



# TOWARDS SMARTER USE OF TAX INCENTIVES IN ASEAN

Investment Policy Review of Southeast Asia 2018

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# Outline

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- 1. *Snapshot:*** Incentive regimes in ASEAN
- 2. *Assessment:*** Benefits and costs of incentives in ASEAN
- 3. *Option:*** Policy considerations for smarter use of tax incentives

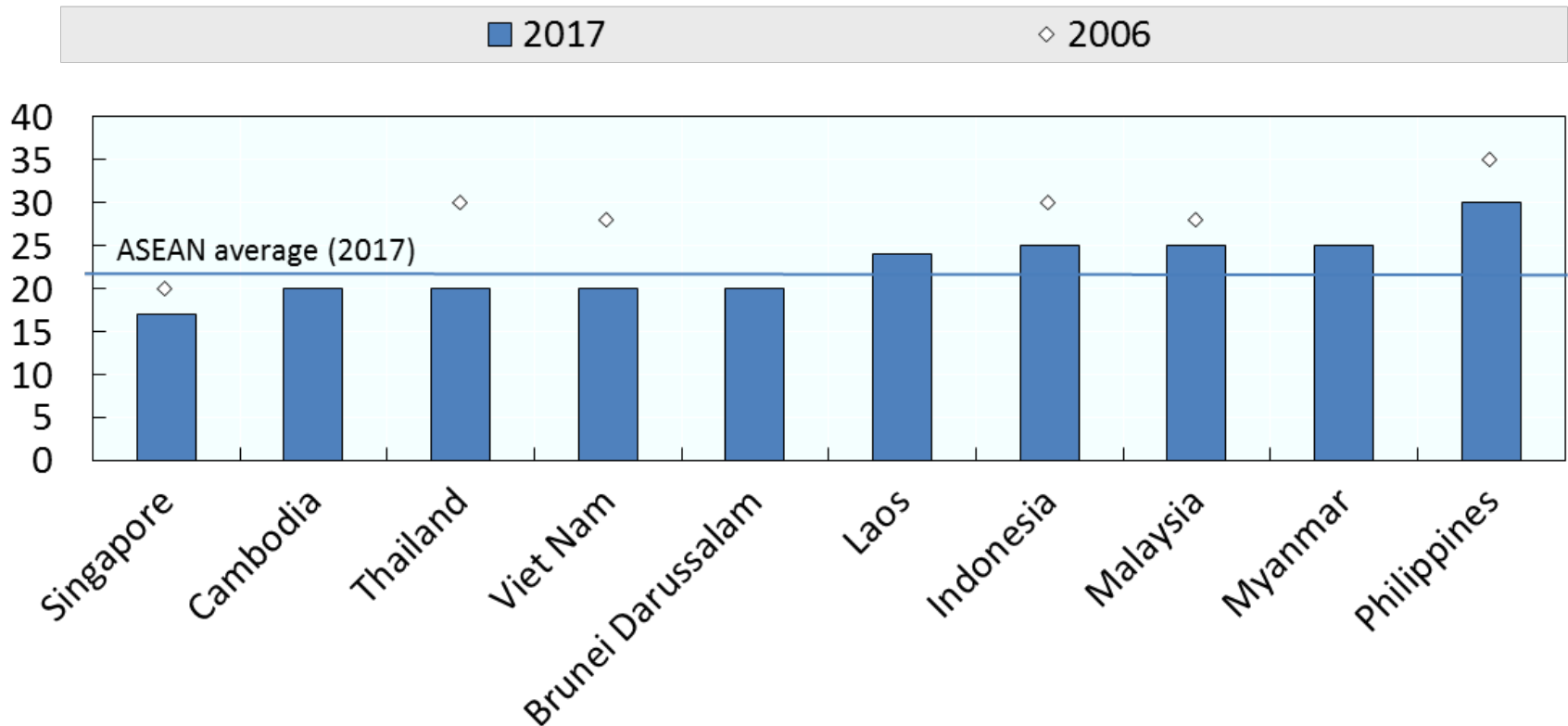


# *1. SNAPSHOT: INCENTIVE REGIMES IN ASEAN*



# Rate-cutting tax reform in ASEAN

Statutory corporate income tax rate (in %)

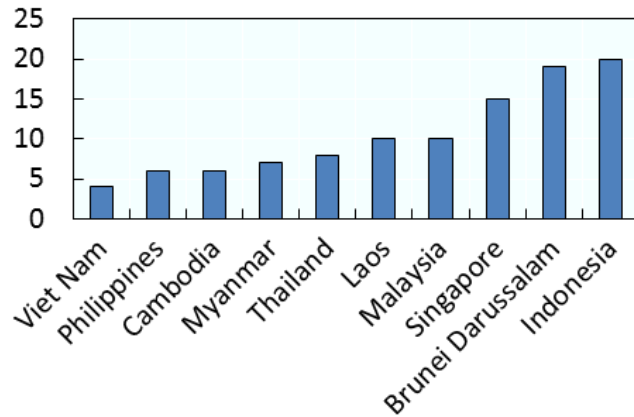


Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018



# Generous and complex incentive systems in ASEAN

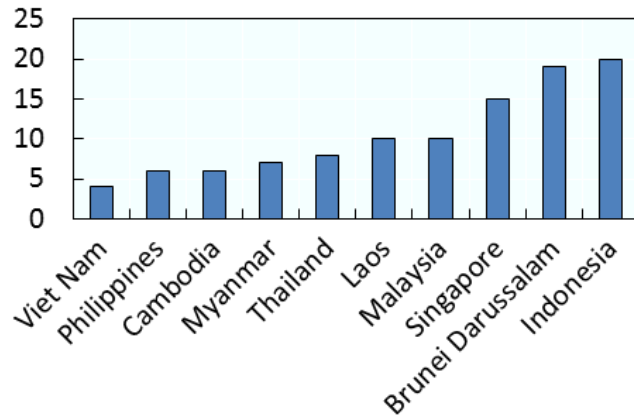
**A. Number of years of tax holiday**



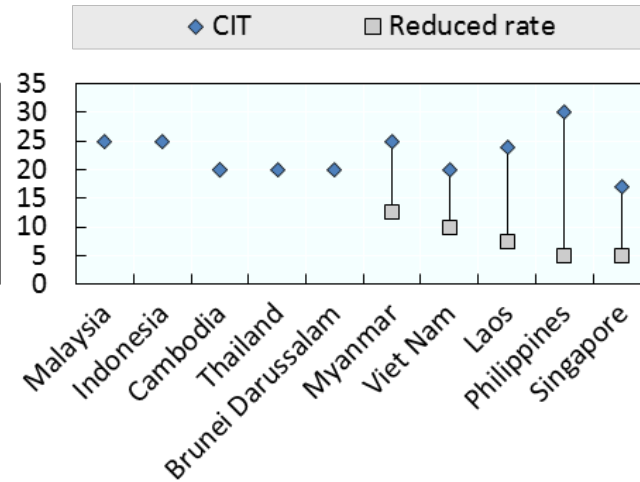


# Generous and complex incentive systems in ASEAN

**A. Number of years of tax holiday**



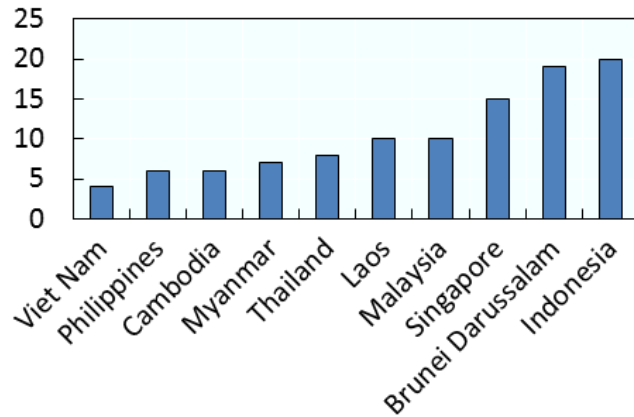
**B. Reduced taxes**



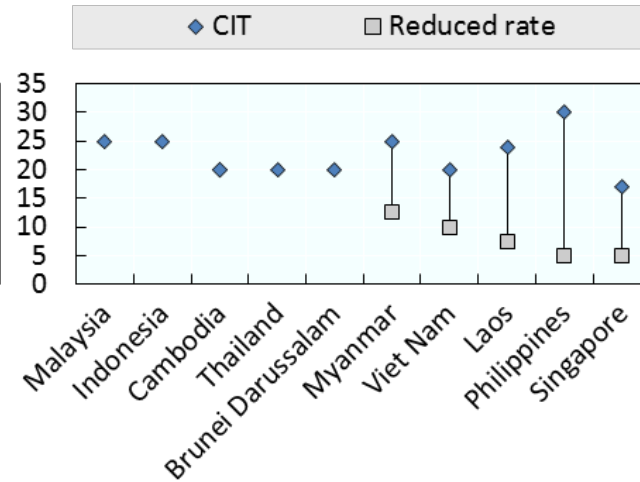


# Generous and complex incentive systems in ASEAN

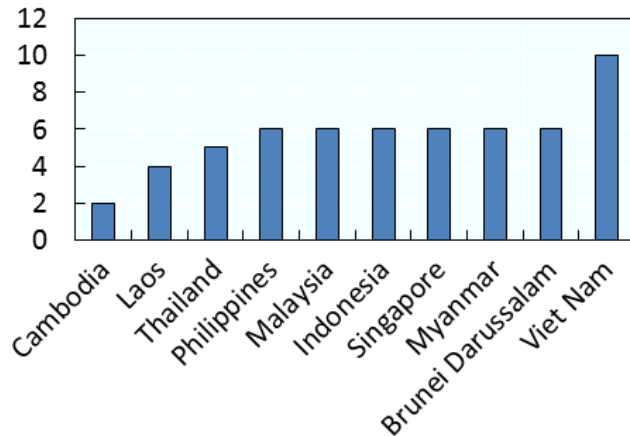
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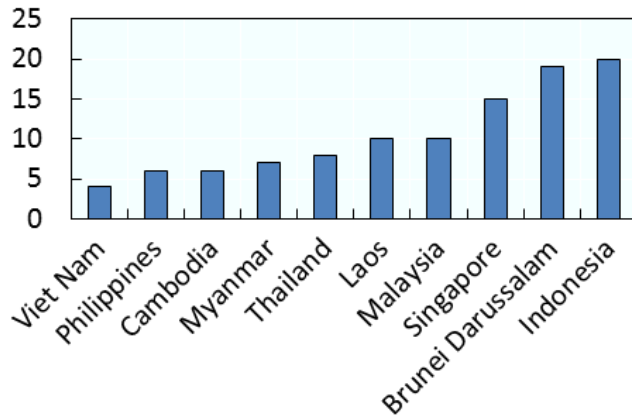
**C. Number of tax deductions and credits**



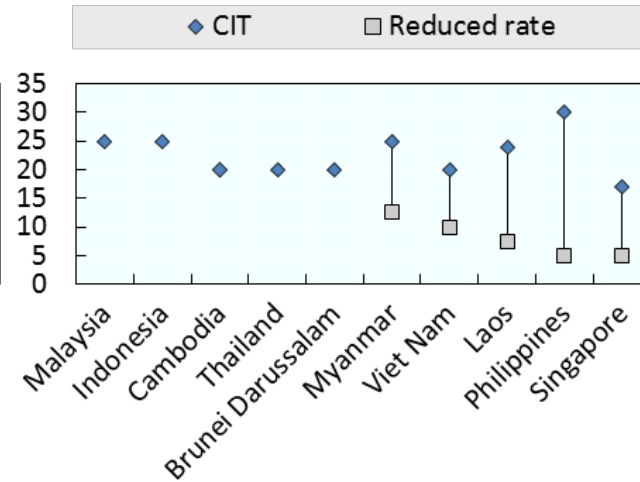


# Generous and complex incentive systems in ASEAN

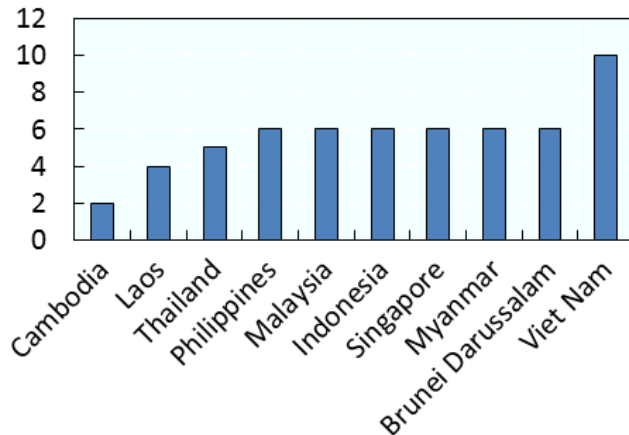
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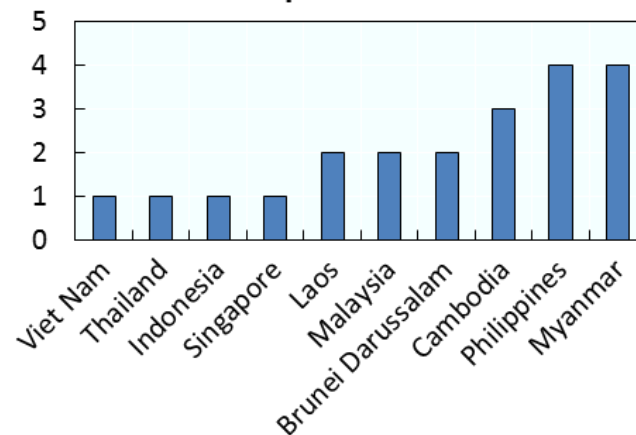
**B. Reduced taxes**



**C. Number of tax deductions and credits**



**D. Number of trade and VAT exemption schemes**



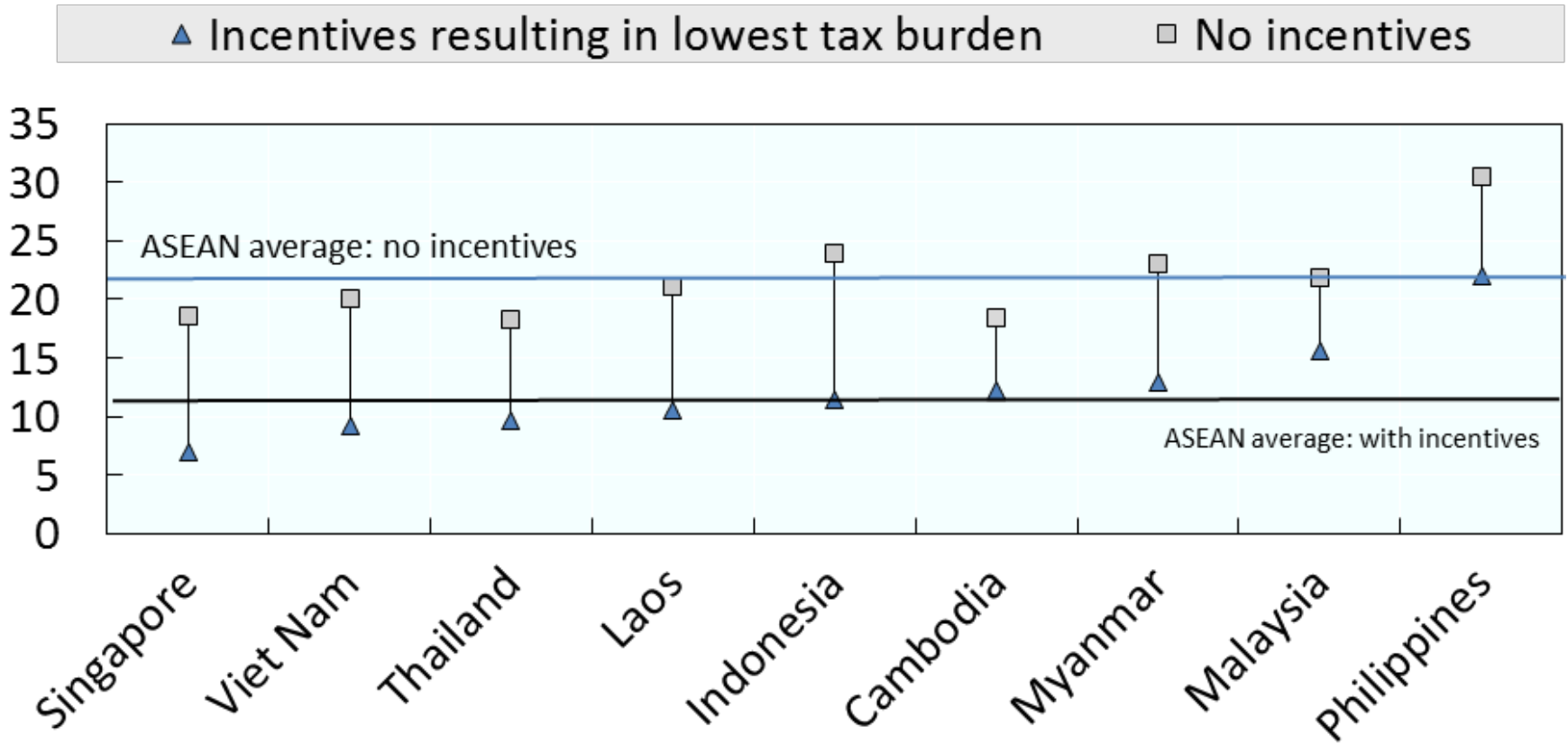
Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018





# Race-to-the-bottom: Incentives are erasing tax base in ASEAN

Average effective tax rates (AETRs) with and without incentives (in %)



Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018

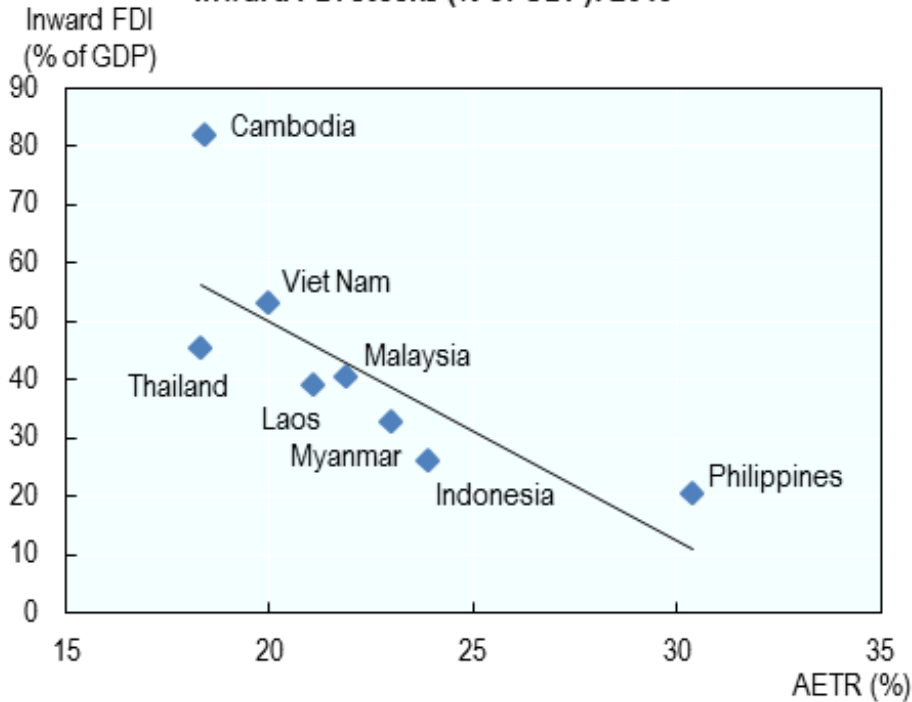


## *2. BENEFITS AND COSTS OF INCENTIVES IN ASEAN*



# Benefits of incentives are uncertain

**A. Comparison of average effective tax rates and inward FDI stocks (% of GDP): 2015**

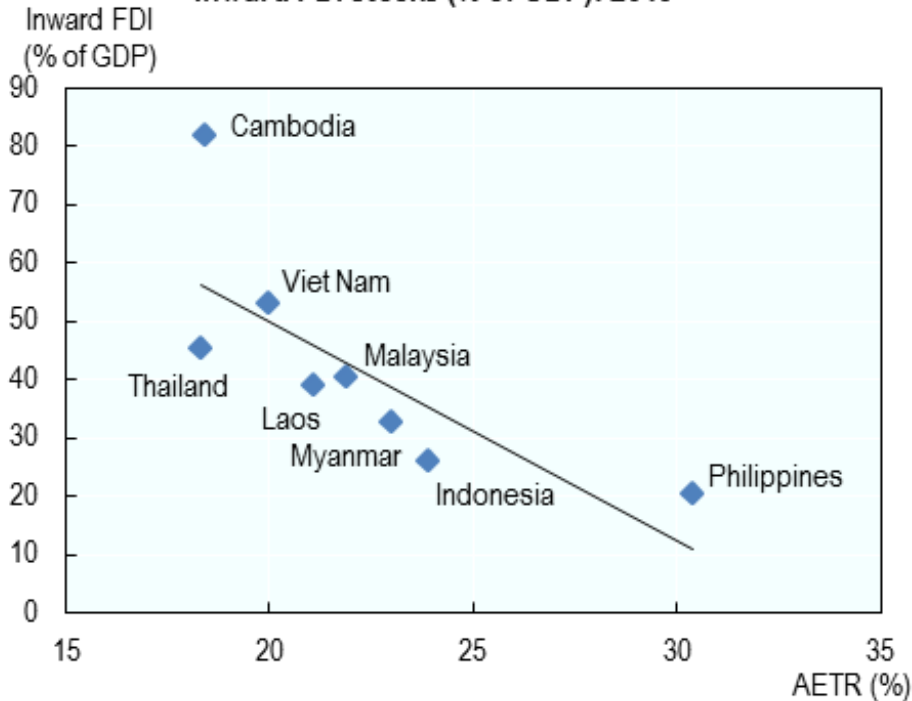


Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018

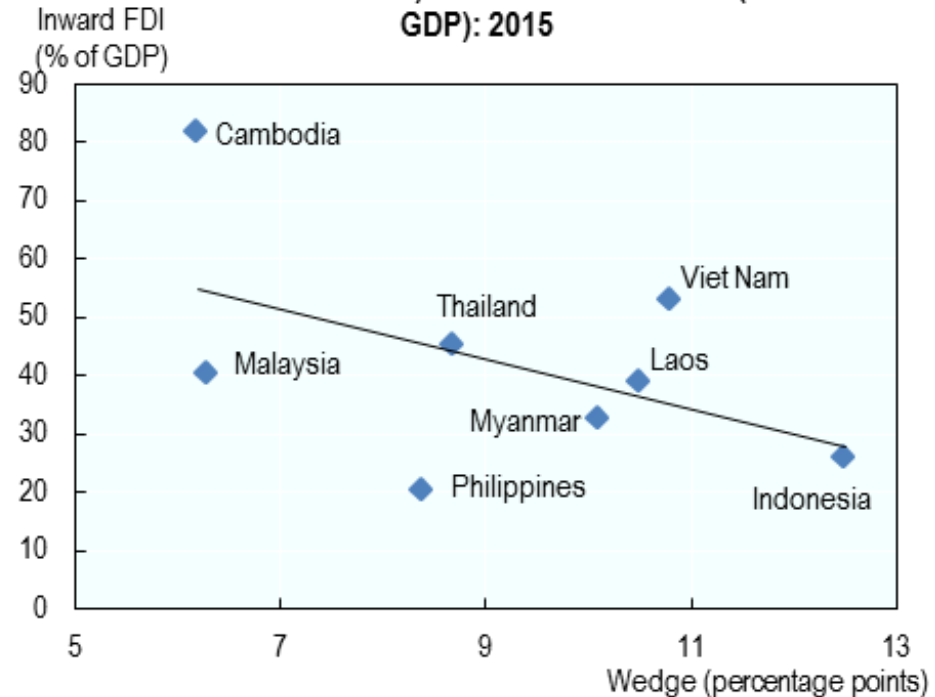


# Benefits of incentives are uncertain

**A. Comparison of average effective tax rates and inward FDI stocks (% of GDP): 2015**



**B. Comparison of wedge of effective tax rates (before and after incentives) and inward FDI stocks (% of GDP): 2015**



Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018



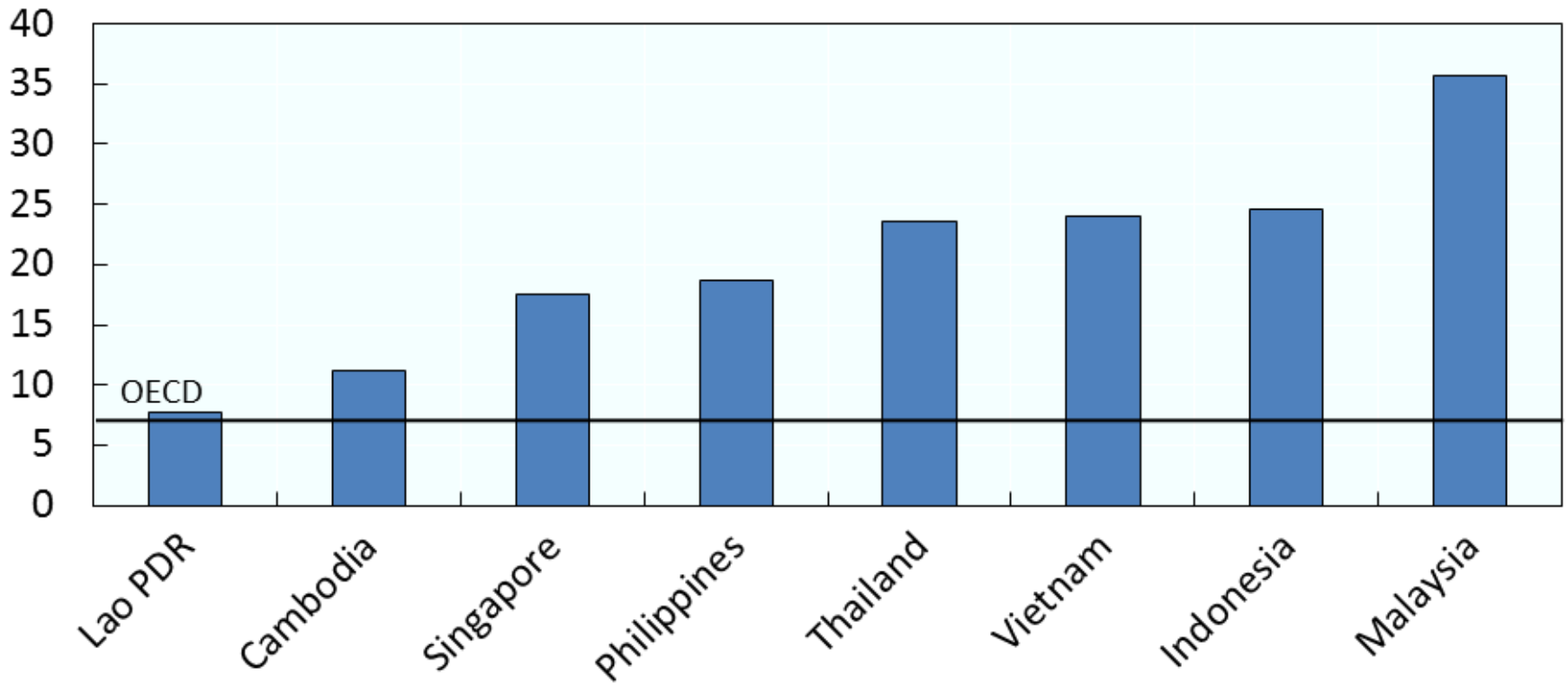
# Incentives can be used to promote economic and social objectives

	Local sourcing, SME	Employment, training and skills	R&D and other strategic	Green growth	High-tech	Export	Import	Head-quarter	Territorial, SEZs	Infrastructure
Brunei Darussalam										
Cambodia										
Indonesia										
Laos										
Malaysia										
Myanmar										
Philippines										
Singapore										
Thailand										
Viet Nam										

Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018



# Tax incentives can involve significant fiscal losses



Source: OECD (2018), OECD Investment Policy Reviews: Southeast Asia 2018



# *3. POLICY CONSIDERATIONS FOR SMARTER USE OF TAX INCENTIVES*



## Tax incentives may be better coordinated within and across AMS

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- Coordinate incentive policies across government ministries by appointing overarching institution
- Prescribe incentives in one law, preferably tax law
- Define eligibility clearly and avoid discretion
- Develop ASEAN policy forum to address potentially harmful tax competition; possibly agree on code of conduct on the use, reporting and monitoring of tax incentives





## Profit-based tax incentives should be phased out and cost-based schemes strengthened

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- Consider replacing tax holiday schemes with cost-based tax deduction or credit schemes
- Retain import duty and export tax exemptions (if compatible with int. commitments) OR lower duties across-the-board



# Incentives may be increasingly targeted to sectors and activities

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- Consider enhancing sectoral targeting of incentives based on defined development strategies (e.g. diversification, local linkages, GVCs)
- Provide incentives for specific activities (e.g. supplier development, training)
- But: Assess effectiveness of incentives regularly to avoid distortions
- And: Apply simply untargeted regime in a situation of limited institutional capacities



# CONCLUSION



## Key messages

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1. Incentives are erasing tax base in ASEAN
2. Effectiveness of incentives to attract investment are uncertain, particularly tax holidays
3. More targeted approaches, with cost-based schemes, have the potential to promote specific development objectives
4. Enhanced within AMS and regional coordination may be envisaged



Thank you

terima kasih

cảm ơn bạn

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ありがとう

salamat

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