Tax Incentive Reform: Cross-country Lessons and Experiences

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Background

• Tax incentives and tax competition for investment are live issues in many areas of the world.

• IMF is engaged with members through surveillance discussions and technical assistance advice.
Tax Incentives in the ECCU – summary of findings

- Tax incentives have become less uniform over time, and in some respects are becoming more generous;
- Costly in terms of revenue foregone
- Systematic evaluation and estimation of revenue costs is lacking;
- The internal logic of the system is inconsistent in some cases (e.g., very high tax rates and extensive exemptions/concessions);
Revenue Forgone from Tax Concessions, 2012
(In percent of GDP)
Summary of findings, continued

• Often granted on a discretionary and non-transparent basis;
• Weak monitoring of concessions and weak enforcement of penalties;
• Complicates tax administration;
• No robust evidence of actual benefits (in terms of investment, growth, or employment).
**Recommendations: Policy design issues**

1. **Introduce comprehensive tax expenditure budgeting**
   - All main taxes; on a regular basis (annual)
   - Extensive international experience
   - Possibility for requesting technical assistance

2. **Rationalize system of open-ended conditional duty exemptions**
   - Cut back eligible items on list of conditional duty exemptions provided for under the CARICOM Common External Tariff
   - Adopt an annual cap
   - Clearly specify sunset-clauses

3. **Curtail granting of tax holidays**
   - Reduce length of holiday period for new investments
   - No renewal
   - No CIT incentives for export firms or firms in economic zones

4. **Rationalize tariff structure**
   - Apply a few, simple bands
   - More uniform and lower nominal average rates
Recommendations: Procedures, transparency, administration

- **Introduce a rules-based approach / Reduce discretion**
  - Centralize legal provisions in one law (or alternatively in tax laws)
  - Centralize powers to process tax concessions in the MoF (possibly applying a cap)

- **Increase transparency**
  - Publish internal guidelines for the granting of tax incentives
  - Publish all agreements on terms of individual concessions

- **Improve monitoring and enforcement powers**
  - Strengthen and centralize monitoring and enforcement
  - Clarify penalties and powers to revoke incentives
  - Adopt and enforce legal obligation for businesses under concessions to file income tax returns
Harmonization of tax incentives in the region: Why and how?
International Experiences on Coordination

• EU
• WEAMU
• EAC
• OECD and others on BEPS (ongoing)
• ASEAN and SACU (on indirect taxes)
• Examples of Federations
Harmonization of tax incentives in the ECCU

• ECCU countries are committed under the Revised Treaty of Basseterre to gradually harmonize their fiscal policies and fiscal incentives regimes.

• Establishment and enforcement of a “Code of Conduct” could be an effective tool to reduce harmful tax competition in the region

• Take advantage of work by international institutions and groups:
  - OECS’s work on “model legislation” including tax incentives,
  - CARICOM’s work on an Investment Code (at present dormant), in parallel with individual ECCU countries’ work on investment codes,
  - CARICOM’s working group on Macro-economic Policy coordination,
  - Exploit expertise of other organizations, e.g., CAIPA,
  - International organizations facilitate consensus-building and explore policy options
Thank you