

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

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Background

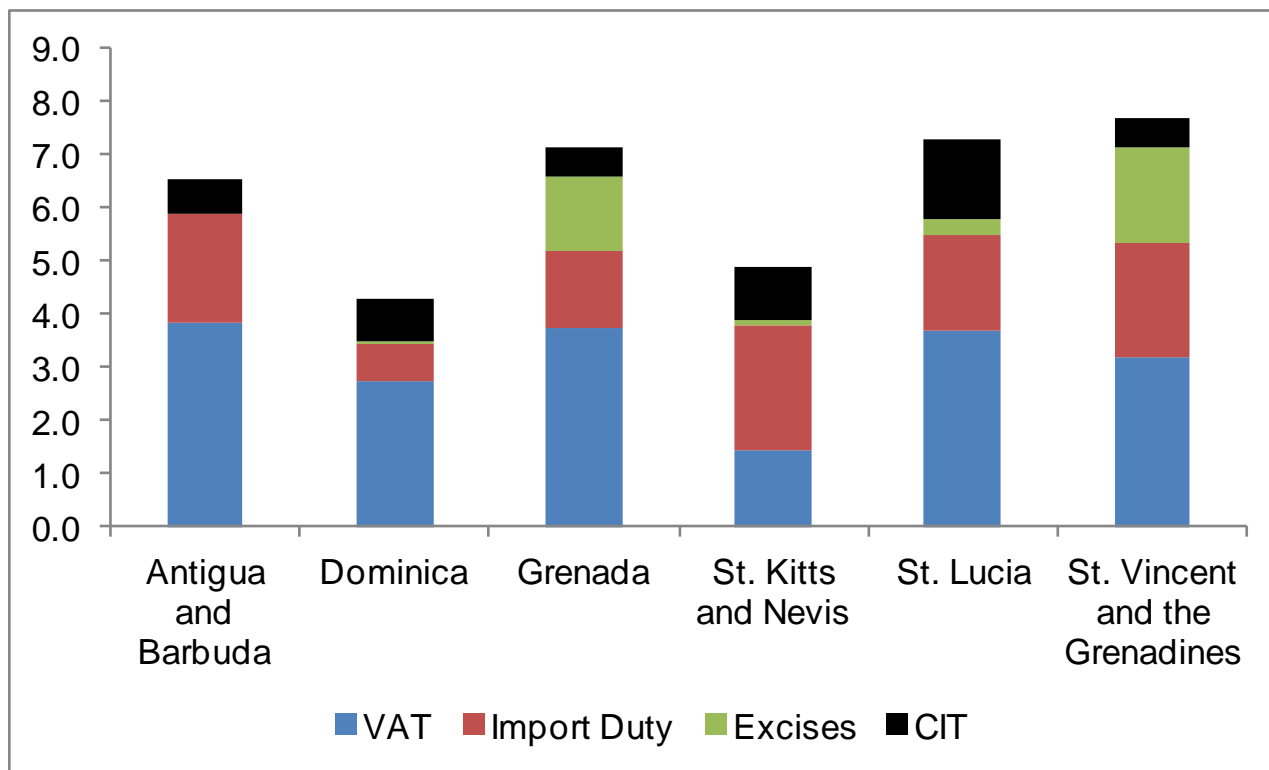
- Tax incentives and tax competition for investment are live issues in many areas of the world.
- IMF is engaged with members through surveillance discussions and technical assistance advice.

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

Introduce comprehensive tax expenditure budgeting

- All main taxes; on a regular basis (annual)
- Extensive international experience
- Possibility for requesting technical assistance

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

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

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