Governance of tax expenditures
-Oxfam's approach

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Manila, Philipines

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National governance of Tax Expenditures

How does Oxfam's approach differ from others?

1. Inequality
2. Accountability stakeholders
3. Tax havens & harmful tax practices

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Inequality & the governance of TE’s

- TE governance is:

  …NOT just about achieving efficiency

  …NOT just about reducing budget deficits or meeting revenue targets

- Instead: TE governance should also help achieve progressive taxation:
  - Addis Tax Initiative, Commitment 1: ”*we will work together to gradually strengthen progressive revenue sources and advance the level of progressivity within tax and non-tax revenues. <u>We will monitor the impact of tax policies on equity and equality</u>”.*
  - SDG 10.4, indicator 10.4.2: ”*Redistributive Impact of Fiscal Policy”*
- Integrate inequality lens throughout TE governance

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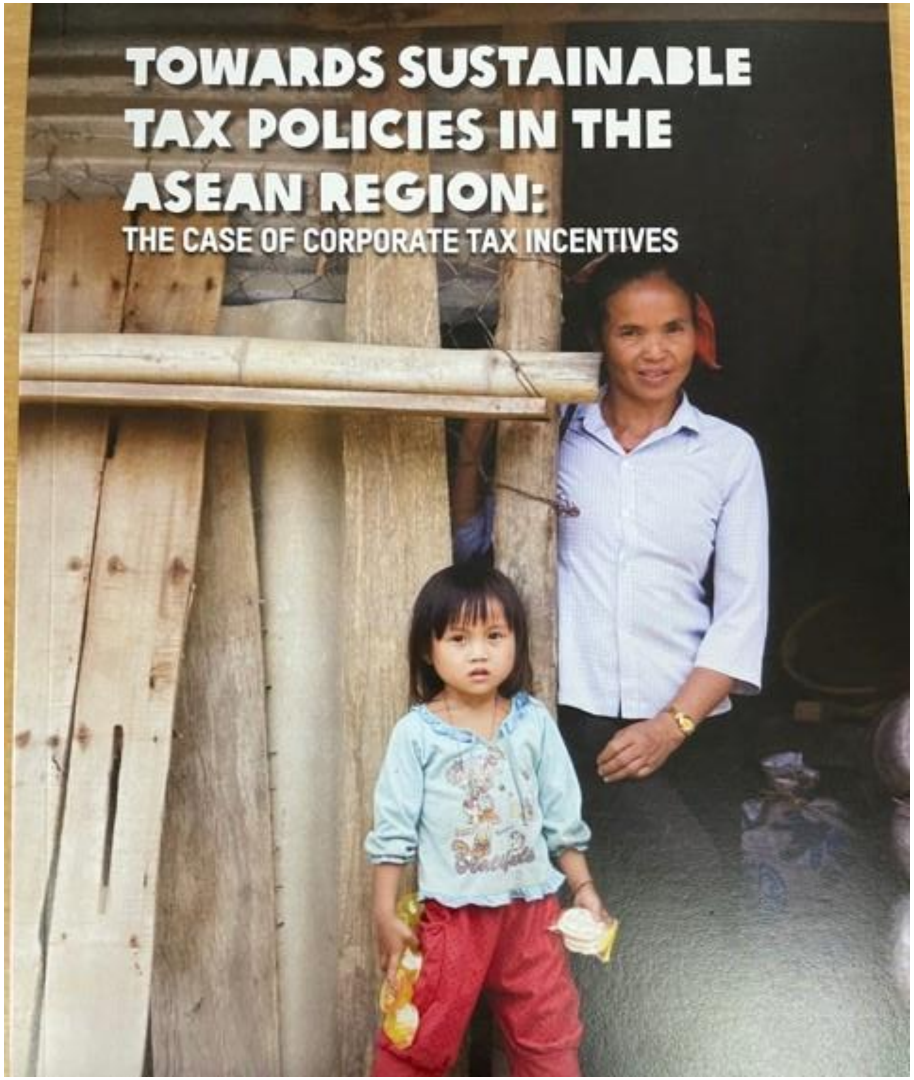
Accountability stakeholders & TE's



- TE governance is:
  …Not just for government, however widely defined

- Instead: TE governance should include journalist, professional bodies, civil society:
  - Addis Tax Initiative, Commitment 4: *"ATI members commit to enhance space and capacity for accountability stakeholders in partner countries to engage in tax and revenue matters."*

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Tax Havens & Harmful Tax Practices in TE governance

- TE governance is:

  …NOT just a domestic matter

- TE governance should also:
  - Especially recognize the harmful effects of incentives related to profits
  - Recognize spillover of tax policy
  - Work for fair and ambitious measures to stop the race to the bottom – setting regional minimum corporate tax, banning Harmful Tax Practices
  - Not all types of incentives are equal: Profit based incentives are the most problematic. They encourage profit shifting and do not work.

> Press releases

OECD tax deal is a mockery of fairness: Oxfam

Published: 8th October 2021

In response to the OECD's tax deal announced today, Oxfam's Tax Policy Lead Susana Ruiz said: "Today's tax deal was meant to end tax havens for good. Instead it was written by them."

"This deal is a shameful and dangerous capitulation to the low-tax model of nations like Ireland. It is a mockery of fairness that robs pandemic-ravaged developing countries of badly needed revenue for hospitals and teachers and better jobs. The world is experiencing the largest increase in poverty in decades and a massive explosion in inequality but this deal will do little or nothing to halt either. Instead, it is already being seen by some wealthy nations as an excuse to cut domestic corporate tax rates, risking a new race to the bottom.

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Oxfam and tax justice

- Our mandate: Fight inequality to beat poverty. Tax justice is key for reducing inequality, strengthening the social contract and funding the realisation of rights

Our work on Tax Expenditures of CIT in ASEAN:

✓ Review / research on national tax incentives/ tax expenditure of Vietnam and other ASEAN countries
✓ Review / research on non-tax incentives and FDI flow in ASEAN
✓ Organize regional workshops on ASEAN tax incentives and provide recommendation to ASEAN and its members countries


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Highlight

ASEAN's Tax Policies Must Change to reduce poverty

Oxfam urges urgent change to ASEAN tax policies to defeat poverty and COVID-19

The COVID-19 disease has made millions of people in the ASEAN fall into poverty. To defeat poverty, one of the key issues that ASEAN countries must do is changing their current tax policies. Lan Mercado, regional director of Oxfam in Asia, points out three things that the regions should do.

Lan Mercado - regional director for Oxfam in Asia

Latest News

Oxfam and Tax justice

Our work on Tax Expenditures of CIT in ASEAN:

- A long history of tax competition between the Philippines, Vietnam, Thailand, and Indonesia for manufacturing investments and using tax incentives as a tool to attract FDI
- Average CIT in ASEAN declines: 25,1% (2010) to 21,7% (2020), highest tax rate at 30% - Philippines, lowest at 17% (Singapore).
- Tax holidays in the ASEAN last from 5 to 20 year; other tax incentives such as tax credits, investment subsidies, and depreciation.
- The effective CIT drops by 9.4 percentage points on average (2015)
- Tax expenditure were estimated to be 6% of GDP in Cambodia, 1.6% in Indonesia and 1% of GDP in Vietnam and the Philippines
- Business environment is the key determinant of FDI location decisions, not tax incentives

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Appendix: 14 recommendation for national TE governance

Most should be familiar: Non-discretionary, transparency, regular evaluation etc.

1.Only give tax incentives **through law** and/or consolidate all tax incentives regimes in the tax code

2. Establish clear, objective and easily measurable **eligibility criteria**

3. Include **justification** for establishing or maintaining a preferential tax measure that clearly sets out the objective pursued – base this on cost-benefit analysis

4. Include regime **end-date** in the legislation and demand that relevant **assessments** be carried out in order to decide whether to continue, reform or eliminate the regime

5. Publish the full and updated legislation on tax incentives (laws, decrees, regulations, administrative instructions, etc.) and a **list of all tax incentives currently in force**, including the eligibility criteria, amounts granted and procedures for investors to follow in order to obtain them.

6. Adopt **a centralized system for granting and administering all national tax incentives** within the Finance Ministry with close involvement of tax authorities.

7. **Periodically assess the costs and effectiveness** of preferential tax measures.

8. Evaluate the efficiency of tax incentives **relative to other tools**.

9. Set out a strong institutional framework for the countries to **periodically publish a suitable and detailed report** on the costs, hoped-for benefits, key beneficiaries and objectives of the tax incentives, as well as cost-benefit assessments.

10. Include the reports on tax expenditures (incl. on beneficiaries) in the **discussion on the budget** for each year and present them in such a way as to facilitate comparison with other budgetary expenditures.

11. Carry out **cost-benefit assessments**.

12. The **tax authorities must oversee the beneficiary businesses** and ask them for the information required to carry out cost-benefit assessments. The information should include a description of the tax benefits received, jobs created, amounts invested, exports, and so on

13. Promote **greater citizen participation** and **coordination between the different government institutions** involved, including coordination between the central and subnational levels of government.

14. Progress towards **greater international coordination** and cooperation.

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Appendix: 3 recommendations for the regional governance of Tax Expenditures

1. Blacklist / Whitelist of tax incentives
2. Minimum (effective) corporate tax for the region
3. Rulebook for good governance of tax incentives

The US-ASEAN Business Council deputy regional director emphasize that ASEAN did not need to race to the bottom on tax incentives, ASEAN was very attractive to FDI, US investors did not consider tax incentives as the 1st criteria for deciding investment , instead, they valued other important aspects such as market size, potential for growth, GDP per head, purchasing power, and labour cost/ labour quality…

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Appendix: 3 recommendations for the regional governance of Tax Expenditures

On Oct. 19th 2020, in the international webinar organized by WB and IMF, Mr. Dang Ngoc Minh Deputy Director General, Vietnam GDT mentioned that racing to the bottom on tax is a crucial issue for developing countries and that it has to be eliminated with more coordination at least at regional level

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Appendix: Oxfam and allies reports on tax expenditures

- Oxfam (2020): ‘Towards Sustainable Tax Policies in the ASEAN Region: The Case of Corporate Tax Incentives’
- Oxfam (2020): Towards Sustainable ASEAN Development.
- Oxfam, ActionAid, Christian Aid, CBI (2018): ‘Tax Incentives in the Global South: A Business and Civil Society Briefing’

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Thank you!

Questions and comments:

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