Comparing tax incentives across jurisdictions: a pilot study

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Abstract

Recent research suggests that profit based tax incentives are costly, tend to fail in attracting additional desirable foreign direct investment, and are problematic especially when they are temporary (eg tax holidays), geographically confined (eg economic zones) and when they provide full tax exemption/nil taxation (vs. tax reduction concession). Yet, there is no publicly available dataset that would allow systematic panel analyses across jurisdictions of these phenomena. This research gap limits the validity and reliability of existing research findings, and constrains future research into the relative effects and costs of tax incentives. Therefore, we analyse 15 countries, testing data availability, comparability and potential criteria for establishing an assessment matrix for a public cross-country dataset of profit based tax incentives. Preliminary findings suggest that when compared, high income countries tend to offer more cost based incentives, while middle and low income countries most often rely on special economic zones and tax holidays.

Key Words: Tax Incentives, Tax Holidays, Corporate Taxes, Capital gains, Exemptions and Investments, Foreign Direct Investment

JEL Code: F23, F21, O19

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Introduction

Tax incentives are widely believed to attract desirable foreign direct investment, particularly greenfield investments where a parent company builds its operations and new facilities in a foreign country from the ground up. However, a range of actors including international organisations, academics and civil society groups are increasingly challenging this conventional wisdom and the spreading of tax incentives [2]. They are calling on policy makers to centralise information and decision making around incentives, to conduct public cost benefit analyses of incentive regimes and to abandon those without proven contribution to sustainable economic development.

Yet, many jurisdictions continue to offer a broad range of different tax incentives, often on grounds of a perceived need to compensate for other challenges in doing business (eg underdeveloped infrastructure, political instability) or because of a perceived competition, referred to as the race to the bottom, with other jurisdictions for attracting foreign direct investment. Sometimes, incentives are introduced on advice and lobbying efforts by international financial institutions, companies, and individuals. Overall, the trend is that corporate income tax rates have been falling for the last thirty years and, since the 2008 financial crisis, tax holidays have been increasing[3].

While there is a broad range of country level studies on tax incentives, there is neither an agreed definition of tax incentives, nor are there established criteria or publicly available databases for comparison of tax incentives between countries. This is problematic for at least two reasons. First, it limits the validity and

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[2] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment: A Report to the G-20 Development Working Group by the IMF, OECD, UN and World Bank* (2015) <http://elibrary.worldbank.org/doi/book/10.1596/22923> [accessed 28 March 2018]; Saila Naomi Stausholm, 'Rise of Ineffective Incentives: New Empirical Evidence on Tax Holidays in Developing Countries', *SocArXiv*, 2017 <https://osf.io/preprints/socarxiv/4sn3k/> [accessed 14 December 2017]; ActionAid UK, Christian Aid and Oxfam, *Getting to Good: Towards Responsible Corporate Tax Behaviour. A Discussion Paper Examining Why and How Approaching Tax Responsibility beyond Legal Compliance Benefits Companies and the Developing Countries in Which They Operate*, November 2015 <https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/dp-getting-to-good-corporate-tax-171115-en.pdf> [accessed 21 February 2018]; ActionAid International and Tax Justice Network-Africa, *Still Racing toward the Bottom? Corporate Tax Incentives in East Africa*, June 2016 <http://www.actionaid.org/publications/still-racing-toward-bottom-corporate-tax-incentives-east-africa> [accessed 21 February 2018]; OECD Tax and Development Working Group, *Principles To Enhance The Transparency And Governance Of Tax Incentives For Investment In Developing Countries*, 2015 <http://www.oecd.org/tax/tax-global/transparency-and-governance-principles.pdf> [accessed 5 June 2018]; Davis Tax Committee, *Report On The Efficiency Of South Africa's Corporate Income Tax System*, 2018 <http://www.taxcom.org.za/docs/20180411%20Final%20DTC%20CIT%20Report%20-%20to%20Minister.pdf> [accessed 5 June 2018].

[3] Stausholm, 'Rise of Ineffective Incentives', 6–7.

reliability of existing research findings. Systematic analyses of the relative effectiveness of different types and intensities of incentives are currently impossible. If such analyses were made possible, policy makers would be able to make more informed decisions when choosing the appropriate tax instruments for achieving development objectives.

Second, tax incentives have spillover effects on other jurisdiction's tax systems. These effects include eroding other jurisdictions' tax bases by enabling profit shifting, inducing jurisdictions to lower their tax rates in response and proliferating more behaviour conducive to a race to the bottom in corporate taxation[4]. Without comparative data on tax incentives across jurisdictions it is difficult to measure the relative responsibility jurisdictions bear towards each other, and thus the reform needed. This, however, may prove necessary when jurisdictions seek to explore robust protection strategies against unwelcome spillover effects. In light of these considerations, our research question emerges.

Research question:

How can tax incentives be defined and compared across jurisdictions, and what data sources are available?

Objective

The objective of this paper is to establish an empirically informed and theoretically sound assessment matrix for tax incentives which suits the needs of global country by country analyses for both academic research and policy making purposes. The proposed assessment matrix is intended to serve both ends immediately within the framework of a novel Corporate Tax Haven Index (CTHI), the methodology of which the Tax Justice Network is currently developing. To this end, an overview of the literature and available data sources will be provided and a consistent terminology for classifying tax incentives will be suggested. Finally, preliminary empirical findings of 15 countries will be presented, and a proposed assessment matrix derived.

Literature Review

Debate surrounds whether tax incentives have a long-term benefit. Opponents argue that they can distort the economy (ie enabling otherwise unprofitable business to remain active), encourage round tripping where incentives are only offered to foreign investors and increase tax abuse as companies may not be audited during tax holidays. In addition, tax incentives are redundant where investment would have taken place anyway. They increase administrative costs and are harmful to public finance and spending, in turn harming development

[4] International Monetary Fund, *Spillovers in International Corporate Taxation*, IMF Policy Paper (Washington, DC, 2014) <http://www.imf.org/external/np/pp/eng/2014/050914.pdf> [accessed 26 June 2014].

and human rights outcomes. Ultimately, tax incentives exacerbate inequalities by shifting the tax burden to often less mobile, lower income taxpayers[5].

Some types of incentives also result in specific unintended negative consequences. For example, time-bound tax incentives may result in the high grading of mining reserves where the best grade resources which bring in the highest return for the company are extracted first to take advantage of tax incentives and the remaining resources become no longer economic to extract after the tax incentive expires. Similarly, if tax incentives are only granted to new firms, foreign entities will attempt to register new legal entities with which to continue established operations. To address these challenges, there is a need for high administrative capacity to police the incentive regime and to put in place proper anti-abuse rules[6].

Furthermore, investment climate surveys for low income countries indicate that tax incentives are not as decisive for investors as are enabling conditions like good infrastructure, the rule of law, macroeconomic stability and many other factors[7].

Rigorous analysis of the impact of different tax incentives is limited, but studies confirm many of the arguments against the use of tax incentives. Most studies do not differentiate between developed and developing countries and the case study methodology that is most commonly used hinders comparison of incentives across countries, and as a result, such studies point in different directions in terms of tax incentive effectiveness[8].

Cross-country studies are rare and tend to focus just on a region. For example, Parys & James[9], using a differences-in-differences design, considered the effect of tourism sector incentives in the Caribbean and in another study[10] looked at 14 countries in sub-Saharan Africa over a 12-year period. They found a large effect in the first study on investment, but in Africa no robust relationship with any of their investment incentive variables and capital formation. Moreover, tax

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[5] Howell H Zee, Janet G Stotsky and Eduardo Ley, 'Tax Incentives for Business Investment: A Primer for Policy Makers in Developing Countries', *World Development*, 30/9 (2002), 1497–1516.

[6] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*, 16.

[7] Sebastian James, *Effectiveness of Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications* (Rochester, NY, 1 September 2013) <https://papers.ssrn.com/abstract=2401905> [accessed 21 February 2018]; OECD Tax and Development Working Group, *Principles To Enhance The Transparency And Governance Of Tax Incentives For Investment In Developing Countries*.

[8] Stausholm, 'Rise of Ineffective Incentives', 4.

[9] Stefan Van Parys and Sebastian James, 'The Effectiveness of Tax Incentives in Attracting Investment: Panel Data Evidence from the CFA Franc Zone', *International Tax and Public Finance*, 17/4 (2010), 400–429.

[10] Parys and James, 'The Effectiveness of Tax Incentives in Attracting Investment', 400–429.

holidays had a positive effect on foreign direct investment within the exporting sector but not in general.

Klemm and Van Parys[11] carried out the largest cross-country study of the effects of tax incentive (corporate tax rates, tax credits and tax holidays) on foreign direct investment in 47 low and middle income countries from 1985 to 2004. They concluded that tax incentives were effective in attracting foreign direct investment in Latin America and the Caribbean, but not in Africa. However, the incentives did not increase gross capital formation anywhere, indicating that it might not be beneficial for real economic growth.

Stausholm[12] concludes that studies on the effect of tax incentives in developing countries draw contrasting conclusions, are limited to single countries and regions, and are based on old data. In response, she undertakes fresh empirical analysis of tax holidays in the manufacturing sector covering the largest number of countries (51 developing countries) over the longest period of time (1985-2014) using newer data. She concludes that, overall, tax holidays have a more negative than positive impact on sustainable development and that:

- Tax holidays have increased in South America, Asia, Africa and the Caribbean.
- The effect of tax holidays on foreign direct investment is negligible, decreasing and does not translate into real capital accumulation or economic growth. Foreign direct investment was more effected by other features of the global economy.
- Tax holidays negatively correlate with tax revenues and as revenue decreases so does spending on education. Meaning, tax holidays in turn have a negative correlation with primary school enrolment.

Yet even where studies indicate that tax incentives seem effective in attracting foreign direct investment, it appears premature to conclude their desirability for at least two major reasons. For one, there can be high opportunity costs associated with the foregone revenue which are seldom taken into account by these studies. Furthermore, the foregone revenue can be a multiple of the actually invested amounts, so that on balance a direct government subsidy paying for the investment costs would have resulted in less foregone revenue. In a study of South Africa's tax incentives, the World Bank concluded that:

> "overall tax incentives encouraged an additional investment of 2.1 billion rand each year between 2006 and 2012. […] The revenue foregone as a result of the lower tax as a result of the tax incentives is about 4.5 billion

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[11] Alexander Klemm and Stefan Van Parys, *Empirical Evidence on the Effects of Tax Incentives*, IMF WP 09/136 (Washington, DC, 2009) <http://www.imf.org/external/pubs/ft/wp/2009/wp09136.pdf> [accessed 14 December 2009].

[12] Stausholm, 'Rise of Ineffective Incentives', 5.

rand each year over the seven year period. [...] In terms of jobs, the tax incentives have resulted in 34,000 additional jobs. However it has not come cheap costing an average of about 116,000 rand of revenue foregone for each job."[13]

Secondly, a key problem permeating most, if not all studies that analyse the effects of tax policies (tax incentives, tax rates, double tax treaties, etc.) on foreign direct investment is the aggregate data that is used for measuring foreign direct investment. Foreign direct investment is defined as an investment in which a 'foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise, or the equivalent of an unincorporated enterprise'. The main sources on foreign direct investments are datasets such as the IMF's Coordinated Direct Investment Survey[14], the OECD's foreign direct investment data[15] and UNCTAD's foreign direct investment dataset[16]. There are a number of reasons why policymakers should refrain from seeking to attract as much investment as possible as measured by this data. Often, the investment measured by this data is not what it appears to be or what it is commonly understood to be.

First, foreign direct investment data fails to differentiate between merger and acquisitions on the one hand, and green field investments on the other. In 2014, the IMF wrote with respect to the composition of foreign direct investment: "Estimates suggest that more than half may reflect mergers and acquisitions."[17;18] Merger and acquisitions tend to be pro-cyclical[19] and may sometimes not be desirable from a viewpoint of a domestic economy and policymakers, whereas greenfield foreign direct investment is usually considered to be entirely desirable. The likelihood for additional net job creation through

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[13] World Bank, *South Africa: Sector Study of Effective Tax Burden and Effectiveness of Investment Incentives in South Africa – Firm Level Analysis*, 2016, 51 <http://www.taxcom.org.za/docs/Sector%20Study%20of%20Effective%20Tax%20Burden%20in%20South%20Africa%20-%20Part%202%20-%20September%202016%20(updated).pdf> [accessed 5 June 2018].

[14] International Monetary Fund, *Coordinated Direct Investment Survey* (2015) <http://data.imf.org>.

[15] OECD, *Implementing the Latest International Standards for Compiling Foreign Direct Investment Statistics. FDI Statistics by the Ultimate Investing Country*, 2015 <https://www.oecd.org/daf/inv/FDI-statistics-by-ultimate-investing-country.pdf> [accessed 5 June 2018].

[16] United Nations Conference on Trade and Development, *FDI, Tax and Development. The Fiscal Role of Multinational Enterprises: Towards Guidelines for Coherent International Tax and Investment Policies* (Geneva, 2015) <investmentpolicyhub.unctad.org/Upload/Documents/FDI%2C%20Tax%20and%20Development.pdf> [accessed 30 March 2015].

[17] International Monetary Fund, *Spillovers in International Corporate Taxation*, 16.

[18] For low income countries, the IMF mentions evidence for a higher component of greenfield investment in total FDI when compared to advanced economies International Monetary Fund, *Spillovers in International Corporate Taxation*, 16–17..

[19] Işıl Sevilay Yılmaz and Başak Tanyeri, 'Global Merger and Acquisition (M&A) Activity: 1992–2011', *Finance Research Letters*, 17 (2016), 110–17.

merger and acquisitions is lower than with greenfield investments. Second, foreign direct investment data fails to account for so-called round tripping capital – ie domestic capital which went offshore before coming back in the guise of foreign direct investment. The reasons for round tripping can be manifold, chief of which is preferential tax treatment for foreign investors and hiding of market power or conflicts of interest. Preliminary findings from research undertaken by Dan Haberly indicate that round tripping amounts in many jurisdictions to over 10 per cent of inward foreign direct investment stocks.[20] Third, there is evidence that at least for some jurisdictions, foreign direct investment "may reflect flows through rather than to the country, with stops due in part to (legal) tax optimization"[21;22]. This finding is in line with the theoretical expectation based on the existence of tax avoiding strategies of multinational companies, often referred to as treaty shopping.

To the knowledge of the authors, there are no econometric studies on the causes or effects of foreign direct investment which disaggregate foreign direct investment systematically into the subcomponents of merger and acquisitions and greenfield investment, roundtripping capital or treaty shopping. Hence, even the few studies showing a positive relationship between tax incentives and net foreign direct investment inflows are not valid evidence for arguing an unambiguous effect of tax incentives on desired greenfield investment, whether it is by tax rate cuts, tax holidays, tax exemptions or tax treaties.

Beyond academics and international organisations, civil society organisations have provided further insights into the cost and effects of tax incentives, often out of a concern about the role of tax incentives in the race to the bottom on corporate taxation and in exacerbating inequalities by shifting domestic tax burdens to less mobile taxpayers. The Tax Justice Network Africa and ActionAid have produced a series of reports on the cost of tax incentives in East and West Africa[23]. Most recently, their 2016 study of tax incentives in East Africa reveal some positive steps governments have taken since an earlier study of revenue

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[20] Preliminary findings presented at a workshop on "A New Map of Offshore Foreign Direct Investment: From Data to Impact" on 17 May 2018, hosted by The School of Global Studies and International Centre for Tax and Development (ICTD), University of Sussex in association with Tax Justice Network. Some contents of that workshop can be found at https://twitter.com/alexcobham/status/997035853762453504; 6.6.2018.

[21] http://conversableeconomist.blogspot.de/2016/10/is-foreign-direct-investment-mostly.html; 27.3.2018.

[22] United Nations Conference on Trade and Development, *FDI, Tax and Development. The Fiscal Role of Multinational Enterprises: Towards Guidelines for Coherent International Tax and Investment Policies*; International Monetary Fund, *Spillovers in International Corporate Taxation*, 18.

[23] ActionAid International and Tax Justice Network-Africa, *Still Racing toward the Bottom? Corporate Tax Incentives in East Africa*; Tax Justice Network-Africa and ActionAid International, *West Africa Loses Billions of Dollars to Harmful Tax Incentives*, July 2015 <http://www.actionaid.org/news/west-africa-loses-billions-dollars-harmful-tax-incentives> [accessed 21 February 2018].

losses associated with incentives[24]. Yet estimated losses of US$2 billion per year persist. In the same year, Oxfam released a global study of tax competition[25], which extends the framing of tax incentives to those jurisdictions it describes as tax havens that offer very low tax rates for corporations, facilitating tax abuse, including profit shifting.

A joint 2015 report by Christian Aid, Oxfam and ActionAid[26] on responsible corporate tax behaviour frames the discussion in a different way by asking how a tax responsible company or group would behave. Such a company would seek on its own initiative a tax-level playing field by calling "to be treated under a country's tax regime like any other, similar corporate taxpayer"[27;28]

In a more recent paper, focused on Latin America and the Caribbean, Christian Aid posit that if tax incentives are to be used, they should be

> "specific and limited in scope and time, recorded in national budget expenditure, monitored and evaluated against their stated objectives, and withdrawn or revised accordingly. States should be legally accountable to show that the tax incentives they offer are effective."[29]

Special economic zones or export processing zones and tax incentives in the extractive industries are particularly prevalent in these regions.

There are also a few country and sector specific studies, especially in the extractive industries, that consider tax incentives and their harmful effects not

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[24] Tax Justice Network-Africa and ActionAid International, *Tax Competition in East Africa: A Race to the Bottom?* (London, 2012) <http://actionaid.org/sites/files/actionaid/eac_report.pdf>.
[25] Oxfam, *Tax Battles: The Dangerous Global Race to the Bottom on Corporate Tax*, December 2016 <https://www.oxfam.org/sites/www.oxfam.org/files/bp-race-to-bottom-corporate-tax-121216-en.pdf> [accessed 21 February 2018].
[26] ActionAid UK, Christian Aid and Oxfam, *Getting to Good: Towards Responsible Corporate Tax Behaviour. A Discussion Paper Examining Why and How Approaching Tax Responsibility beyond Legal Compliance Benefits Companies and the Developing Countries in Which They Operate*.
[27] ActionAid UK, Christian Aid and Oxfam, *Getting to Good: Towards Responsible Corporate Tax Behaviour. A Discussion Paper Examining Why and How Approaching Tax Responsibility beyond Legal Compliance Benefits Companies and the Developing Countries in Which They Operate*, 32.
[28] The passage in the report continues as follows: "It establishes rules and frameworks for identifying and using tax incentives and reliefs offered by governments, which require the tax incentives and reliefs it uses to be available to its competitors on the same terms, approved by legislators, and disclosed to the public. It will progressively seek to reduce its use of tax incentives that are not publicly disclosed, have not been agreed by legislatures, and are not available to competitors".
[29] Christian Aid, *Benefits for Whom? Tax Incentives in Latin America and the Caribbean* (September 2016) <https://www.christianaid.org.uk/sites/default/files/2017-08/benefits-for-whom-tax-incentive-latin-america-caribbean-september-2016.pdf> [accessed 22 February 2018].

just on the economy and tax bases, but also on broader social and environmental areas, such as land rights, women and labour.[30]

Research Methodology

The remainder of this paper proceeds as follows. First, we are deriving deductively from the landmark report[31] criteria to classify tax incentives, and establish a working terminology. Second, data sources and conceptual choices within the framework of the Corporate Tax Haven Index are discussed alongside the selection of the 15 pilot countries. Third, we present empirical findings in a tabular format, resulting from a systematic capture of all relevant cost and profit based tax incentives. Finally, an adjusted assessment matrix is being proposed for capturing tax incentives in the Corporate Tax Haven Index.

Terminology and Definitions

The definitions of tax incentives used in the available studies are similar, yet not fully congruent. Annex I provides a non-exhaustive overview of definitions of the terms 'tax incentive', 'tax exemption' and 'tax holiday', which has informed our own working definition and terminology. Yet our starting point is the definition used by the IMF, OECD, UN and World Bank in their report to the G20's Development Working Group. "[…] a 'tax incentive' means any special tax provision granted to qualified investment projects or firms that provide favourable deviation from the general tax code."[32]

We derive four important observations from this landmark report. First, the differentiation between the particularly harmful profit based, as opposed to cost based, incentives. As the report underlines, cost based incentives "[…] may generate investments that would not otherwise have been made […]" whereas profit based incentives tend to " […] make even more profitable investment projects that would be profitable, and hence undertaken, even without the incentive."[33] This analytical category is a first important distinction to bear in mind when analysing incentives across countries.

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[30] ActionAid, *An Extractive Affair. How One Australian Mining Company's Tax Dealings Are Costing the World's Poorest Country Millions*, 2015 <http://www.actionaid.org/sites/files/actionaid/malawi_tax_report_updated_table_16_june.pdf> [accessed 8 June 2018]; ActionAid, *Sweet Nothings. The Human Cost of a British Sugar Giant Avoiding Taxes in Southern Africa*, 2013 <http://www.actionaid.org.uk/doc_lib/sweet_nothings.pdf>; Don Hubert, *Many Ways to Lose a Billion. How Governments Fail to Secure a Fair Share of Natural Resource Wealth*, PWYP Canada, 2017 <http://www.publishwhatyoupay.org/wp-content/uploads/2017/07/PWYP-Report-ManyWaysToLoseABillion-WEB.pdf> [accessed 9 June 2018].

[31] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*.

[32] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*, 8.

[33] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*, 20.

Secondly, we also note the same paper’s observation that time-bound/temporary incentives (tax holidays) “tend to favour readily mobile (‘footloose’) activities rather than long-term investment” (ibid.).

Thirdly, the report highlights the mixed-at-best impact of granting geographically confined tax incentives to companies operating in so-called economic zones (including special economic zones, export processing zones, free trade zones, etc). Apart from the evident revenue risks in terms of redundancy of the incentives, the “sizable risks from tax planning between the free-zone and affiliates outside the zone”[34;35] raise specific concerns over economic zone incentives.

Last but not least, while obvious to some, it should be stressed that, ceteris paribus, a full tax exemption (of a profit based incentive) is worse on balance than granting only a partial exemption or reduction in tax.[36] This finding is exacerbated by the fact that a full exemption might result in tax returns not being required, or their collection not being enforced. Therefore, full exemptions are of special concern.

To sum up, tax incentives can be categorised alongside four dimensions which are potentially relevant for determining the incentive’s comparative effectiveness and risks. The four dimensions are 1) profit based vs cost based 2) temporary vs permanent 3) geographically confined vs not geographically confined and 4) full exemption vs partial reduction. Chart 1 below provides an overview of the suggested terminology in light of the various existing terms, definitions and derived analytical categories.

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[34] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*, 22.
[35] See also slide 39, in: https://www.imf.org/external/np/seminars/eng/2014/caribbean/pdf/S2p2-James.pdf; 28.3.2018.
[36] See slide 38, in: https://www.imf.org/external/np/seminars/eng/2014/caribbean/pdf/S2p2-James.pdf; 28.3.2018.

Chart 1: Overview and suggested terminology and classification of tax incentives

<table>
<tr><td></td><td colspan="6">Tax expenditure
(comprising both profit based and cost based incentives)</td></tr>
<tr><td></td><td colspan="4">Profit based tax incentives
(tax waivers, tax breaks)</td><td></td><td>Cost based tax incentives
(tax credits, tax refunds, tax deductions)</td></tr>
<tr><td></td><td colspan="2">No geographical constraint</td><td colspan="2">Economic zone (EZ)</td><td></td><td>Capital allowance</td></tr>
<tr><td></td><td>Temporary</td><td>Permanent</td><td>Temporary</td><td>Permanent</td><td></td><td>Depreciation rules</td></tr>
<tr><td>Partial tax reduction</td><td>Tax reduction holiday</td><td>Tax reduction concession</td><td>EZ tax reduction holiday</td><td>EZ tax reduction concession</td><td></td><td>Investment credits</td></tr>
<tr><td>Complete tax exemption</td><td>Full tax holiday</td><td>Tax exemption</td><td>EZ full tax holiday</td><td>EZ tax exemption</td><td></td><td></td></tr>
</table>

Source: Authors

Data Sources

In principle, there are three types of approaches to collect data on tax incentives. Country level data and statistics offered by government agencies; data collected by civil society organisations on the ground (bottom-up approach); and sources compiled by private sector agents which often aim at potential investors. To our knowledge, there is currently no comprehensive dataset publicly available by academics or international organisations on the broader issue of tax incentives. Each of the potential data sources has specific characteristics and limitations, many of which remain unknown. An overview of those is provided in table 1 below.

Table 1: Overview of potential data sources for comparing tax incentives, 2018

	International organisations	**National level government portals**	**Coordinated national level CSOs**	**Private databases for investors**
Examples and sources	None are public	Specific in each country, can be multiple portals	Christian Aid Scorecard approach	IBFD, BNA, PWC, KPMG

Country coverage	Unknown	Single country maximum	Low (<10)	High (IBFD over 200 jurisdictions)
Comparability	Unknown	Low	Medium-High	High
Robustness	Unknown	Unknown	Unknown	Unknown
Timeliness	Unknown	Unknown	One-Off?	Unknown
Replication and verification	None	Yes, depending on country agencies	Yes, depending on CSO work	Constrained if private databases (IBFD, BNA), mostly open if Big Four

This report utilises private sector sources because they offer greater country coverage and allow for easier data comparability because of the uniform structuring of the databases and reports containing the data on incentives. The main disadvantage that comes with this report's use of commercialised databases is that full replication of the report's analytical findings cannot be undertaken without incurring substantial costs. The following data sources have been included in our pilot scoping study.

- Reports from accountancy firms on the general corporate tax system and incentives[37] used PwC and E&Y tax guides) provide comparable information for each country included.[38] Some countries are not included; Liberia, for example, is not included in either guide. These tax guides are updated annually and provide at the least a good starting point for analysis of jurisdictions, with sources provided.
- The IBFD[39] provides information per country. The most useful resources for the purpose of this paper include their country-specific corporate taxation surveys and analyses about the general system and exemptions, and business and investment surveys for each country with further information about government policy and incentives. As they refer to source legislation (general tax code or specific sectoral legislation) and policy documents, it is possible to find the original source for tax incentives. They tend to be updated annually across different dates by tax experts from audit and accountancy firms, although several surveys for Liberia and Tanzania date back to 2016. The IBFD sources are referenced

[37] Stausholm, 'Rise of Ineffective Incentives'.
[38] The PwC tax guides is available here http://taxsummaries.pwc.com and E&Y's is available here https://webforms.ey.com/gl/en/services/tax/worldwide-corporate-tax-guide---country-list.
[39] The IBFD Tax Platform separates different sources with an alphabet – These two are most relevant for our work: IBFD 2017b: country analyses chapter for corporates; and IBFD 2017d: country surveys for corporates.

in our empirical overview as either IBFD 2017b (country analyses corporate taxation) or IBFD 2017d (country surveys corporate taxation).

- Bloomberg BNA's country portfolios are very detailed but only cover one country from the African continent; South Africa. However, the Bloomberg BNA Global tax guides[40] include the following African nations and could be used to supplement the PwC and E&Y tax guides and information from IBFD surveys: Algeria, Angola, Cabo Verde, Egypt, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, South Africa and Tanzania.
- County general tax codes, sector specific legislation, and legislation on special economic zones and export processing zones provide the main sources of information for the aforementioned databases and reports. However, the websites of tax authorities of most jurisdictions have no information on tax incentives. In those cases where there is information on incentives on tax administration websites, it is lacking structure and detail. Rather, websites of ministries of finance or investment promotion centres set up by the government often provided more information than tax administration websites. Nonetheless, websites of ministries of finance tended to be less detailed than the IBFD and the PWC sources. For example, the Liberian Revenue Authority website had no information on tax incentives, but the Liberia National Investment Commission website did have some information on tax incentives, albeit lacking in detail. Similarly, the Dutch revenue authority website had no information on tax incentives, but the Dutch ministry of finance website had a brief description of the available tax incentives. Of the 15 jurisdictions studied, only Italy, Spain and Ireland provided detailed and well-structured information about tax incentives on their government websites

Corporate Tax Haven Index: Conceptual considerations and pilot sample selection

We limit the data capture to incentives that are related to corporate income taxes but include those related to corporate capital gains taxes because many countries include capital gains as ordinary business income in their corporate income tax and because both taxes are therefore covered in the Corporate Tax Haven Index. Furthermore, we are only interested in incentives that are in principle accessible to and relevant for (local) subsidiaries and branches of large multinational corporations, again because this is the focus of the Corporate Tax Haven Index.

Building on, but also departing from the IMF's definition[41], we thus define a tax incentive for the purposes of this study as follows:

[40] https://www.bna.com/products/#!page=1&topic=tax; 11.12.2018.

[41] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*, 8.

A 'tax incentive' is any special tax treatment granted in law or regulation to certain economic actors, sectors, activity or income that can be accessed by foreign multinational companies, deviates from the general tax code and results in lower corporate income or capital gains taxation.

The choice of countries in this prototype study of 15 jurisdictions is based on four criteria, while the absolute number of 15 is a result of resource and practical constraints for a pilot study. First, we included the major misalignment jurisdictions[42] as identified by the research on US multinationals, in order to fit the broader prototyping of the Corporate Tax Haven Index[43]. Second, as the research underpinning the Corporate Tax Haven Index is partially undertaken within the framework of a research program targeting the EU[44], we filtered those jurisdictions for European or EU-dependent territories. Third, as we want to ensure scalability of the methodology, and as another research stream feeding the Corporate Tax Haven Index is focusing on the African continent, we selected five African jurisdictions on the basis of their largest inward foreign direct investment stock. However, we filtered those African jurisdictions for their inclusion in the Financial Secrecy Index 2018 so as to create synergies with data already collected.[45] Table 2 provides a summary of the jurisdictions included in the first prototype and the basis for their inclusion.

Table 2: Overview of 15 jurisdictions in the Corporate Tax Haven Index-prototype

European or EU-dependent, top 5 major misalignment jurisdictions: excess profit	European or EU-dependent, top 5 major misalignment jurisdictions: missing profit	African, included in FSI, ranked by largest inward foreign direct investment
Source: Cobham/Janský 2015		Source: Tax Justice Network 2018
Netherlands	Germany	South Africa
Ireland	France	Ghana

[42] These are jurisdictions where the profits of multinationals are in excess of and incommensurate with their economic activities.
[43] Alex Cobham and Petr Janský, *Measuring Misalignment: The Location of US Multinationals' Economic Activity Versus the Location of Their Profits*, ICTD Working Paper 42 (Brighton, 2015) <http://www.ictd.ac/ju-download/2-working-papers/91-measuring-misalignment-the-location-of-us-multinationals-economic-activity-versus-the-location-of-their-profits> [accessed 22 January 2016].
[44] www.coffers.eu; 8.6.2018.
[45] Some of the envisaged CTHI indicators are used as well in the FSI. This affected the choice of the 5 African jurisdictions, because some high FDI-ranking jurisdictions, such Nigeria and in Northern Africa, were not included in the FSI 2018 and therefore were neither included for this pilot study here.

Bermuda	Italy	Tanzania
Luxemburg	Spain	Liberia
Switzerland	United Kingdom	Kenya

Source: Authors

Results

The empirical findings for the 15 countries are presented in a table in Annex 2. The choice of the layout of the table is a compromise between the relevance of existing analytical categories as deducted from the literature, preliminary sighting of the empirical material before the full sample of 15 jurisdictions has been researched, and the space constraints in this working paper. Furthermore, two specific types of incentives – patent boxes and intellectual property related incentives as well as notional interest deduction regimes - have not been included in the table because they are captured separately for the purposes of the Corporate Tax Haven Index.

We observe that the five African countries in our sample on average grant the same number of incentives as the ten EU countries in our sample (African average 5.6 incentives, EU average 5.6). However, the type of incentives offered are markedly different as African countries tend to grant more profit based incentives than European countries. Our results show that on average an African country grants about 40% more profit based incentives than an EU country.

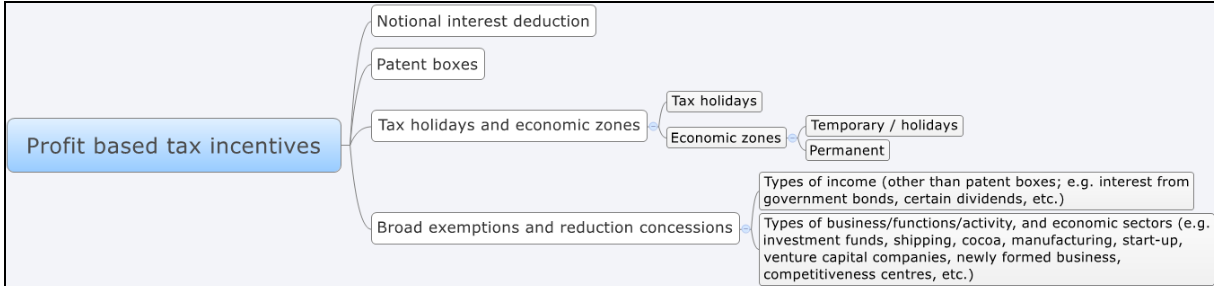
Five African countries in our sample offer a total of 21 profit based incentives (average of 4.2), while ten EU countries grant a total of 31 (average of 3.1). The analogous figures for cost based incentives are 7 for the African country group (average 1.4) and 25 for EU countries (average 2.5). The ratio of cost based over profits based incentives for African countries is 1:3, while the ratio is nearly 1:1 for EU countries.

Furthermore, while the profit based tax incentives of the African countries are in the form of tax holidays and special economic zones, those of the EU countries are mostly in the form of broad or sectorial exemptions on corporate income tax and capital gains tax, save for Spain and France that have special economic zones and tax holidays respectively. The cost based incentives granted by African countries are in the form of accelerated depreciation and deductions from cost incurred on research and development activities, while those granted by the 10 EU countries are in the form of tax credits, accelerated depreciation and cost deduction for investment in certain sectors. This overall picture might change, however, when patent boxes or notional interest deductions are included in the sample, as these represent profit based incentives with prevalence only or mainly in non-EU countries

In light of these findings, and considering the breadth of the available data and proposed methodology for the Corporate Tax Haven Index, the following

assessment matrix is proposed for comparing profit based tax incentives across jurisdictions. Chart 2 below provides an overview of the potential categories and choices involved.

Chart 2: Overview of suggested categories for cross-country comparison of profit based tax incentives



Source: Authors

As explained above, notional interest deduction and patent boxes are captured separately.

We also disregard widespread exemptions applying to income from shipping and air transport if received by non-residents because these do not apply to domestic companies (even though they are often offered on a reciprocal basis). Furthermore, withholding taxes do not form part of our scope because they are levied on behalf of the recipient of the payment (this may be natural persons, foreign persons, etc). However, withholding taxes on cross-border dividends, interests and royalties payments are treated elsewhere in the Corporate Tax Haven Index. As for analysing tax holidays and economic zones, the following assessment matrix is proposed.

Chart 3: Proposed assessment matrix of tax holidays and economic zones (EZ)

Profit/Gains-Based Incentives only (no cost-based incentives)			Mandatory	If applicable:			
			Available? Y/N/U	Tax Type (CIT or CGT)	Reduction Concession, CIT/CGT %	Sector(s) covered - one word per sector	Notes (insert any explanatory text/notes here)
Temporary	EZ	Full Exemption					
		Partial Exemption					
	Non-EZ	Full Exemption					
		Partial Exemption					
Permanent	EZ	Full Exemption					
		Partial Exemption					
	Non-EZ	Full Exemption	Dealt with in a separate matrix "Broad Exemptions and Reduction Concessions"				
		Partial Exemption					

Source: Authors

For all incentives which fall into the categories highlighted in yellow, a separate assessment matrix is proposed (see Chart 4 below). The proposed economic sectors include shipping, cocoa, air transport, manufacturing, extractives, construction, tourism and hospitality, etc.

Chart 4: Proposed assessment matrix of incentives related to specific types of income and economic activity, businesses and functions

Profit/Gains-Based incentives related to types of income or types of activity/businesses/functions		Mandatory Available? Y/N/U	If applicable: Tax Type (CIT or CGT)	Reduction concession, CIT/CGT %	Type of Income/ Sector	Notes (insert any explanatory text/notes here)
Types of Income						
Types of Activity/Businesses/Functions	Start-up/Small companies					
	Investment Funds/Entities					
	Economic Sectors					
	Other Preferential Regimes					

Source: Authors

With these two assessment matrices, a comprehensive and comparable matrix for any profit based tax incentive has been proposed. Further advantages include the analyses of those categories of incentives which literature suggests might be particularly ineffective and costly to implement, i.e. analysing for temporary vs permanent incentives; geographically confined vs universal incentives; and partial tax reduction concessions vs full exemption and nil taxation. If established for many jurisdictions and for a long period of time, this dataset should enable more robust, verifiable, public and comprehensive research findings about the effects of tax incentives. In the short term, the data captured through these matrices will feed the scoring of the Corporate Tax Haven Index.

Conclusions

Our literature review and research reveal a growing consensus among academics, policy makers and civil society that profit based tax incentives are very costly, and often not effective in attracting (largely) desirable greenfield investment. Yet, there is a lack of systematic and public cross-country databases of tax incentives. This results in scarcity of, and limitations in existing, multi-country panel analyses that could establish the relative impact of specific types of tax incentives. The available empirical evidence suggests that incentives differ in effectiveness alongside at least four dimensions: the type (profit vs cost based); time (temporary vs permanent); location (economic zones vs full territory) and intensity (full exemption vs tax reduction concessions).

With the aim to address this empirical data gap, and to provide a basis for assessing tax incentives within the framework of a novel index of corporate tax havens, we have proceeded compiling and analytically sorting tax incentives data from both private sector databases for 15 countries and relevant government websites in the 15 jurisdictions. When considering the evidence, a difference between the 10 EU jurisdictions and the 5 African countries becomes apparent. Whereas both groups of countries offer some cost based incentives, African jurisdictions tend to grant mainly profit based tax incentives, provided as tax holidays and special economic zones. The cost based incentives, which the EU jurisdictions tend to provide more of than the African jurisdictions, include accelerated depreciation rules, tax deductions for research and development, and

tax credits or direct grants for capital and investment expenditure. At the same time, it has become clear that comparing (and quantifying) cost based incentives across jurisdictions is a major challenge, as these tend to be fundamentally integrated with many complex rules defining the tax base.

Ultimately, an assessment matrix for collecting and analysing data on tax incentives across jurisdictions has been derived, and is suggested to be used in future research, including for the Corporate Tax Haven Index. This matrix would only focus on profit based incentives, as these are expected to be least effective in attracting desirable foreign direct investment, most costly and most likely to have spill over effects on other jurisdictions. The matrix would then allow researchers to differentiate profit based incentives across the dimensions of time, location and intensity. Policymakers can support these endeavours by centralising decision making and public disclosure of any incentives offered, including cost benefit analyses of each. In this regard, South Africa's Davis Committee and the associated work undertaken by the World Bank are important examples to study, if not to follow.

The need for better statistical data in order to develop further strategies and arguments for better countering the race to the bottom in corporate taxation, however, does not stop at tax incentives. The disaggregation of foreign direct investment data in greenfield and merger & acquisitions, and in roundtripping, and conduit foreign direct investment components, is another central policy lesson. The potential impact for such improved data availability can hardly be overestimated, as it may affect international tax policy far beyond the issue of tax incentives, including other areas of tax treaty policy and general corporate tax policy. Ultimately, such new data may have profound global implications for strategies to curtail economic inequalities and combat poverty.

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Annex I: Overview of definitions of tax incentives, exemptions and holidays in the literature

Tax incentive definition	Tax exemption definition	Tax holiday definition	Special Economic Zone/Export Processing Zone
[46]			
“A tax incentive can be defined either in statutory or in effective terms [these serve different purposes]. In statutory terms, it would be a special tax provision granted to qualified investment projects (however determined) that represents a statutorily favourable deviation from a corresponding provision applicable to investment projects in general (i.e., projects that receive no special tax provision) […]. In effective terms, a tax incentive would be a special tax provision granted to qualified investment projects that has the effect of lowering the effective tax burden–– measured in some way––on those projects, relative to the effective tax burden that would be borne by the investors in the absence of the special tax provision. Under	“Direct tax incentives under the CIT can be broadly classified into two categories: those that tax corporate profits at a lower nominal rate than the regular CIT rate; and those that provide more attractive terms for recovering investment costs than under the regular CIT provisions. […] Incentives in the form of reductions in the CIT rate could range anywhere from complete exemption (CIT holidays) to a rate that is below the regular CIT rate for qualified investment projects. […] Instead of completely exempting qualified projects from the CIT, many developing countries grant tax incentives in the form of preferential CIT rates”		“Tax incentives available in these zones often comprise both direct and indirect taxes. Indeed, complete exemption from all taxes for economic activities carried out in these zones is not uncommon. […] While most countries ostensibly treat such zones as extraterritorial areas (in the sense that incentives are supposedly to be removed when goods produced in the zones are sold domestically)

[46] Zee, Stotsky and Ley, ‘Tax Incentives for Business Investment’, 1498–99, 1503–4, 1505–7.

this definition, all tax incentives are, therefore, necessarily effective.”		and attempt to secure their perimeters in some fashion, leakage of goods from these zones into the domestic market is usually rampant, either because of defects in the security system or outright corruption”
47		
“‘tax incentive’ is meant any special tax provisions granted to qualified investment projects or firms that provides favourable deviation from the general tax code. They can take several forms, such as tax holidays (complete exemption from tax for a limited duration), preferential tax rates in certain regions, sectors or for certain asset types, or targeted allowances (tax deductions or tax credits) for certain investment expenditures.”	“Profit based tax incentives generally reduce the tax rate applicable to taxable income; examples include tax holidays, preferential tax rates or income exemptions.” Holidays: “temporary tax relief”	“Tax incentives are sometimes targeted to special regions in the form of ‘zones’, for example to address geospatial inequality”
48		

[47] International Monetary Fund and others, *Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment*, 8, 20, 22.
[48] Tax Justice Network-Africa and ActionAid International, *West Africa Loses Billions of Dollars to Harmful Tax Incentives*, 8.

"Corporate tax incentives are fiscal provisions offered to investors. They include reduced corporate tax rates or full 'holidays', whereby companies pay no taxes for certain time periods. These incentives permit companies to pay less tax on their profits than normal, or to benefit from reduced or no tax on services such as water, electricity or land. Corporate tax incentives are used by governments in the belief that they will help attract foreign direct investment into their countries."			
[49]			
"Tax incentives are measures that provide a favorable tax treatment to companies given some criteria such as investment, and may be targeted at favoring certain regions, activities or industries. (A. Klemm and Parys 2011; Zee, Stotsky, and Ley 2002; Tuomi 2012)"		"They are policies in which investors are exempted from paying taxes for a fixed number of years, contingent upon criteria such as being a foreign investor, investing in certain industries and activities that are considered particularly important for growth. The policies can be obtained either through rules-based fixed criteria or by discretionary power from the public authorities"	
[50]			
"tax incentives are defined as all measures that provide for a more favourable tax	"Reduced tax rates: Reduction	"Tax holidays: Temporary exemption of a new firm or	"Special zones: Geographically limited

[49] Stausholm, 'Rise of Ineffective Incentives', 2–3.
[50] Klemm and Parys, *Empirical Evidence on the Effects of Tax Incentives*, 3–4.

treatment of certain activities or sectors compared to what is granted to general industry. Under this definition, a general cut in the tax rate or a generous depreciation scheme applicable to all firms would not be considered tax incentives.[2] Incentives need not be part of a special code, they can be an integrated part of the tax law." [2] Other definitions have been suggested, for example labelling any provision that lowers the after-tax cost of capital below the pre-tax cost as an incentive. Such a definition has a number of conceptual and practical problems, though. It would mean that most countries' corporate tax system would be considered a tax incentive, because the combination of interest deductibility and depreciation allowances often yields negative tax rates at the margin. Moreover, under this definition any measure that reduced the tax burden of an activity would not be recognized as an incentive as long as some tax is levied at the margin, irrespective of how other activities are taxed."	in a tax rate, typically the corporate income tax rate." "Exemptions from various taxes: Exemption from certain taxes, often those collected at the border such as tariffs, excises and VAT on imported inputs."	investment from certain specified taxes, typically at least corporate income tax. Sometimes administrative requirements are also waived, notably the need to file tax returns. Partial tax holidays offer reduced obligations rather than full exemption."	areas in which qualified firms can locate and thus benefit from exemption of varying scope of taxes and/or administrative requirements. Zones are often aimed at exporters and located close to a port. In some countries, however, qualifying companies can be declared "zones" irrespective of their location."

51			
"Investment incentives are measurable economic advantages that governments provide to specific enterprises or groups of enterprises, with the goal of steering investment into favoured sectors or regions or of influencing the character of such investments. These benefits can be fiscal (as with tax concessions) or non-fiscal (as with grants, loans, or rebates to support business development or enhance competitiveness)."		"Tax holidays partly or completely exempt income from taxation for a specified number of years"	
52			
'deductions, exclusions or exemptions from tax liability offered to entice investors'			

[51] James, *Effectiveness of Tax and Non-Tax Incentives and Investments*, 1,41.
[52] Christian Aid, *Benefits for Whom? Tax Incentives in Latin America and the Caribbean*, 1.

Annex II: Tax incentives relating to Corporate Income Taxation and Capital Gains Taxation of 15 jurisdictions

South Africa IBFD 2018d: P.J. Hattingh, South Africa - Corporate Taxation, Country Surveys IBFD (accessed 13 Mar. 2018); IBFD 2018f: P.J. Hattingh, South Africa - Business and Investment, Country Surveys IBFD (accessed 13 Mar. 2018); BNA 2018: Portfolio 7350-1st: Business Operations in South Africa, Detailed Analysis, B. Corporate Income Tax; 13.3.2018; PWC 2018: Worldwide Tax Summaries, South Africa, Corporate Taxation, http://taxsummaries.pwc.com/ID/South-Africa-Corporate-Tax-credits-and-incentives; 12.3.2018; South Africa Department of Trade and Investment https://www.thedti.gov.za/industrial_development/docs/SEZ_Guide.pdf; South Africa Revenue Service http://www.sars.gov.za/Pages/default.aspx; http://www.treasury.gov.za/; 21.06.2018; Department of Trade Investment http://www.dti.gov.za/trade_investment/export_incentives.jsp?subthemeid=26; 21.06.2018.			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors/ EZ/Others	N	N/A
Not time-bound	Sectors	Y	Shipping tax regime which under certain conditions provides a full exemption from CIT and CGT for qualifying shipping companies (IBFD 2018d, p. 17). **Cost based -** Foreign Film and Television Production and Post-Production Incentive (Foreign Film). Exemptions for Qualifying South African Production Expenditure (QSAPE) range from 20% to 25% subject to conditions (South Africa Department of Trade and Investment 2018).
	EZ	Y	Special economic zones (reduced CIT of 15% and other duty reliefs; South Africa Department of Trade and Investment 2018).
	Others	Y	Entities financing small, medium and micro enterprises (on their taxable income) and the fund receivers are exempt from income tax, as well as any income of a company registered as a micro business. CGT exemption on disposal of shares by headquarter company for headquartered companies in South Africa (PWC 2018). **Cost based:** A 150% deduction for costs incurred for certain Research & Development activities approved by a government committee (PWC 2018).

Ghana IBFD 2018d: Corporate Taxation Survey (Reviewed 1 August 2017b); IBFD 2018f: Business & Investment Survey (Reviewed 15 December 2017b); PWC 2018:Worldwide Tax Summaries http://taxsummaries.pwc.com/ID/Ghana-Corporate-Tax-credits-and-incentives (accessed 23.03.2018); http://www.gipcghana.com/invest-in-ghana/why-ghana/tax-regime-and-incentives.html accessed 23.03.2018; Ghana Revenue Authority: http://www.gra.gov.gh/docs/info/tax_incentives.pdf; 22.06.2018			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors	Y	While no full exemptions are given, for specific agriculture sectors special or concessionary CIT rates are as low as 1% for 5 to 10 years (as set out in the First and Sixth Schedules to the Income Tax Act (IBFD 2017b).
	EZ	Y	10 year CIT holiday for registered free zone developers/enterprises, followed by a 15% rate for exports and 25% for sales in domestic market (PWC 2018).
	Others	N	N/A
Not time-bound	Sectors	Y	Exemption of income from cocoa farming (IBFD 2017b). Reduced CIT rate of 22% for hotel industry companies. CIT rate of 8% for companies engaged in non-traditional exports. CIT rate of 20% on income for banks from lending to the agricultural and leasing sectors (PWC 2018).
	EZ/Others	N	N/A

Tanzania IBFD 2018d: Corporate Taxation Survey (Reviewed 15 October 2017); IBFD 2018f: Business & Investment Survey (Reviewed 1 July 2016); Tanzania Revenue Authority https://www.tra.go.tz/index.php; PWC 2018: World Tax Summaries http://taxsummaries.pwc.com/ID/Tanzania-Corporate-Taxes-on-corporate-income; 23.03.2018; KPMG: Africa Incentive Surv. 2016			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors	Y	CIT rate of 10% applies to new assemblers of vehicles, tractors, and fishing boats for the first five years from commencement of operations.
	EZ	Y	Exemption from CIT for an initial period of 10 years for EPZ investors; and income derived from investments exempted under the Export Processing Zones Act (IBFD 2018d). CIT exemption in first 20 years for companies in the Free Zone under Zanzibar Investment Promotion and Protection Act, 2004 (TRA 2018).
	Others	Y	CIT rate of 25% for three years for companies newly listed on the Dar es Salaam Stock Exchange (minimum public issuing of 30% of company shares).
Not time-bound	Sectors/ EZ	Y	Agriculture: capital gains exempt from sale of land that has been used for agricultural purposes for at least 2 of the 3 years before sale held; was held by an individual; and whose sale price was below TZS 10 million (IBFD 2017, p.4). **Cost based:** 50% deduction on cost of qualifying plant and machinery used in manufacturing, fish farming as well as tourism. **Cost based:** Capital deduction of 100% to costs incurred by mining companies for prospecting, exploration and development, while for petroleum companies it is restricted to prospecting and exploration (PWC 2018). **Cost based**: 100% capital allowance in agriculture for expenditure on plant and machinery (TRA 2018).
	Others	N	N/A

Liberia IBFD 2018d: Corporate Taxation Survey (Reviewed 1 August 2016a); IBFD 2018f: Business & Investment Survey (Reviewed 30 November 2016b); Liberia Special Economic Zones Act (LSEZA) 2017: https://drive.google.com/file/d/0B4Kisp2MOTlURm84MGtoc19wUGs/view 23.3.2018			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors/ EZ/Others	N	N/A
Not time-bound	Sectors	Y	**Cost based:** 30% deduction on purchase of equipment and machinery for qualifying manufacturing and service businesses (IBFD 2018d), and partial deduction for others (full list in IBFD 2016a: 8-9).
	EZ	Y	According to the new SEZ legislation, there is a full exemption from all taxes in the SEZs ("National tax and incentive regimes designated by Applicable Law shall not apply in the SEZs.") (LSEZA Act 2017, Section 27).
	Others	N	N/A

Kenya IBFD 2018d: Corporate Taxation Survey (Reviewed 1 February 2018); IBFD 2018f: Business & Investment Survey (Reviewed 13 November 2017)			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors	N	N/A
	EZ	Y	10 year tax holiday for EPZ enterprises, followed by 25% CIT for next 10 years. For SEZ enterprises, developers or operators, for the first 10 years from the date of first operation, the CIT rate is 10% and thereafter 15% for the subsequent 10-year period.
	Others	Y	27% CIT rate for 3 years for newly listed companies with minimum of 20% of shares listed; with 30% of shares listed, the rate is 25% for 5 years; and with 40% of shares listed, the rate is 20% for 5 years.

Not time-bound	Sectors	N	N/A
	EZ	Y	**Cost based:** Buildings and machinery constructed or purchased by an EPZ enterprise for operations in the EPZ attracts a 100% investment deduction. Similarly, companies that invest in buildings or machineries for manufacture in any satellite town adjoining Nairobi, Mombasa or Kisumu will receive a deduction of 150% on the capital expenditure (IBFD 2018d).
	Others		Other relevant exemptions from income tax are: income from the investment of an annuity fund of an insurance company; income of unit trusts or collective investment schemes (conditional); dividends received by a registered venture capital company; dividend distributions by REITs (IBFD 2018, p.4). Exempt capital gains include: transfer of assets to a company wholly owned by spouses or by a spouse and an immediate family member (IBFD 2018, p.9).
Netherlands IBFD 2018d: M. Schellekens, *Netherlands - Corporate Taxation* sec. 1., Country Surveys IBFD (accessed 12 Mar. 2018); IBFD 2018b: H-J. van Duijn, *Netherlands - Corporate Taxation* sec. 1., Country Analyses IBFD (accessed 15 Mar. 2018).; PWC 2018: http://taxsummaries.pwc.com/ID/Netherlands-Corporate-Taxes-on-corporate-income 20.03.2018.			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors/ EZ/Others	N	N/A
Not time-bound	Sectors	Y	**Tonnage tax:** companies and private entrepreneurs engaged in shipping may elect to be assessed for CIT in an alternative tax regime based on the volume transported (Article 3.22 of the IB). The exploitation of the ship must take place from the Netherlands (but it can carry a flag other than that of Netherlands). The regime is applicable for a period of at least 10 years, after which it may be terminated by the taxpayer (IBFD 2018b).

			Exempt investment fund regime: investment funds that meet certain conditions can request an exemption from corporate income tax. (PWC 2018).
	EZ/Others	N	Forestry: profits realized in operating forestry activities are exempt. **Cost based:** Energy saving investment deduction of 54.5% (55% in 2017) of total amount of energy investments up to EUR 121 million investment p.a.. Environmental investment deduction ranging from 36% to 27% to 13.5%, with maximum deduction EUR 25 million for businesses investing in certain qualifying environment improving assets above EUR 2,500 (IBFD 2018b). **Cost based:** Wage tax reduction of 32% up to EUR 350,000 for businesses paying salaries to employees who carry out certain (R&D) activities (art. 23 WVA) (IBFD 2018b).

Germany
IBFD 2018b: A. Perdelwitz, Germany - Corporate Taxation sec. 1., Country Analyses IBFD (accessed 23 Mar. 2018); IBFD 2018d: A. Perdelwitz, Germany - Corporate Taxation sec. 1., Country Surveys IBFD (accessed 23 Mar. 2018);Ministry of Finance Germany: https://www.bundesfinanzministerium.de/Web/DE/Home/home.html accessed 21.06.2018; Federal tax Office https://www.bzst.de/EN/Home/home_node.html; Deloitte 2018: https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/performancemagazine/articles/lu_reform-german-investment-tax-act-092016.pdf accessed 01/07/2018

Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors	Y	**Cost based:** Accelerated depreciation of the cost of movable fixed assets is available to enterprises that earn income from independent business services, agriculture and forestry at the rate of 20% within the first 5 years.
	Others/EZ	N	N/A
Not time-bound	Sectors	Y	Investment fund regime: applicable to investment funds that are defined as investment asset pools under the German Capital Investment Code. The investment funds could be taxed between a 0% and 15% based on certain conditions (Deloitte 2018).

			Cost based: tax free investment grants are available for first time investments in depreciable assets in the 5 new federal states, and this includes buildings that remain in the 5 new states for a minimum of 5 years. To qualify, the assets invested in must be used in a production facility or for service business such as marketing, engineering, research and development, and data processing. The grant is between 12.5% and 25% of the cost of acquisition subject to conditions (size and type of investment and location of PE)
	EZ	N	N/A
	Others	Y	Capital gains from the sale of shares in resident or non-resident companies are exempt, irrespective of the shareholding level or the holding period. However, short-term capital gains made by banks and financial institutions from sale of commercial portfolio do not qualify for the exemption (IBFD 2018d).
Ireland IBFD 2018b: O. Ostaszewska, Ireland - Corporate Taxation sec. 1., Country Surveys IBFD (accessed 18 Mar. 2018); PWC 2018 http://taxsummaries.pwc.com/ID/Ireland-Corporate-Deductions (accessed 21 June 2018); Revenue Authority of Ireland https://www.revenue.ie/en/companies-and-charities/reliefs-and-exemptions/index.aspx; 24.06.2018. Irish Funds and section 110: https://www.irishfunds.ie/getting-started-in-ireland/taxation; https://www.pwc.ie/services/tax/international-tax/structured-finance.html; 11.7.2018. GUE/NGL report into apple in Ireland: http://www.guengl.eu/uploads/news-documents/Apple_report_final.pdf; 11.7.2018.			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors/ EZ	N	N/A
	Others	Y	A tax holiday is granted for start-ups that commence business between 2009 and 2018. The period of exemption is 3 years if the total amount of corporate tax payable is not more than EUR 40,000 in each year. For corporation tax between EUR 40,000 and EUR 60,000, marginal relief is available (IBFD 2018d).

			Cost based: 100% capital allowance for expenditures incurred on specific approved energy efficient equipment until 31t December 2020 (PWC 2018).
Not time-bound	Sectors	Y	Real estate investment trusts are exempt from CIT on the income and chargeable gains from property rental business (IBFD 2018d). Investment fund regime: "Irish regulated funds are exempt from Irish tax on income and gains derived from their investments and are not subject to any Irish tax on their net asset value." (Irish Funds Website). Structured finance (section 110) companies are special purpose vehicles for holding and/or managing assets and may result with appropriate structuring in an effective corporate income tax rate of 0% (PWC section 110 companies). Forestry: Income from the occupation of woodlands managed for business purposes are exempt. (IBFD 2018d).
	EZ	N	N/A
	Others	Y	A Participation exemption from capital gains is available to Irish resident companies on the disposal of a shareholding interest if they meet certain conditions. **Cost based:** 100% acquisition cost for IP assets may qualify as a tax deductible expense, coupled with unlimited loss carry forward relief (GUE/NGL report).

Spain PWC 2018 World Tax Summaries: http://www.taxsummaries.pwc.com/ID/Spain-Corporate-Tax-credits-and-incentives (accessed 21 Mar. 2018); IBFD 2018d: Á. de la Cueva González-Cotera & C. Morlán Burgasé, Spain - Corporate Taxation sec. 1., Country Analyses IBFD (accessed 21 Mar. 2018); Revenue Authority of Spain: https://www.agenciatributaria.es/AEAT.internet/en_gb/Inicio.shtml accessed 20.06.2018; Invest in Spain: http://www.investinspain.org/invest/en/index.html; 21.03.2018.			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors	Y	Capital gains of venture capital companies from the sale of shares held for at least 1 year in a non-financial subsidiary operating in the field of technological innovation are 99% exempt for holding periods up to 15 years (extension to 20 years upon request)(IBFD 2018d).
	EZ	N	N/A
	Others	Y	Reduced CIT rate of 15% for new businesses for first 3 profitable years if not part of a group; does not perform an economic activity that has previously been performed by related persons or undertaken by an individual holding 50% (or more) of the equity of the new company.
Not time-bound	Sectors	Y	Income derived from real property rental is 85% exempt from CIT. (IBFD 2018b) Thus, companies exclusively engaging in real property rental activities are taxed on 15% of the regular 25% CIT rate; that is, such companies are taxed at a 3.75% effective rate. Holding Companies - Taxation of the ETVE: Exemptions, under certain conditions are allowed on the dividends and capital gains derived by the ETVE from shares in non-resident companies. The "ETVE" is defined as "a resident company whose objective is to supervise and manage direct or indirect participations in non-resident companies and that has a physical organization with employees." (IBFD 2018d) **Cost based:** For oil companies, accelerated depreciation of intangible investigation assets of up to 50% p.a. is available, and indefinite loss carry-forward to offset future taxable income up to 50% of the amount of losses carried forward in any taxable year

			(IBFD 2018d). Mining companies with qualifying mining exploitation activities are granted unrestricted depreciation for a maximum period of 10 years on their expenses in mining assets and surface rights. Furthermore, a depletion allowance is also available (IBFD 2018d). **Cost based:** A tax credit of 25% (20% for fiscal years commencing before 1 January 2017) is granted for investments in Spanish cinematographic or audio-visual productions. It is limited to the first EUR 1 million of the costs of investments (IBFD 2018d).
	EZ	Y	Under the Canary Islands Special Zone Regime (ZEC) a qualifying company may be granted a reduced CIT rate of 4%. Similarly, several tax incentives are available in the Basque Country (e.g. small companies in Álava, Biscay and Guipúzcoa pay CIT at 24%)(IBFD 2018d). **Cost based:** 50% tax credit granted on CIT on income generated in Ceuta and Melilla through companies established and carrying on activities during a full business cycle (PWC 2018).
	Others	Y	**Cost based:** Investment deduction granted to reduce the tax base by 10% of increase in equity, on the condition that the increase is maintained over a 5-year period; and subject to other conditions. **Cost based**: R&D and technological innovation credit: for expenses incurred on R&D activities, tax credits are granted between 8% and 25% subject to conditions. (PWC 2018). Real estate investment trusts are exempt from CIT.(IBFD 2018)

Luxembourg IBFD 2018d: A. Jeanrond et al., Luxembourg - Corporate Taxation sec. 1., Country Surveys IBFD (accessed 23 Mar. 2018); PWC 2018 World Tax Summaries http://taxsummaries.pwc.com/uk/taxsummaries/wwts.nsf/ID/Luxembourg-Corporate-Tax-credits-and-incentives (accessed 21Mar. 2018); PWC 2018 New IP tax regime in Luxembourg – in effect from 1 January 2018https://www.pwc.lu/en/tax-consulting/docs/pwc-tax-230318.pdf			
Tax Incentive Type		Available?	Notes/Details
Time-bound	Sectors/ EZ/Others	Y	Income from new industrial businesses and activities are partially exempt for an 8-year period if the contribution of such activities to growth is proven, and if there is no competition with existing companies; however, the amount of exemption can't exceed 25% of the profit related to the new activity, leading to a minimum CIT rate of 19.5075% (26.01%-(26.01%*0.25)).
Not time-bound	Sectors	Y	**Cost based:** Investment allowance is granted to businesses for promoting the modernization of agriculture in Luxembourg (IBFD 2018d).
	EZ	N	N/A
	Others	Y	CIT and WHT on dividends are exempted for investment funds resident in Luxembourg (PWC 2018). Venture capital vehicles (Société d'Investissement en Capital à Risques or SICAR) are exempted from CIT and CGT from transferable securities that qualfiy as investments in risk capital, in addition, income from investments in liquid assets are also exempt subject to an investment in risk capital for a maximum of 12 months (PWC 2018). Small companies having a taxable income equal to or below EUR 25,000 are taxed at the reduced CIT rate of 22.08%. A Private wealth management company is exempt from Luxembourg CIT, but a yearly subscription tax of 0.25% is due on basis of paid-up capital, share premium, and excessive debts. The subscription tax is capped at EUR 125,000. **Cost based:** Depreciation allowance up to 80% for businesses to enable disabled persons to work and for investments to protect the environment, save energy or reduce waste (article 32bis of the LIR), for acquisition costs or production of the investment of at least EUR 2,400 (IBFD 2018d).

Bermuda IBFD 2018d, J. Bennett, Bermuda - Business and Investment sec. 7., Country Surveys IBFD (accessed 18 Mar. 2018); IBFD 2018b, J. Bennett, Bermuda - Corporate Taxation sec. 1., Country Surveys IBFD (accessed 18 Mar. 2018); PWC 2018: http://taxsummaries.pwc.com/ID/Bermuda-Corporate-Tax-credits-and-incentives (accessed 21 Mar. 2018)			
Tax Incentive Type		Available?	Notes/details
Time-bound	Sectors	N	N/A
	EZ	N	N/A
	Others	Y	The Minister of Finance of Bermuda can enter into an arrangement with investors that guarantees exemption from any tax on income, profits, capital gains, appreciation or assets that might be introduced in Bermuda in the future. The assurance is for a period not extending beyond 31 March 2035 (IBFD 2018b).
Not time-bound	Sectors/ EZ/Others	N	N/A

France IBFD 2018d: J. Benamran, France - Corporate Taxation sec. 1., Country Analyses IBFD (accessed 15 Mar. 2018).			
Tax Incentive Type		Available?	Notes/details
Time-bound	Sectors	Y	Certain business and agricultural organizations may be eligible for a 5-year exemption from local business tax.
	EZ	Y	An 8-year corporate tax exemption (5 years full exemption, 3 years partial) is available for enterprises operating or created until December 2020 in a specified economically depressed urban and suburban zones, otherwise called *zone franche urbaine.* The exemption is limited to EUR 50,000 per 12 months.

	Others	Y	Venture Capital Companies whose assets only consist of securities and cash are exempted from corporate income tax for five years. Similarly, individual venture capital companies (*sociétés unipersonnelles d'investissement à risques*, SUIR) are exempt from corporate income tax for a 10-year period (article 208 D of the CGI) (IBFD 2018d). Small and medium-sized companies, innovative new companies in a profitable tax position are eligible for a special tax regime that allows them an exemption from CIT for the first 12 months and a 50% allowance for the next 12 months subject to certain conditions. Qualifying new enterprises taking over companies in hardship are exempt from CIT for the first 2-year period from the date of commencing their activities. **Cost based:** A special tax credit is available to French and foreign enterprises to boost pay in low paid jobs. It is calculated as a percentage of the wages paid to employees receiving less than 2.5 multiplied by the French regulated minimum wage. This credit can offset corporate tax liability (IBFD 2018d). **Cost based:** Film tax credits are available from 20% to 30% of the investment cost incurred, subject to certain conditions (IBFD 2018d).
Not time-bound	Sectors	Y	French resident shipping companies can choose a tax regime based on total net tonnage instead of the standard corporate income tax regime (IBFD 2018d).
	EZ	N	N/A
	Others	Y	**Cost based:** A tax credit of 30% (50% for French overseas departments) is granted on the cost incurred on Research and Development activities subject to certain conditions. Long-term capital gains are taxed at a reduced CIT rate of 15% (IBFD 2018d), and gains from shares falling in the participation exemption are exempt.

Switzerland IBFD 2018d R.M. Cadosch, *Switzerland - Corporate Taxation* sec. 1., Country Analyses IBFD (accessed 19 Mar. 2018).			
Tax Incentive Type		Available?	Notes/details
Time-bound	Sectors	Y	**Cost based:** A 50% depreciation is granted for the implementation of a water pollution control law, water pollution abatement machinery and installations for the first 2 years (IBFD 2018d).
	EZ/others	N	Newly created companies conditionally benefit from cantonal tax incentives for 10 years. The canton of Vaud fully exempts these companies from cantonal and communal CIT. Thus, only the federal tax rate of 8.5% applies. Because it can be deducted from the tax base, it results in an applicable tax rate of 7.83%.
Not time-bound	Sectors/ EZ	N	N/A
	Others	Y	Holding companies are exempt from any cantonal (state) tax on income and capital gains and pay only a reduced cantonal tax on capital. Holding companies qualify if their participation (or income derived therefrom) is up to two thirds of their total assets (or of their total income) (Art. 28 StHG, IBFD 2018d)..

United Kingdom IBFD 2018d Z.G. Kronbergs, United Kingdom - Corporate Taxation sec. 1., Country Surveys IBFD (accessed 18 Mar. 2018); HM Revenue and Customs 2007 https://www.gov.uk/guidance/corporation-tax-the-patent-box (accessed 21 Mar 2018); PWC 2018: http://taxsummaries.pwc.com/ID/United-Kingdom-Corporate-Tax-credits-and-incentives (accessed 23 Mar. 2018)			
Tax Incentive Type		Available?	Notes/details
Time-bound	Sectors/ EZ/Others	N	N/A
Not time-bound	Sectors	Y	Tonnage tax: Profits from the operation of qualifying ships are exempt from corporation tax and taxed instead under a deemed tonnage profit tax regime. REITs are exempt from CIT and CGT derived from their property rental business only (IBFD 2018d).
	EZ	Y	Northern Ireland has set the corporate income tax rate for the Northern Ireland territory (Corporate Tax Act 2015) at 12.5% for certain trading profits.
	Others	Y	**Cost based:** Tax credit of 25% (over 5 years) for companies investing in specified areas through community development finance institutions (IBFD 2018d).
Italy PWC 2018:Worldwide Tax Summarries **http://taxsummaries.pwc.com/uk/taxsummaries/wwts.nsf/ID/Italy-Corporate-Tax-credits-and-incentives** (accessed 22 Mar. 2018); IBFD 2018d: C. (Cesare) Silvani, Italy - Corporate Taxation sec. 1., Country Analyses IBFD (accessed 22 Mar. 2018).			
Tax Incentive Type		Available?	Notes/details
Time-bound	Sectors/ EZ/Others	N	N/A

Not time-bound	Sectors	Y	Resident and non-resident shipping companies in Italy can opt for the Tonnage tax regime after meeting certain conditions (IBFD 2018d)
	EZ	N	N/A
	Others	Y	**Cost based:** Any company that invests in a start-up company can deduct 30% (up to EUR 540,000 each year) of the invested amount from their taxable income, subject to certain conditions. Accelerated depreciation of any acquisition cost for qualifying tangible assets purchased between 1 January 2018 and 30 June 2019. The cost of acquiring certain high-tech tangible assets up until 31 December 2019 is increased by 150% for depreciation purposes; and acquisition cost of certain related intangible assets is also increased by 40% for depreciation purposes under this regime (PWC 2018). Several investment credits are available, ranging from a 40% tax credit on expenses incurred on particular staff training, to a 65% tax credit granted to hotels and thermal establishments on expenses incurred on renovation and improvement on energy.