



TAX INCENTIVES AND THE GLOBAL MINIMUM TAX

Regional Workshop on Tax Expenditures

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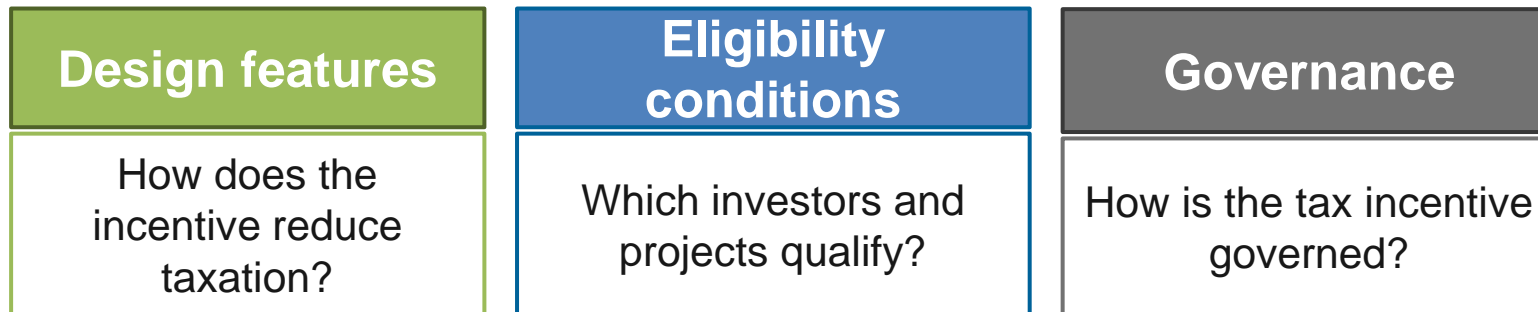


OECD Investment Tax Incentives Database



OECD Investment Tax Incentives Database

- **OECD Investment Tax Incentives Database** compiles information on corporate income tax incentives.
 - Currently covers **52 developing economies** & 10 Asia-Pacific countries
- For each tax incentive, it includes information on:



- Countries provide a range of different types of tax incentives with different design features and different targeting strategies

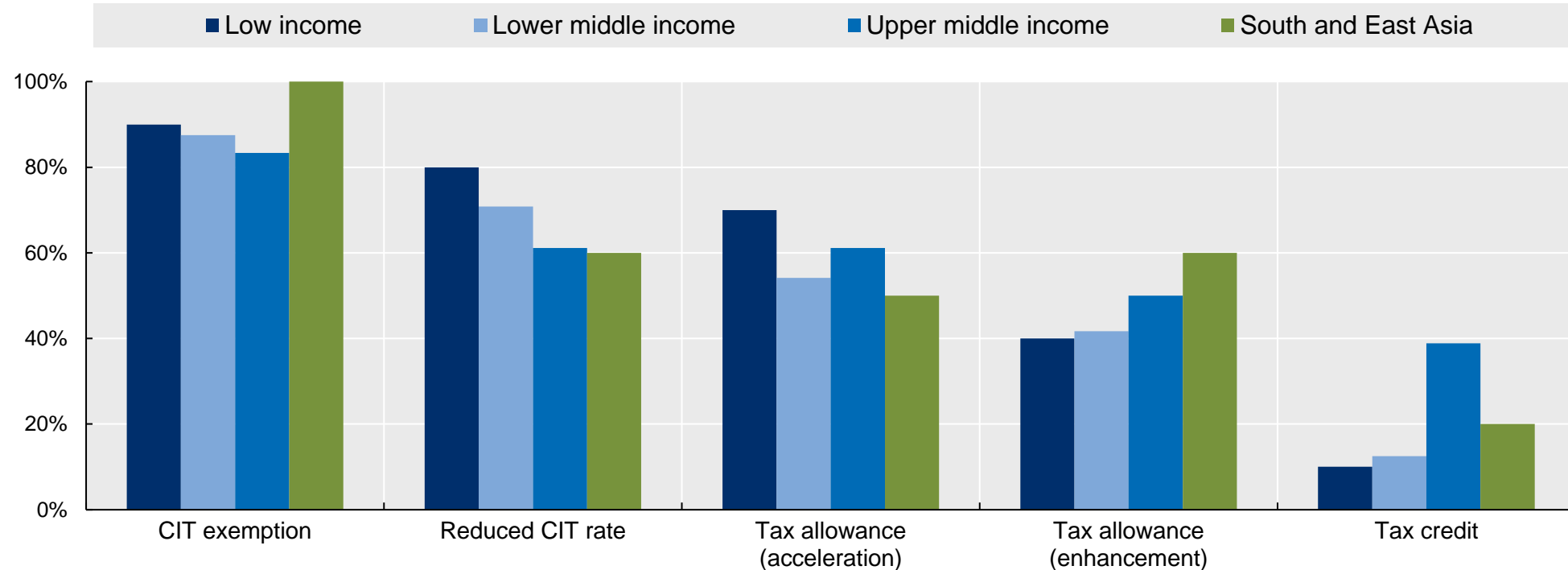




Widespread use of tax incentives

Especially in developing and emerging economies

Tax exemptions, reduced rates and accelerated depreciation are the most commonly used instruments in developing economies



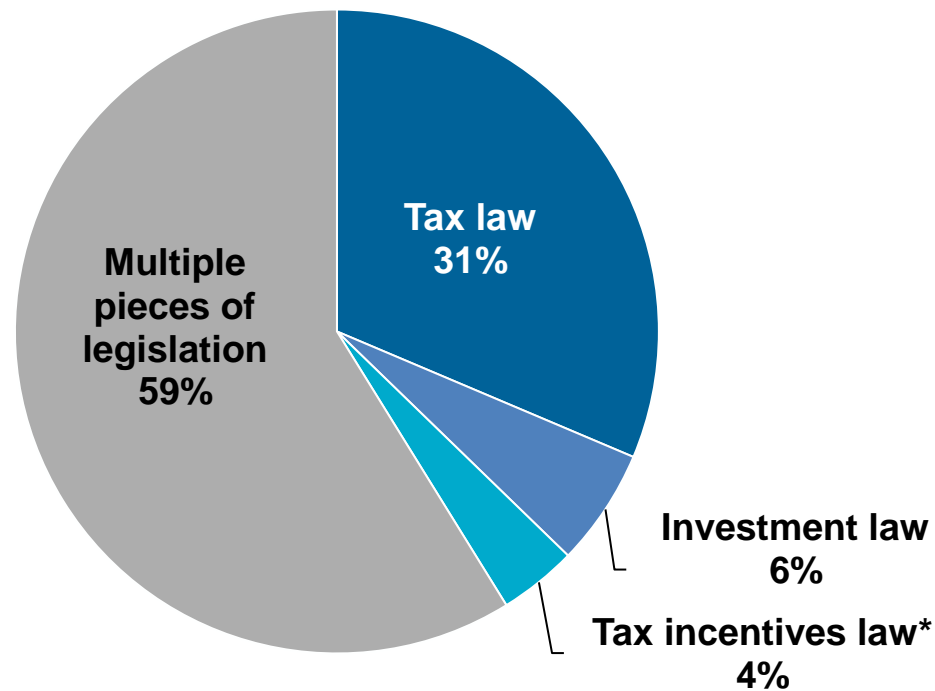
Source: [OECD Investment Tax Incentives database](#), October 2022 version, based on information for 52 countries (9 low income, 26 lower middle income and 13 upper middle-income countries) and 467 CIT incentive entries available on 1 January 2021.



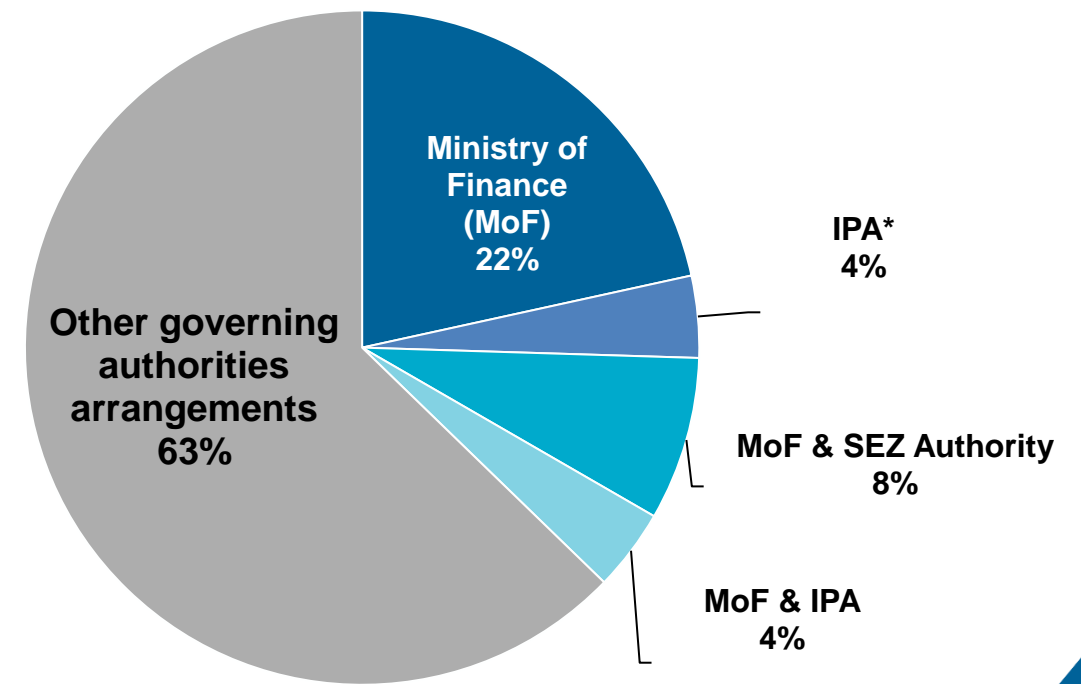
Governance of investment tax incentives is complex

Investment tax incentives are often legislated through several laws and granted by multiple authorities

Panel A: Legal basis of tax incentives



Panel B: Granting authority



Note: Tax incentives law refers to a dedicated law consolidating CIT incentive provisions, other than the income tax act or the tax code.

Source: [OECD Investment Tax Incentives database](#), October 2022 version, based on information for 52 countries and 467 CIT incentive entries available on 1 January 2021.



Tax Incentives & the global minimum corporate tax



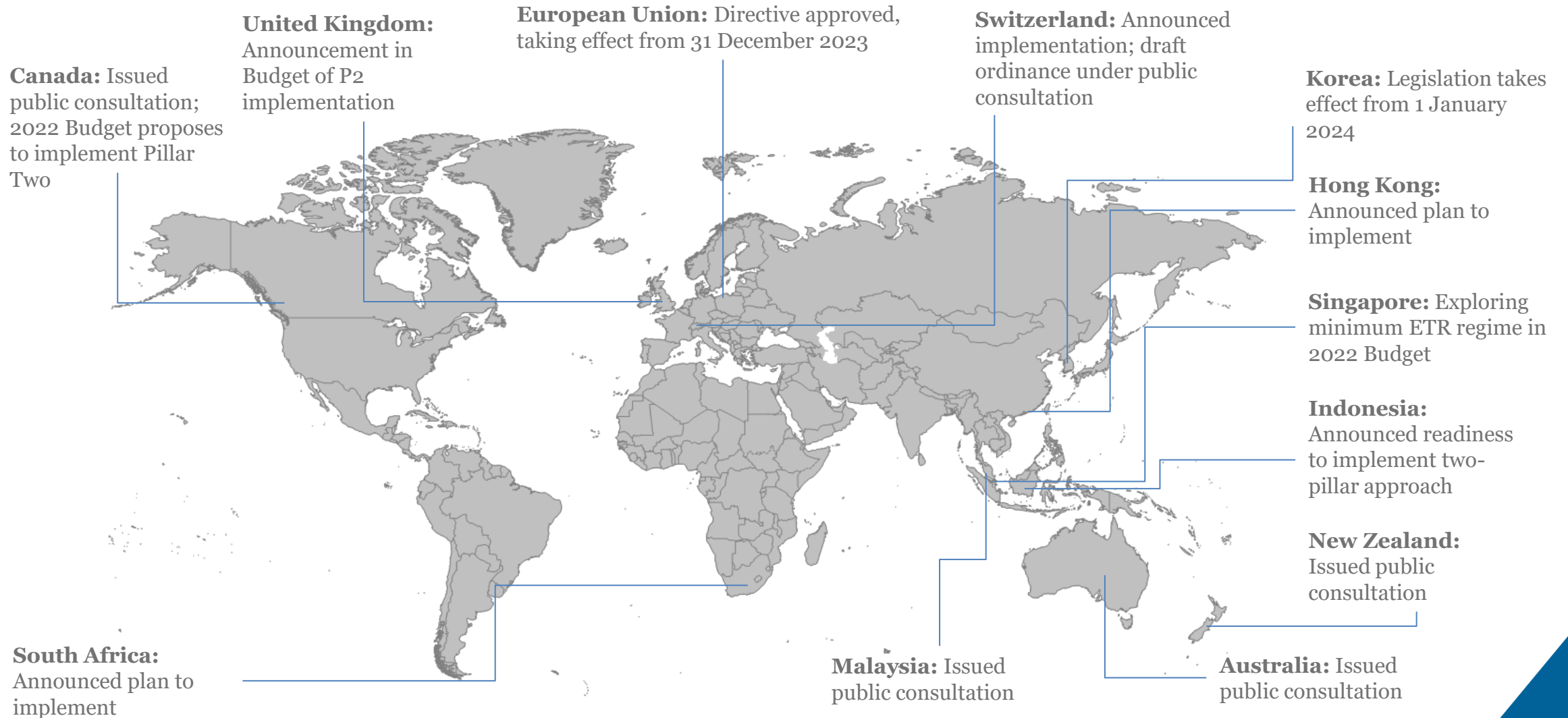
OECD Report on Pillar Two and Tax Incentives

- Pillar Two will be a **‘game-changer’** for tax incentives
- Where a tax incentive reduces an **in-scope firm’s effective tax rate (ETR) below 15%**, **top-up tax will be due**
- This means that countries need to **review and evaluate their incentives**
- Report outlines **options for action** for policymakers with a **focus on developing countries**





Implementation of GloBE Rules





Pillar Two

Overview

Most recent estimates are that Pillar Two would an estimated **USD 175-261 billion** in additional annual revenues

GloBE rules

Domestic law provision

Common approach

Based on Financial Accounts

15% effective tax rate test

Applies on a jurisdictional basis

Substance-based income exclusion

Co-ordination rules

Subject to tax rule

Treaty provision

Can be requested by developing countries

Base eroding payments

9% Adjusted nominal tax rate test

Applies on a transactional basis

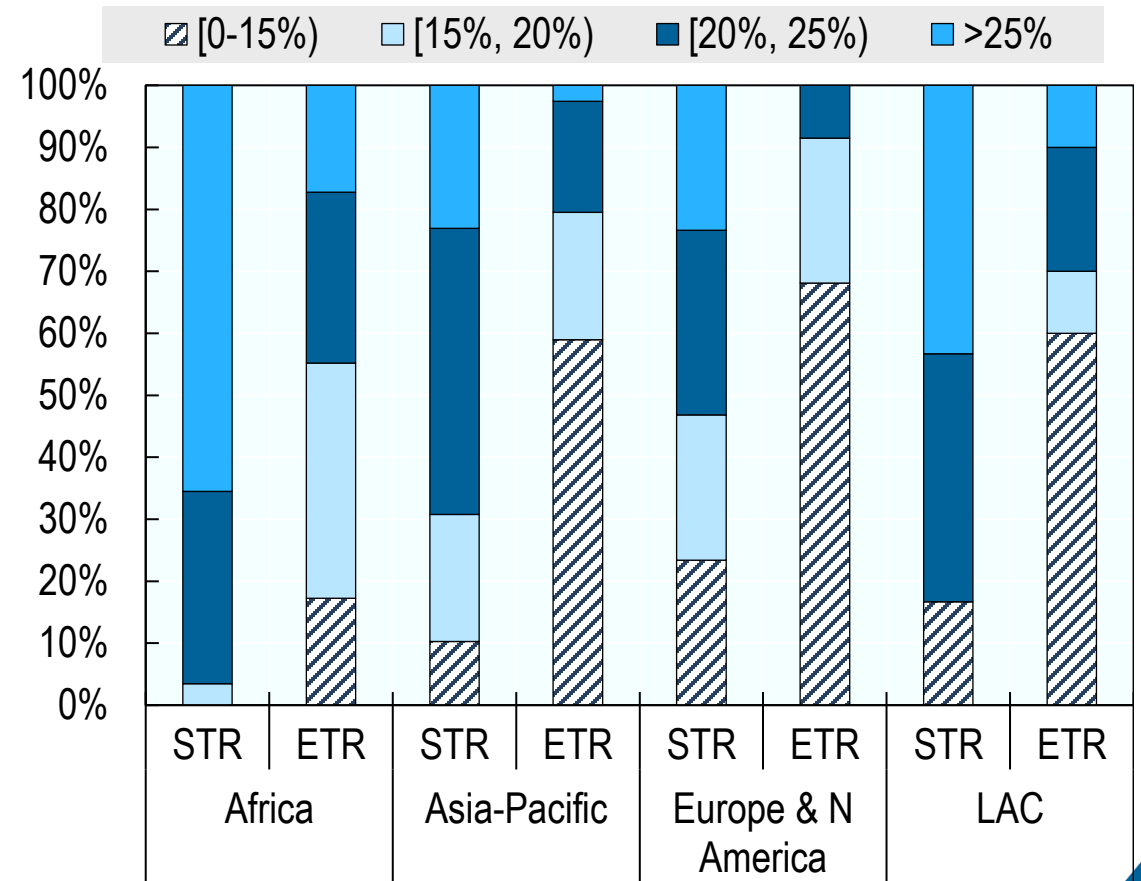
Covered taxes for GloBE purposes



Why is Pillar Two relevant for developing countries?

- **Revenue forgone can be substantial** although less visible (Redonda et al., 2022)
- **Developing countries** are more exposed to **profit shifting** risks
 - Greater reliance on CIT revenues: for Asia-Pacific countries (~18% total tax collections) (OECD, 2022)
 - More limited administrative capacity
- **Widespread use of tax incentives** is one of the reasons ETRs are often low

Average tax rates of foreign affiliates of MNEs with revenues over EUR 750m, 2018



Source: OECD Country-by-Country Report data



How do the GloBE Rules affect tax incentives?

Different impacts at the jurisdiction, entity and tax incentive level

Jurisdiction Level

- **Baseline CIT systems**
- **Other international provisions**
(e.g. CFC rules)

Entity Level

- Whether entities are **part of an in-scope group**
- The nature of **the entities' activities:**
substance and income mix in the jurisdiction

Incentive Level

- **Eligibility conditions**
- **Scope** of the incentives
(narrowly or broadly targeted)
- **Tax instrument design**
interacts with GloBE Rules

Interactions are complex as they are jurisdiction-, MNE- and incentive-specific:

There is no “one-size-fits-all” conclusion



Impact of GloBE will differ by incentive design

More likely affected

- **Full exemptions** (e.g. tax holidays)
- Reduced tax rates or partial exemptions
- Tax allowances
- Tax credits

Less likely affected

- Accelerated depreciation for short-lived intangibles
- Qualified Refundable Tax Credits

Unlikely affected

- Accelerated depreciation or immediate expensing for tangible assets
- Immediate expensing of R&D expenditures

- **Other design factors matter for the impact of the GloBE Rules**, e.g. ceilings, substance requirements such as minimum number of jobs
- **Expenditure-based tax incentives** will be more likely to benefit from the substance-based income exclusion (SBIE)



Guidance for policy makers



Time to revisit and reconsider tax incentives

- **The benefits of using certain tax incentives may change due to the GloBE Rules**
 - No ‘one-size-fits-all’ conclusion
- **Pillar Two should provide impetus for tax reform**
 - Failing to act could mean that countries forego vital tax revenues that will be collected by other countries anyway and could leave them with tax incentives that are ineffective
- **Options will vary by jurisdiction**
 - Reform should be based on jurisdiction-specific analysis, identifying and assessing the tax incentives most likely to be impacted by the GloBE Rules
 - Adopting a “whole-of-government” approach will be important



Importance of considering tax incentive design

- **Narrowly-targeted incentives** (to certain categories of income or expenditure) may be less affected, as may incentives with ceilings or caps
- **Income-based incentives** may be more strongly affected than expenditure-based incentives, particularly for very profitable investments
- **Expenditure-based tax incentives** targeted to payroll or tangible assets may be more protected by the SBIE
- **Incentives based on timing differences** are less likely to be affected, e.g. expensing or accelerated depreciation (for certain assets) or **extended loss carry-over**
- **Qualified refundable tax credits** may be less affected. However, jurisdictions should consider the revenue consequences of refundable tax incentives



Practical guidance for countries

1. **Assess** whether the jurisdiction is at **high, medium or low-risk** of being affected by the GloBE Rules.
2. **Analyse** the impact of the **GloBE Rules on tax incentives** offered
3. **Measure** the **uptake of tax incentives** and **revenue forgone**
4. **Rank tax incentives based on the risk of top-up taxes** being paid and revenue forgone to establish reform priorities
5. **Study** the impact of existing **bilateral investment treaties investment agreements** and any fiscal stabilisation arrangements
6. **Evaluate** the **efficiency and effectiveness** of **tax incentives** post-GloBE



Possible short-term responses

- **Care should be exercised** in implementing new incentives or when considering entering into new investment agreements or contracts
- **Qualified Domestic Minimum Top-Up Tax (QDMTT)** will be an important option for many countries, but it will unlikely be a substitute for a thorough country-specific re-evaluation of tax incentives
- **Pillar Two Revenues** can support DRM and improve investment climate
 - Revenues will support domestic resource mobilisation (DRM)
 - Additional revenues could be invested in ways that support a more attractive investment environment (e.g. investments in skills development and infrastructure)
- **The OECD stands ready to provide technical assistance to developing and emerging economies as they implement Pillar Two and review their tax incentives**