A Member
VNU UNIVERSITY OF ECONOMICS & BUSINESS

Towards Sustainable Tax Policies in the ASEAN Region:

The Case of Corporate Tax Incentives

Hanoi, Jun 25, 2020

VEPR

Contents

Contents

VEPR

Overview

- Enormous differences between ASEAN countries, from population and economic development to good governance.
- Two countries, Singapore and Brunei, have the smallest populations in the region and the highest per capita incomes.

Overview of ASEAN countries, 2018

Country	Population (million)	Female, % Population	Labour forces, % population)	GDP (constant prices, billion USD)	GDP (PPP constant prices, billion USD)	GDP per capita (PPP, USD)	Poverty rate (income)
Singapore	5.64	47.66	61.96	328.44	508.00	90,091.42	n. a
Brunei	0.43	48.04	49.99	13.49	30.80	71,802.27	n. a
Malaysia	31.53	48.58	48.79	382.13	889.14	28,201.06	0.40
Thailand	69.43	51.27	56.04	441.68	1,173.67	16,904.70	9.90
Indonesia	267.66	49.64	49.59	1,146.84	3,106.46	11,605.86	9.80
Philippines	106.65	49.74	41.13	322.30	847.08	7,942.51	21.60
Vietnam	95.54	50.10	59.57	187.69	631.39	6,608.62	6.70
Laos	7.06	49.79	52.85	12.61	46.62	6,601.33	23.40
Myanmar	53.71	51.81	45.56	84.42	318.06	5,922.02	24.80
Cambodia	16.25	51.20	56.56	19.58	62.88	3,869.49	17.70

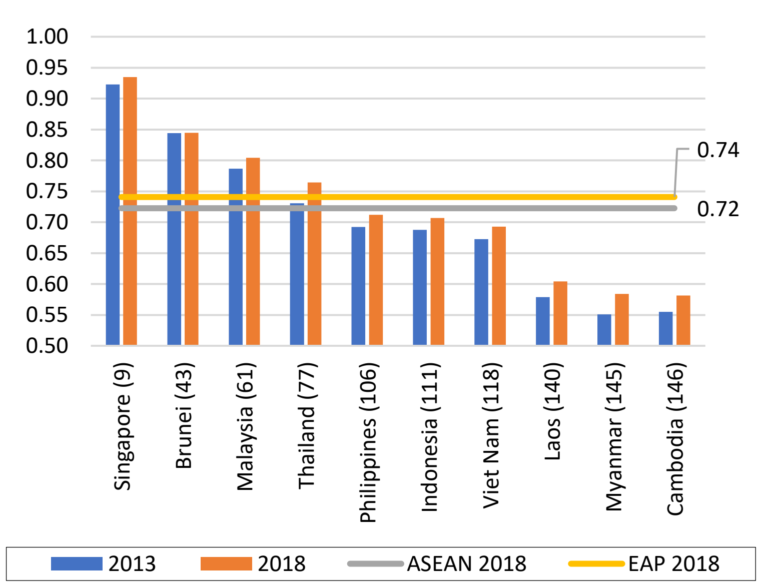
Note: poverty data: Myanmar (2017); Campuchia and Laos (2012); The Philippines and Malaysia (2015).

Source: World Development Indicators – (WB, 2020)

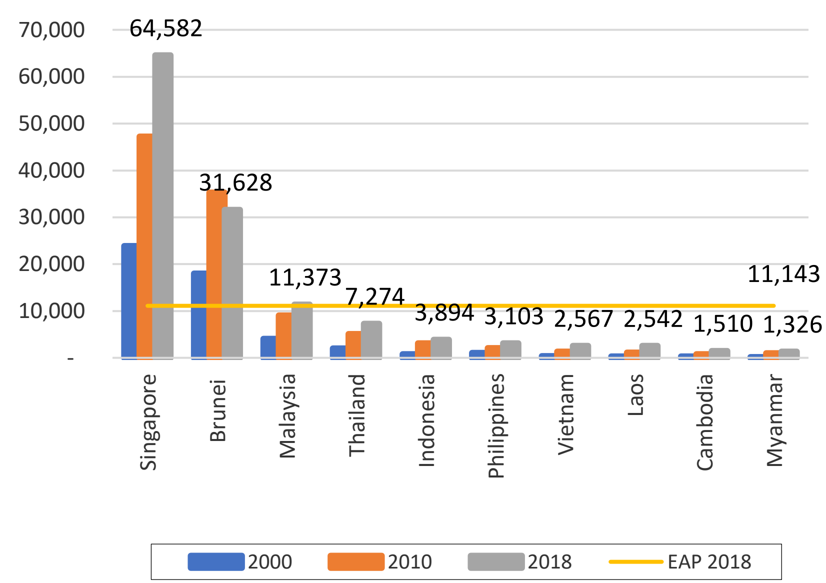
Income gaps among Countries

- The income gap (GDP per capita, current $) between countries has been increasing in absolute terms but decreasing in relative terms.
- Seven of the 10 ASEAN countries had lower per capita income levels in 2018 than the EAP average of $11,143.

HDI Rankings and GDP per capita (current $) in ASEAN Countries, 2000-18



HDI



GDP per capita

Note: EAP: East Asia and the Pacific Region.

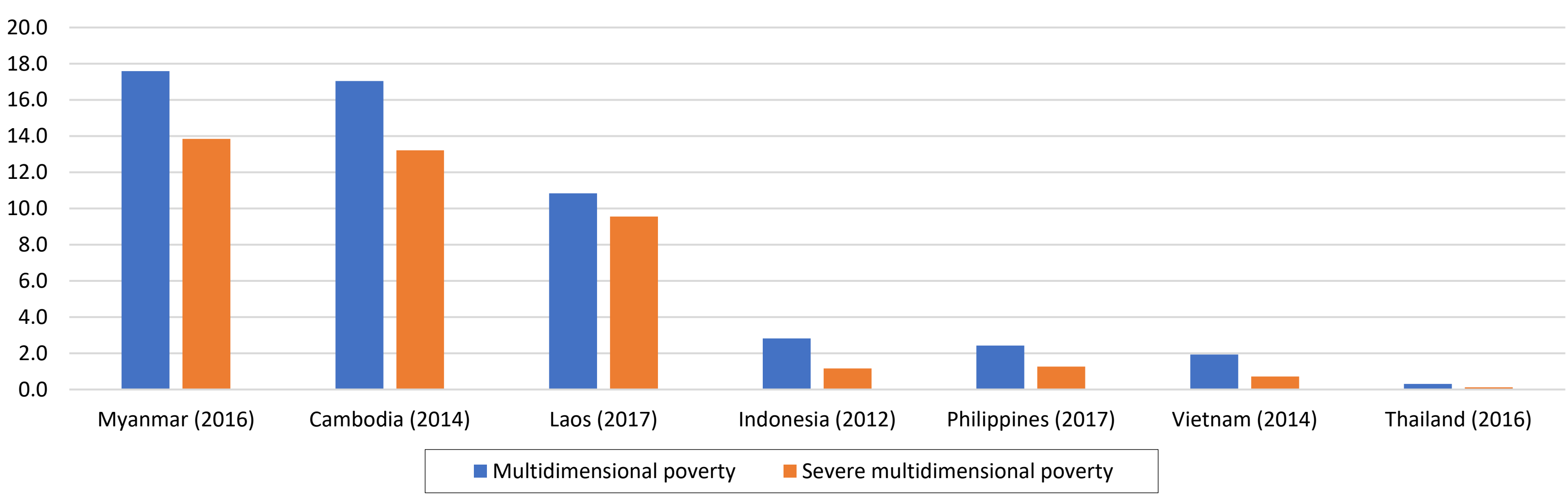
Source: WB (2020) and UNDP (2020)

VEPR

Poverty rate

- Many ASEAN countries have to tackle high poverty rates measured by income, including Myanmar (24.8%), Laos (23.4%), the Philippines (21.6%), and Cambodia (17. 7%).
- Multidimensional Poverty Index (MPI): Myanmar, Laos, and Cambodia are left behind with more than 10% of their populations living in multidimensional poverty

Multidimensional Poverty Index in ASEAN Countries (% population)



Note: years for data surveys in parentheses, sorted by MPI, no available data for Malaysia, Brunei, and Singapore.

Source: UNDP (2020)

VEPR

Gini Index

- High levels of inequality within the ASEAN countries (Talpur, 2019).
- The Philippines' income Gini index was the highest one in the region during the period of 2000-2017.
- Singapore and Indonesia saw increased inequality at the highest spaces in this region during a 1999-2014 period (UNESCAP, 2018b).

Gini Index in ASEAN Countries, 2000- 2017

Country	Income Gini index		Income share held by poorest 40%		Income share held by richest 10%		Wealth Gini index
	2000-2009	2010-2017	2000-2009	2010-2017	2000-2009	2010-2017	2016*
Philippines	46.9	45.5	13.8	14.5	36.8	35.6	83.9
Malaysia	45.9	42.1	13.6	15.4	34.5	32.1	82.0
Singapore	n. a	39.8	n. a	n. a	n. a	n. a	73.3
Indonesia	33.5	38.9	21.0	17.7	27.1	31.2	83.7
Myanmar	n. a	38.1	n. a	18.6	n. a	31.7	n. a
Thailand	41.3	37.6	16.3	18.0	32.2	29.3	85.1
Cambodia	n. a	36.6	n. a	n. a	n. a	n. a	70.0
Laos	34.0	36.4	20.4	19.1	28.2	29.8	84.9
Vietnam	36.3	36.3	18.7	18.5	28.6	28.1	74.5

Note: *Income Gini indices for Cambodia and Singapore, wealth Gini Indices for all ASEAN countries are collected from WEF (2018). The others are from WB (2020). A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. This table is sorted by income Gini Index in a 2010-7 period. No data available for Brunei.

Source: UNDP (2020)

VEPR Governance

- Governance capabilities vary among ASEAN countries. However, citizens have low levels of voice and accountability in the economies of all ASEAN countries.
- Some countries, such as Myanmar and the Philippines, are facing political instability, which prevents them from addressing other socio-economic issues such as high poverty levels, widening inequality, and a lack of voice for their citizens.

Good Governance in ASEAN Countries, 2018

Country	Control of Corruption	Government Effectiveness	Political Stability	Regulatory Quality	Rule of Law	Voice and Accountability	Simple Average
Singapore	99.0	100.0	98.6	99.5	97.1	41.9	89.4
Brunei	79.8	87.0	91.9	74.5	75.0	24.6	72.1
Malaysia	63.9	81.3	54.3	74.0	74.5	41.4	64.9
Indonesia	46.2	59.1	27.6	51.0	42.8	52.2	46.5
Thailand	40.9	66.8	19.5	59.6	54.8	20.2	43.6
Vietnam	38.0	53.4	53.8	36.5	54.3	9.4	40.9
Philippines	34.1	55.3	12.9	56.7	34.1	47.8	40.2
Cambodia	8.7	32.2	51.4	32.7	11.1	13.8	25.0
Laos	15.4	24.5	60.0	20.7	18.8	4.4	24.0
Myanmar	30.3	12.5	10.5	22.6	15.4	23.6	19.1

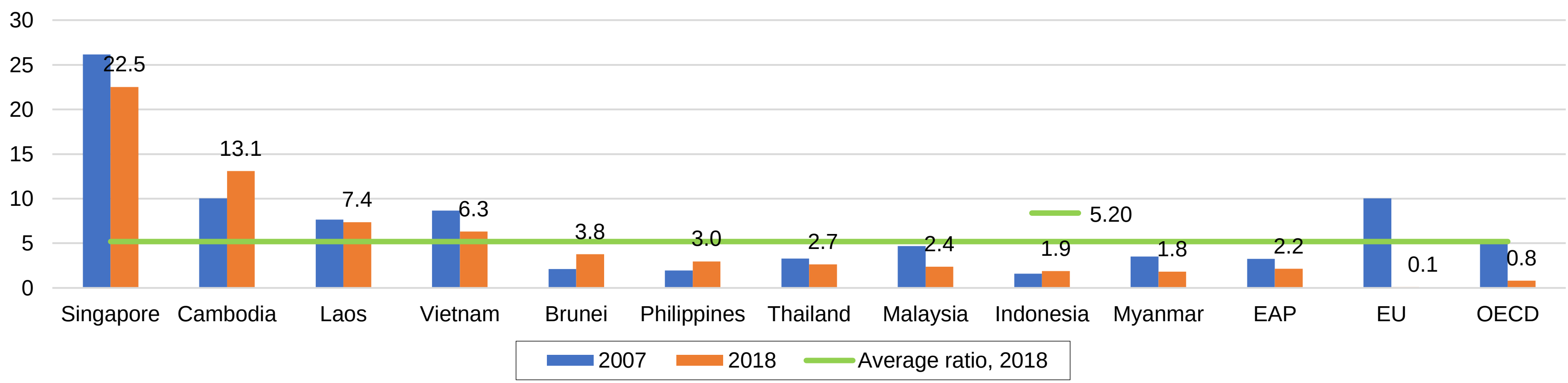
Note: WB gives a score to each country in each aspect of governance (0-very bad, 100 very good) and does not rank countries as overall index of good governance. This table is sorted by simple average score.

Source: WB (2020)

FDI Inflows

- FDI inflows into ASEAN countries, on average, increased 5,2% during 2010-2018. However, six out of ten ASEAN countries witnessed the decrease in the ratio of FDI to GDP.
- Singapore received 50% of the total FDI capital. However, Singapore is considered to become an intermediary investor in attracting phantom FDI and reinvesting into other countries so that MNCs can enjoy low CIT rates (Damgaard et al., 2019; Garcia-Bernardo et al., 2017).

Net FDI Inflows in ASEAN countries, 2007-18 (% GDP)



Source: WB (2020)

VEPR

Contents

VEPR

Fiscal Stress

- Four ASEAN countries facing the highest public debt ratios to GDP are Singapore, Laos, Vietnam, and Malaysia.

Debt Indicators in ASEAN Countries, 2007-2018, (% GDP)

Country	Public Debt		External Public debt	
	2007	2015	2015	2018
Singapore	86.3	104.7	n. a	n. a
Laos	62.5	61.9	46.5	51.0
Vietnam	40.9	58.3	24.0	21.7
Malaysia	39.9	57.4	n. a	n. a
Thailand	35.1	42.7	5.6	7.1
Philippines	44.6	34.8	13.4	11.0
Myanmar	62.5	34.3	21.9	19.2
Cambodia	30.5	32.5	30.2	27.4
Indonesia	32.3	27.3	18.5	20.9
Brunei	0.7	2.8	n. a	n. a

Note: Public debt is calculated from the WB's data (2020), other is calculated from the IMF's data (2020).

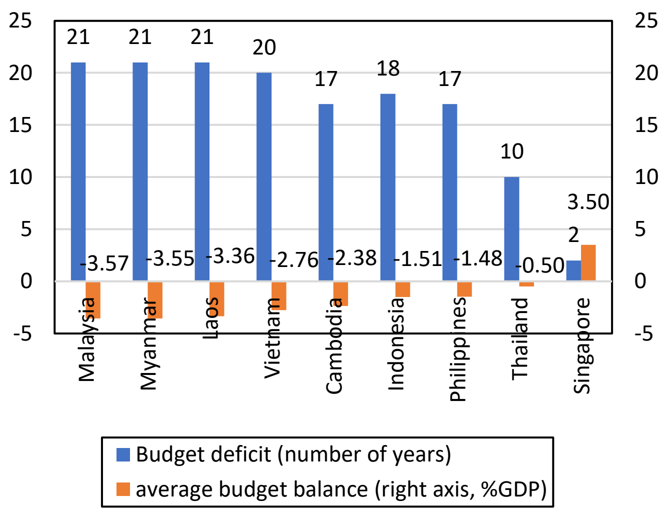
Source: Global Debt Database – IMF (2020); World Development Indicators - WB (2020)

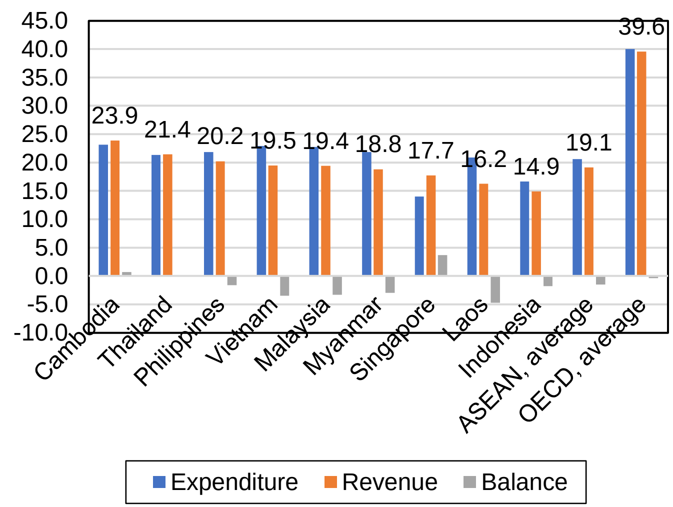
VEPR

Fiscal Stress (cont.)

- Seven ASEAN countries suffer persistent budget deficits in a long period. Malaysia, Myanmar, and Laos experience these deficits throughout 2000-2020. Vietnam, Cambodia, Indonesia, and the Philippines will have run the deficits for 17 to 20 years in the same period.
- In 2018 alone, six countries lack resources for budget spending in 2018 with budget deficits at 4.7% of GDP (Laos), and 3.5% (Vietnam), about 3% (Malaysia and Myanmar), and around 1.7% (the Philippines and Indonesia).

Estimated Budget Indicators in ASEAN Countries





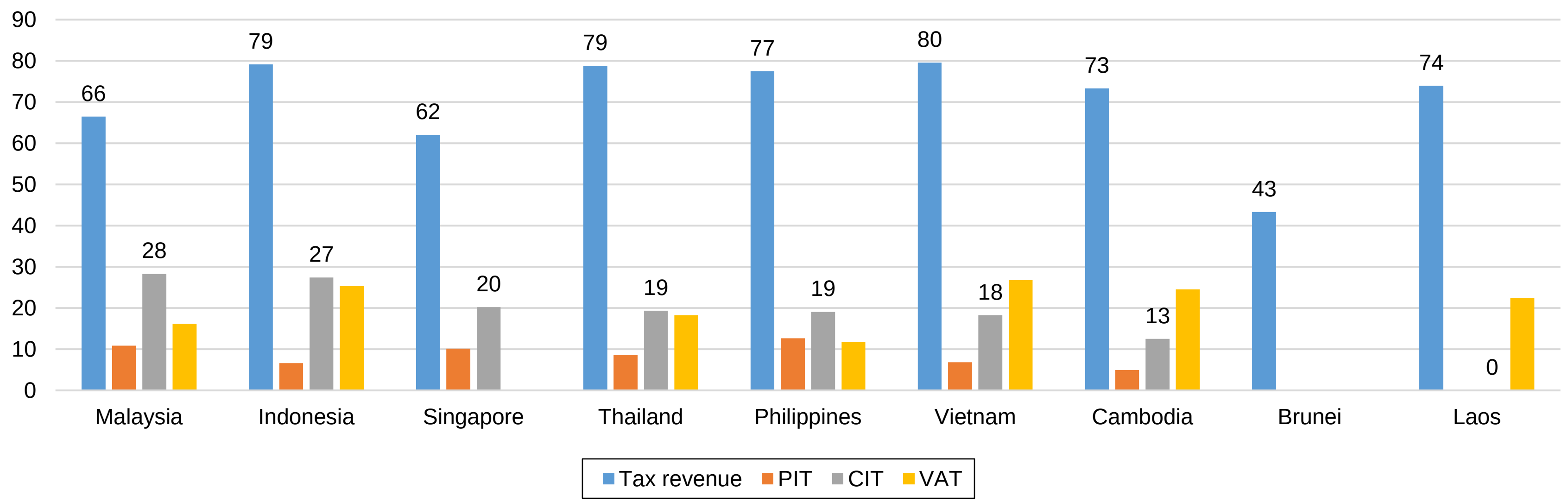
Note: Public debt is calculated from the WB's data (2020), other figures calculated from the IMF's data (2020).

Source: Global Debt Database – IMF (2020); World Development Indicators - WB (2020)

VEPR Tax System

- Tax revenue accounted for more than 60% of the total budget revenue; especially in Indonesia, Thailand and Vietnam, their rates were nearly 80%.
- Malaysia and Indonesia are highly dependent on revenue from CIT with CIT revenue accounting for more than a quarter of total budget revenue.

Structure of budget revenues in ASEAN countries, 2017

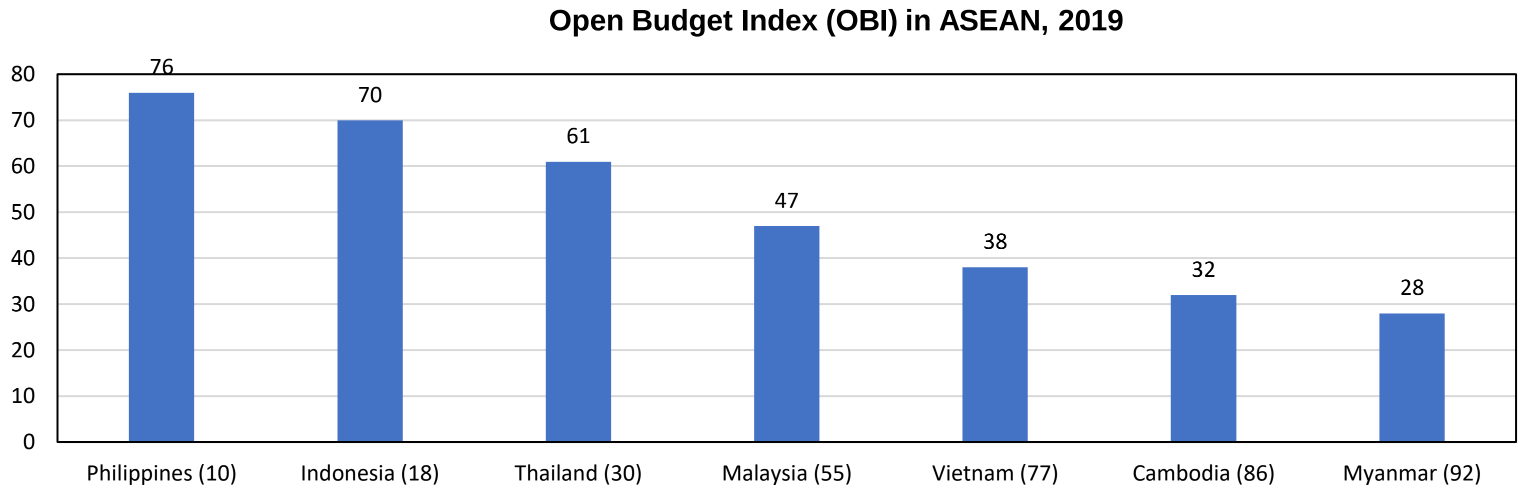


Note: Data from Cambodia and Malaysia in 2016, not available data for Myanmar since 2006.

Source: World Revenue Longitudinal Dataset (WoRLD) – (IMF, 2020b), and (Vietnamese Ministry of Finance, 2019)

Open Budget Index

- The degree of budget transparency between the countries is highly various.
- Among the ASEAN countries that have the Open Budget Index (OBI), the Philippines had the highest index (76/100), ranking 10th among the 117 evaluated countries.
- Meanwhile, Myanmar had the lowest index (28/100) and ranked 92nd over 117 evaluated countries.



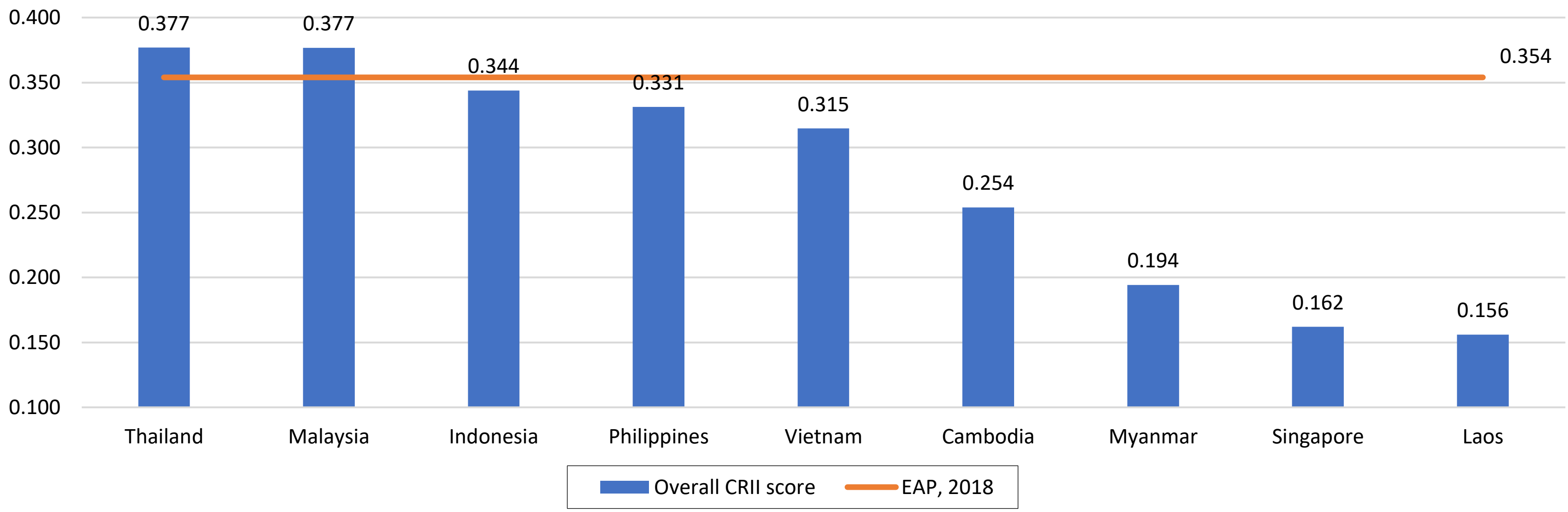
Note: This index assesses budget transparency of 117 countries on a scale of 0 (not transparent) - 100 (very transparent)

Source: IBP (2020)

Commitments to Reducing Inequality Index

- DFI and Oxfam (2018) developed the Commitments to Reducing Inequality Index (CRII) to emphasize key roles of fair tax, public spending on health, education, social protection, and labour regulations in tackling inequality.
- All ASEAN countries are in the bottom half of this ranking.

CRII Scores in ASEAN countries, 2018



Note: Not available data for Brunei. The CRII 2018 ranks 157 countries for their policy performance on social spending, progressive taxation, and labour rights – three areas critical in reducing inequality.

Source: DFI and Oxfam (2018)

VEPR

Fiscal Stress to Tackle Inequality

- ADB (2018) vividly show that almost all of the ASEAN countries face fiscal stress for essential public services (income security, health services, education services, and other essential goods and services) to achieve SDGs.
- The problem is most acute for three poor ASEAN countries, Cambodia, Laos, and Myanmar.

Fiscal Stress Invoked by the Social Protection Agenda in ASEAN Countries, 2018

Without any or with low expected fiscal stress	With manageable expected fiscal stress	With major expected fiscal stress
= relative stress <10%	**= relative stress between 10%-20%**	**= relative stress >20%**
Indonesia	Malaysia	Cambodia
Philippines	Vietnam	Laos
Thailand		Myanmar

Note: Singapore and Brunei not included. Timor-Leste in the group with major expected fiscal stress.

Source: ADB (2018)

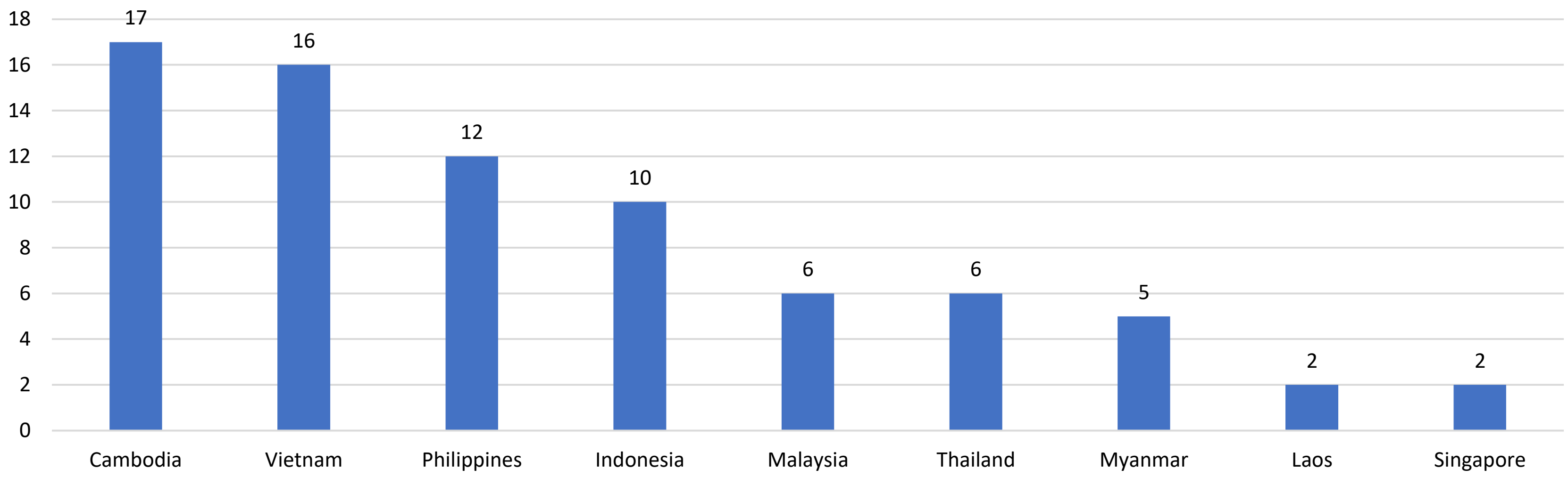
VEPR

Contents

Legal Framework

- Tax incentives are stipulated in the Tax Law and Laws related to foreign investment. It is challenging to harmonize legal systems and practice on corporate tax incentives across the ASEAN region, due to the complexity of such systems and countries' own sovereignty.
- Tax Laws in general and the Laws on tax incentives in particular are constantly amended to meet the needs of socio-economic development nationally. In the ASEAN region, the Laws on tax incentives are updated to follow the trend of increasing incentives.

Number of effective legal documents of CIT incentives in ASEAN, 2020



Note: In Laos and Singapore, only official laws are listed

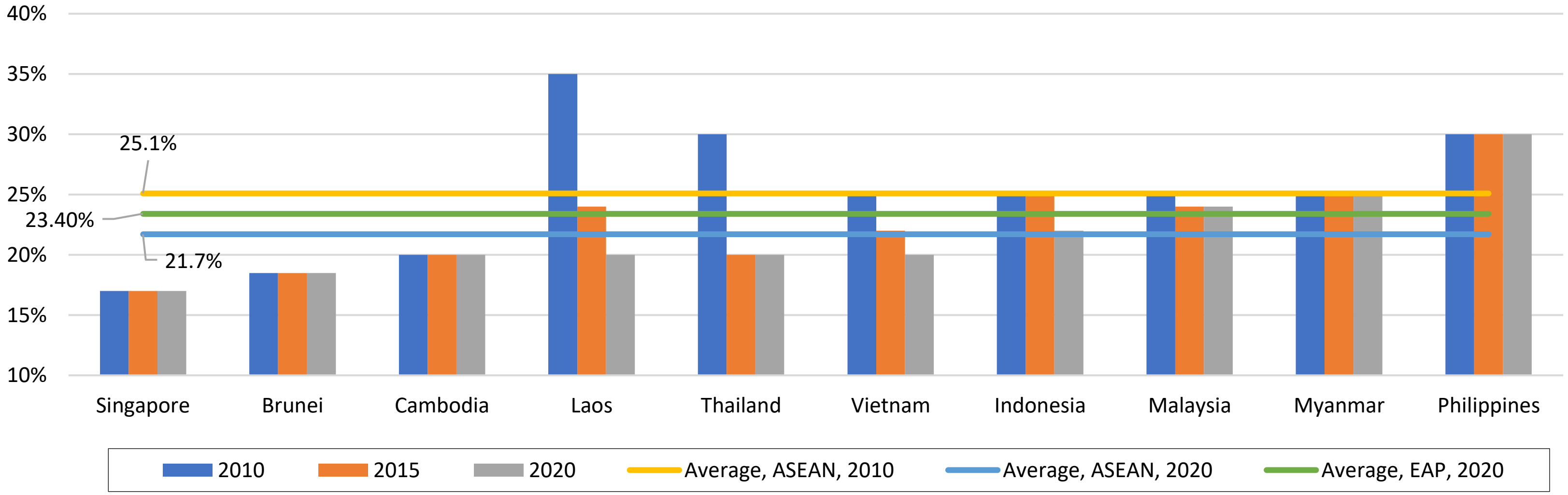
Source: The authors' review

VEPR

Standard Corporate Income Tax

- ASEAN countries set their own standard corporate income tax rates: The highest tax rate at 30% (the Philippines), the lowest at 17% (Singapore).
- The average corporate income tax rate in the ASEAN countries tends to decline over the past decade, from 25,1% (2010) to 21,7% (2020). This rate in 2020 is 1.7 percentage points lower than one in selected countries of the EAP region.

Standard CIT Rates in ASEAN Countries, 2020 (%)

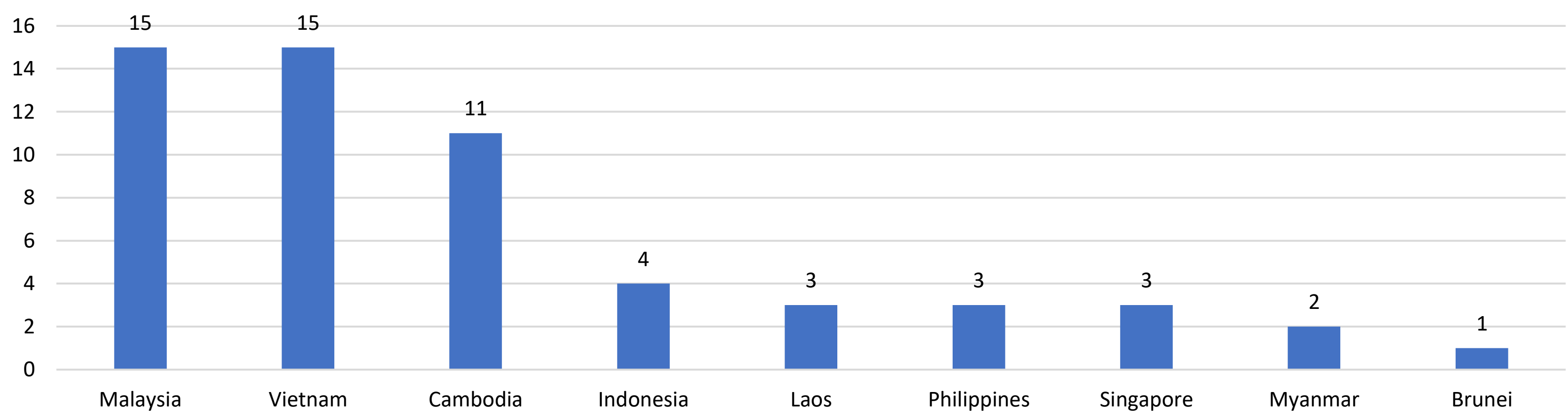


Source: Trading Economics (2020)

Corporate Tax Incentives
Tax Exemptions

- Depending on the governments' choices, they determine the eligible activities and fields for tax exemptions.
- Laos, Myanmar, and Indonesia provide tax exemptions for reinvesting activities.
- Vietnam and Cambodia enact the same policy to economic activities in the agriculture sectors. Malaysia does so for its approved service projects.
- Singapore and Brunei provide tax exemptions for enterprises by scale.

Number of forms of CIT exemptions in ASEAN countries, 2020



Note: There are differences among countries in the category of tax-exempt. For example: Vietnam and Cambodia classified by income source. Singapore, Indonesia, Lao PDR, Malaysia, Myanmar and the Philippine classified by business activities. Brunei classified by business scale.

Source: The authors' review and classifications

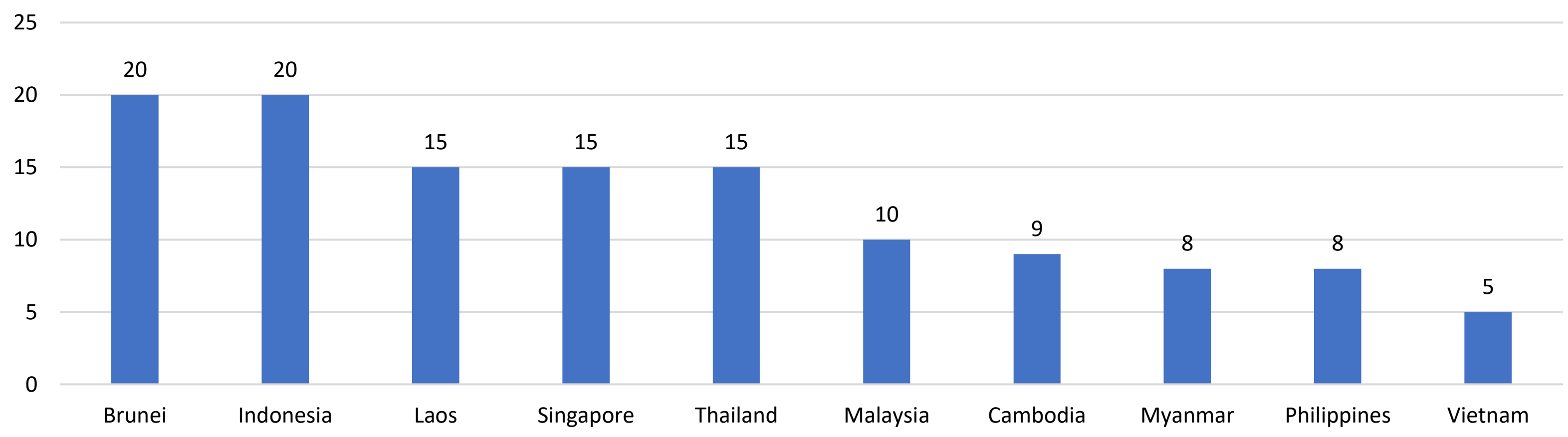
VEPR

Corporate Tax Incentives

Tax Holidays

- Tax holidays in the ASEAN last from 5 to 20 years. Brunei and Indonesia offer the longest periods of tax holiday, up to 20 years.
- Stausholm (2017) concludes that this profit-based incentive tool is not effective for developing countries to achieve sustainable development; on the contrary, it undermines the development. As the OECD argues, tax holidays as well as other profit-based incentives should be reduced and eliminated (OECD, 2019a).

Maximum period of tax holidays in ASEAN, by host country, 2020 (No. of year)



Source: The authors' review

VEPR

Corporate Tax Incentives
Tax Preferences

- While tax exemptions and holidays are limited to certain groups of investors, tax preferences are more widely applied to various business activities.
- . Businesses can enjoy CIT reductions of between 50% and 100%.
- Four countries - Cambodia, Thailand, Indonesia, and Malaysia - offer the most attractive preferential tax rate, at 100%.

The CIT rate and preference in ASEAN, by host country, 2020

Country	General CIT rate	CIT rate after preferencing (at the highest preferential level)
Brunei	18.5%	n.a
Campuchia	20%	0%
Indonesia	22%	0%
Laos	20%	5%
Malaysia	24%	0%
Myanmar	25%	12.5%
Philippines	30%	5%
Singapore	17%	5%
Thailand	20%	0%
Vietnam	20%	10%

Source: The authors' review

VEPR

Corporate Tax Incentives
Tax Deductions

- Enterprises in the ASEAN region are allowed to deduct reasonable expenses from their income.
- In some countries, such as Cambodia, Malaysia, Singapore, and Thailand, extra tax deductions are offered for activities related to SMEs, training, research and development (R&D), exporting, and expansion overseas. Singapore offers up to **400%** tax deduction on certain eligible expenditures.
- In Vietnam, tax deductions are applicable to additional expenses relating to employing female workers in companies in the manufacturing, construction, or transport sectors and to ethnic minority workers in all types of business.
- In the Philippines, tax deductions are applicable to additional expenses relating to employing female workers in companies in the manufacturing, construction, or transport sectors and to ethnic minority workers in all types of business.

VEPR

Tax Incentives in ASEAN Countries

Transfer Losses Forward

- Unutilized losses can be carried forward indefinitely and offset against future trading profits.
- Indonesia offers an extension of tax loss carry-forward of up to 10 years to companies in certain designated business areas or in certain designated regions.
- The other countries provide the 3-6 years of loss transferring time.

Transfer losses forward in ASEAN, by host country, 2020

Country	Maximum transfer period (years)
Brunei	n.a
Campuchia	5
Indonesia	10
Laos	3
Malaysia	Indefinitely
Myanmar	5
Philippines	6
Singapore	Indefinitely
Thailand	5
Vietnam	5

Source: The authors' review

VEPR

Corporate Tax Incentives
Other Tax Incentives

- The governments provide several other tax incentives such as tax credits, investment subsidies, and depreciation
- In Singapore and Indonesia, incomes from other countries could avoid double taxation through foreign tax credits granted under treaties for the avoidance of double taxation.
- Singapore provides an M&A assistance, which permits companies to write off 25% of the value of an acquisition from 4/2015 to the end of 3/2020.
- In the Philippines, the companies that satisfy substantial conditions could have a 50% tax deduction of their reinvestment assistance. Malaysia also provides accelerated capital assistance for the enterprises.
- The accelerated depreciation method is applied in many countries. In Vietnam, the minimum time frame of depreciation of all types of fixed assets could be 5-6 years, even shorter, 2-3 years.

VEPR

Tax Incentive as Response to COVID-19 Pandemic

- In the context of the COVID-19 pandemic, the ASEAN countries have put in place supportive policies to counter the negative economic effects, including fiscal and monetary policies.

Tax Incentives for the COVID-19 in Selected ASEAN countries, 2020

Country	Detailed
Cambodia	Companies severely affected by the disruption are given tax holidays of six months to one year.
Indonesia	Hoteliers and restaurants located in one of 10 tourist destinations promoted by the government have their taxes waived for six months. CIT was reduced by 30% for businesses in 19 selected manufacturing industries for six months.
Laos	Micro enterprises are exempted from paying income tax for three months from April 2020.
Malaysia	Businesses in the tourism industry such as hotels, airlines, and travel agencies are given a deferment of their monthly tax instalments for six months starting from April 1, 2020.
Myanmar	Income and commercial tax payments due in the second and third quarters of the fiscal year have been made extendable to end of the fiscal year, and an exemption for the 2 percent advance income tax on exports to the end of the fiscal year.
Singapore	Incentives are aimed at helping businesses through a CIT rebate for the 2020 financial year at a rate of 25% and capped at SGB15,000 (USD10,700) per company.
Thailand	Extends the deadline for companies and juristic partnerships to file annual corporate income tax returns and transfer pricing disclosure forms to 31 August 2020. The deadline for filing half year corporate income tax returns is also extended to 30 September 2020. Increasing tax deduction for SMEs related to loan interest and employment salary.
Vietnam	The incentives include providing tax breaks, delaying tax payments, and delaying land-use fees for businesses, costing the government USD1.16 billion (VND 27 trillion). Vietnam's Central Bank has already cut interest rates from February 2020.

Source: The Authors' review from ASEAN Briefing (2020), Deloitte (2020), IMF (2020c), and ITR (2020)

VEPR

Tax Incentive as Response to COVID-19 Pandemic (cont.)

- Additional tax incentives applied during the pandemic are not substitutes for other tax incentives that already exist: expected to be temporary solutions to bail out economies in the short term.
- Support should be targeted towards the most affected and most vulnerable rather than in an unplanned way, which risks creating another '*new normal*' race to the bottom once the pandemic is over.
- Budget burdens have increased as governments make efforts to introduce supportive packages to deal with the pandemic. In ASEAN countries, this spending is enormous:
  - Singapore is spending about 13% of its GDP and Thailand 9% on extensive fiscal stimulus measures.
  - In the Philippines, Indonesia, and Vietnam, about 3% of GDP (Meanwhile, according to the OECD (2019a), tax expenditure from CIT in the Philippines and Vietnam accounts for 1% of GDP. If no tax incentives were available for corporations, the budget burden in these countries would decrease by one-third.)

VEPR

Tax Competition

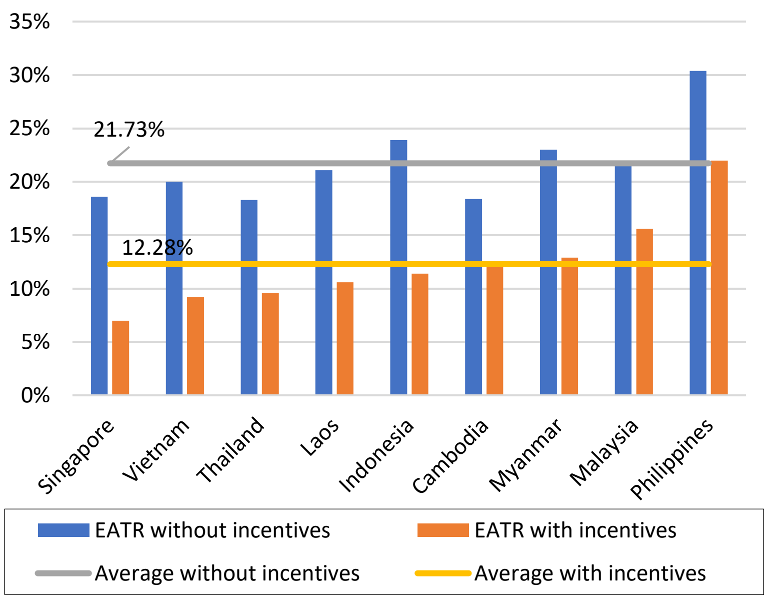
- Overuse of tax incentives can draw developing countries into a race to the bottom, as neighboring countries try to outdo each other in generosity in their efforts to attract investors from industrialized countries.
- The process of shifting production from China to the ASEAN region may worsen this competition between countries, as they seek to attract FDI inflows to further their own interests in boosting economic development, without seeing the wider regional picture.
- In attracting sustainable FDI to promote economic growth, good governance plays a decisive role over the long term (Globerman & Shapiro, 2002). Meanwhile, tax incentives lead businesses to minimize the amount of taxes they pay rather than expanding their production (Shukla et al., 2011).

VEPR

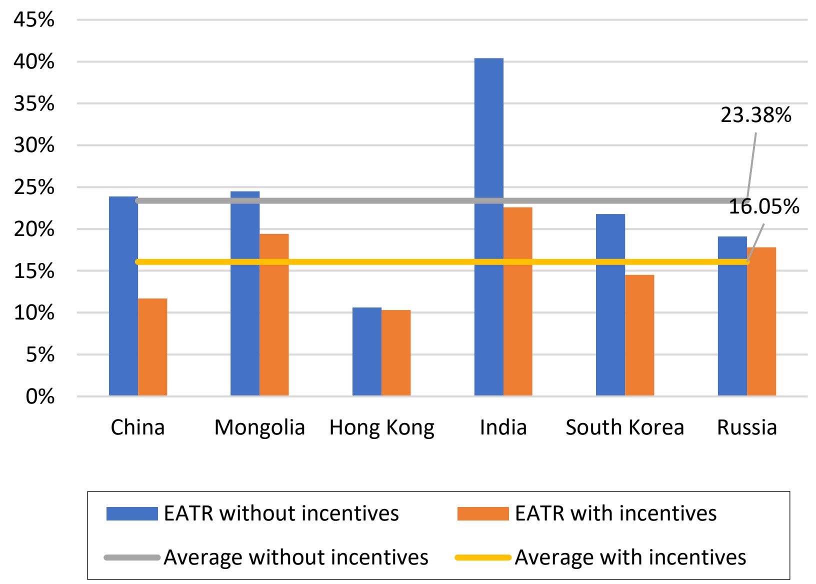
Tax Competitive
Average Effective Tax Rate (AETRs)

■ Taking into account the tax holidays of up to 20 years and other enormous profit-based incentives offered to multinationals by some countries, the effective CIT rate is on average 9.4 percentage points lower (2015).

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



ASEAN countries



Selected Asia-Pacific countries

Source: Wiedemann and Finke (2015)

VEPR

Tax competition
Case Studies

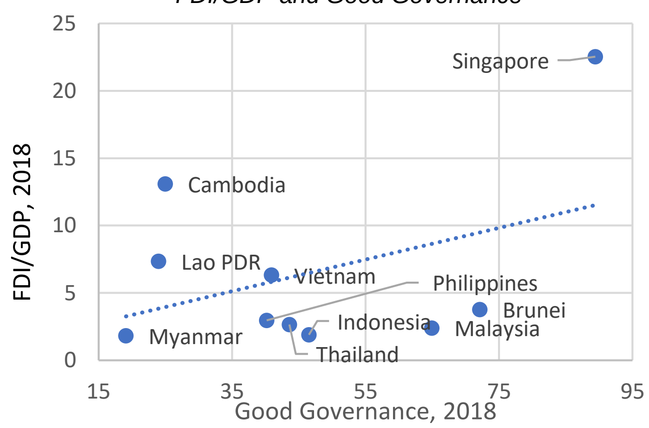
- Budiantoro (2015) shows a long history of tax competition between the Philippines, Vietnam, Thailand, and Indonesia, with the four countries vying with one another for manufacturing investments and using tax incentives as a tool to attract FDI.
- In 1996, competing to lure investment from the US firm General Motors, the Philippines offered a CIT exemption of eight years and Thailand offered a similar exemption, but with an additional amount equivalent to $15m.
- In 2001, hoping to win investment from Canon of Japan, Vietnam offered a CIT exemption of 10 years, but was out-competed by the Philippines, which offered an exemption of 8–12 years.
- In 2014, in an attempt to entice investment from Samsung of South Korea, Indonesia offered a CIT exemption of 10 years, while Vietnam offered one of 15 years.

VEPR

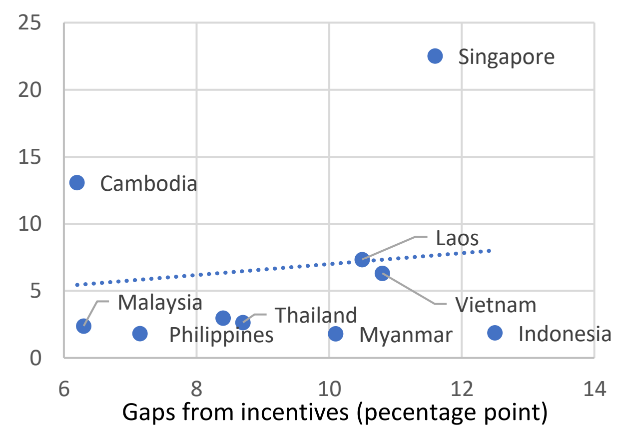
Tax Incentives and FDI

- In attracting sustainable FDI to promote economic growth, good governance plays a decisive role over the long term (Globerman & Shapiro, 2002).
- In the ASEAN region, there is a statistically significant and positive correlation between FDI/GDP and good governance; however, no correlation has been confirmed between FDI/GDP and tax incentives, as measured by gaps in tax rates with and without incentives.

FDI, Good Governance, and Corporate tax incentives in ASEAN Countries



Coefficient for Good governance: 0.1174
(P-value =0.005 <0.01)



Coefficient for the gaps: 0.4087
(P-value=0.7>0.1)

Note: We employ an Ordinary Least Squares (OLS) technique to regress FDI/GDP by good governance and gaps from incentives in the ASEAN region.

Source: The Authors' calculations from WB (2020) and Wiedemann and Finke (2015)

Contents

VEPR

Cost of Corporate Tax Incentive

Cost of Corporate tax incentives, Value and Case Study in ASEAN Countries

Country	Category	Type	Content
Brunei	Economic Inefficiency	Case study	A secrecy jurisdiction in the business ecosystem known as the Brunei International Financial Centre.
Cambodia	Tax expenditure from CIT	Value	6% of GDP.
Indonesia	Profit shifting	Case study	- Potential tax losses from coal mining company Adaro Indonesia (AI): $14m each year from 2009 to 2017. - 27 tax disputes between Indonesia and the Netherlands: a substantial loss of $26.5m.
Laos	Untransparent Mechanism	Case study	Concession investments negotiated case by case and no details of the final concession agreement.
Malaysia	Tax expenditure from CIT	Case study	- 62.4% of 1,251,190 companies registered with the Inland Revenue Board, but only 7.8% subject to tax. - No or low effective rates on income from geographically mobile financial and other service activities.
Myanmar	Redundant incentives	Case study	Incentives in exploitation of natural resources (offshore gas, minerals, and forestry) where the country has comparative advantages in this field (Oxfam, 2017).
Philippines	Tax expenditure from CIT	Value	1% of GDP.
	Tax expenditure from CIT	Case study	$22.17bn given away to a select group of 3,150 companies between 2015 and 2017.
Singapore	Profit shifting	Case study	Special purpose vehicles (SPVs) utilized by MNCs for tax evasion and tax avoidance through tax treaties.
Thailand	Redundant incentives	Case study	- 81% of investments would have been made even without incentives. - At least 70% of the investments that benefited from incentives would have been made without them.
Vietnam	Tax expenditure from CIT	Value	- 7% of state budget revenue in 2016 (VATJ, 2019). - 1% of GDP (OECD, 2019a).
	Redundant incentives	Case study	85% of investors said that tax incentives were not necessary (James, 2014).
	Economic inefficiency	Case study	Unfair investment environment for domestic companies compared with foreign-invested ones.

Note: Detailed sources in text. We provide selected sources in the table for source clarifications and ones not included in text. In tax expenditure, there are two subgroups: (i) values and case studies on tax expenditure; and (ii) case studies on redundant tax incentives.

Source: Authors' review

VEPR

Contents

Tax Incentives as Global Issues

- **In 1980 corporate tax rates averaged 40.4%, but in 2019 the average was 24.2%** (Tax Foundation, 2019). So far no meaningful policy action has been taken to stop this damaging race to the bottom.
- A first round of negotiations on international tax reform was led by the OECD; this concluded in 2015 under the mandate of the G20. The Base Erosion and Profit Shifting Agreement (BEPS 1.0) closed some of the loopholes in the tax system that allowed corporations to avoid tax—for example, through the abuse of tax treaties. However, the reforms did not adequately address tax competition through corporate tax incentives.
- In 2019, a new round of negotiations - referred to as BEPS 2.0 - started on the basis that more fundamental reforms were needed and recognizing the damaging nature of aggressive corporate tax competition. **The ongoing BEPS 2.0 negotiations are exploring amongst others whether there should be a global agreed minimum effective corporate tax rate for multinationals which would be applied on a per-country basis.**

VEPR

Contents

VEPR

Recommendations

- Corporate tax incentives have become a policy norm in ASEAN countries, which offer a range of tax incentives for multinational corporations (MNCs) as well as domestic firms. But overuse of tax incentives could cause developing countries to “race-to-the-bottom”.
- Enterprises in the ASEAN region, tax incentives are provided at a high level and the actual amount of revenue forgone due to such incentives are huge.
- The application of excessive tax incentives bears many limitations. Some examples are the high implementation and compliance costs, the potential of corruption, inequality extension, unfair investment environment, and revenue base erosion (OCED, 2019; UNCTAD, 2000).

- **Recommendation 1: Draw up a whitelist and a blacklist of tax incentives.**
- **Recommendation 2: Agree on a minimum tax standard across ASEAN.**
- **Recommendation 3: Establish rules for the good governance of tax incentives.**

VEPR

Recommendations

- **Recommendation 1: Draw up a whitelist and a blacklist of tax incentives.**

  - ASEAN countries should together draw up a blacklist of all the tax incentives that should no longer be allowed, and establish a plan to phase them out across the region by a certain date.
  - In parallel with this, they should agree on a whitelist of tax incentives that are acceptable and allowed.
  - The blacklist should include first and foremost profit-based tax incentives, i.e. those that offer a low rate of tax on profits made, such as tax holidays, significant tax exemptions, loss carry-backs, and preferential rates.
  - The whitelist should include investment-based tax incentives, i.e. those that focus on the investment itself.
  - A mechanism should be put in place at the ASEAN level to monitor developments in tax policy and to decide which incentives should be blacklisted or whitelisted. This mechanism should be transparent and accountable and should involve both political representatives and technical experts from governments, civil society, and academia in its operation.

VEPR

Recommendations

- **Recommendation 2: A minimum tax standard for the ASEAN**

  - The race to the bottom in ASEAN needs to stop, and while international policy developments towards a worldwide minimum tax rate are ongoing, member countries need to agree on an approach tailored to the region.
  - The ASEAN countries should agree that corporate tax incentives offered should not be set below the level of a minimum effective corporate tax rate. The appropriate rate is a subject for discussion, with a possible range of 12.5% to 20%. This would protect countries' domestic tax revenues and stop the beggar-thy-neighbor approach to policy making that has existed until now.

VEPR

Recommendations

- **Recommendation 3: Rules for good governance of tax incentives**

  - The ASEAN countries should agree on a good governance rulebook for tax. All incentives should have a legal basis in a country's corporate tax code, and no tax incentives should be given to companies arbitrarily. In all cases, any tax incentive should have a clear timeline and end date included in legislation.
  - The ASEAN countries should also incorporate all tax incentives into the relevant corporate tax code, with clear criteria defined. Finally, all countries in the ASEAN region should publish an annual tax expenditure report; this should be transparent and published along with their annual budget documents.
  - For the purposes of transparency and good governance, a cost-benefit analysis of potential tax incentive provisions should be carried out as a prerequisite for the approval of any tax incentive. Where incentives have been granted, authorities (preferably tax authorities) must monitor their impact by carrying out a mid-term evaluation to establish whether outcomes are meeting their expectations.

By carrying out these actions, ASEAN countries should be able to strengthen tax cooperation across the region.

VEPR

Thank you for your attention

For any feedback, please contact:
Vietnam Institute for Economic and Policy Research,
University of Economics and Bussiness, National University Hanoi
R.707, E4 Building, 144, Xuan Thuy, Cau Giay
Email: info@vepr.org.vn
Tel: 04.37547506 ext 714/ 0975608677
Fax: 04.37549921