TOWARDS SUSTAINABLE TAX POLICIES IN THE ASEAN REGION:

THE CASE OF CORPORATE TAX INCENTIVES

All ASEAN Member States need to collaborate with one another to establish effective enforcement mechanisms and take collective action to prevent harmful tax practices in the form of corporate tax incentives, in pursuit of a common goal of building sustainability and resilience across the ASEAN region.

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ABBREVIATIONS

ADB	Asian Development Bank
AI	Adaro Indonesia
ASEAN	Association of Southeast Asian Nations
BEPS	Base erosion and profit shifting
COVID-19	Coronavirus disease 2019
CIT	Corporate income tax
CRII	Commitment to Reducing Inequality Index
DFI	Development Finance International
DOF	Department of Finance
DRM	Domestic revenue mobilization
DTA	Double Tax Agreement
EAP	East Asia and Pacific Region
FDI	Foreign direct investment
FSI	Financial Secrecy Index
FIAS	Foreign Investment Advisory Service
GDP	Gross domestic product
HDI	Human Development Index
HTP	Harmful tax practice
IMF	International Monetary Fund
LDA	Less developed area
M&A	Mergers and acquisitions
MNC	Multination corporation
MPI	Multidimensional Poverty Index
n/a	Not available
OECD	Organisation for Economic Co-operation and Development
OBI	Open Budget Index
SDGs	Sustainable Development Goals
SEZ	Special economic zone
SMEs	Small and medium enterprises
SPE	Special purpose entity
SPV	Special purpose vehicle
PIT	Personal income tax
PPP	Purchasing power parity
PRAKASA	Perkumpulan Prakarsa in Indonesia
QIP	Qualified investment project
R&D	Research and development
TAFJA	Tax and Fiscal Justice Asia
UHC	Universal health coverage
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
VAT	Value-added tax
VATJ	Vietnam Alliance for Tax Justice
VEPR	Vietnam Institute for Economic and Policy Research
WDI	World Development Indicators

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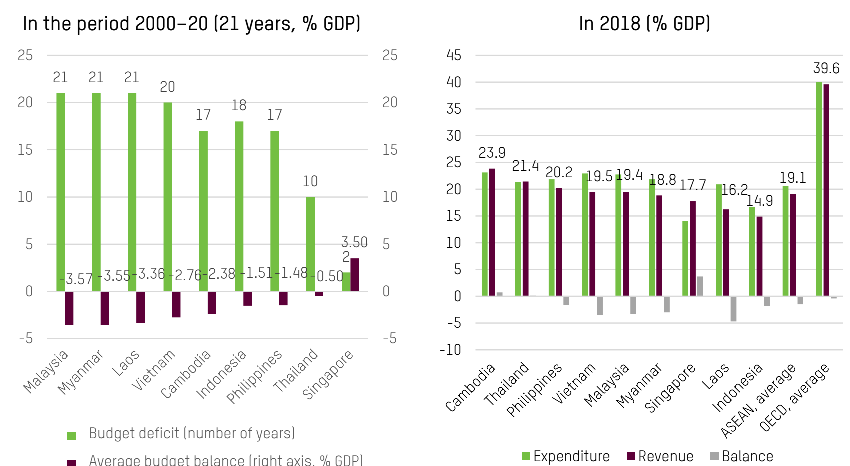
EXECUTIVE SUMMARY

Progressive tax collection and spending is the most effective way to fight poverty and to reduce inequalities in society. However, government revenues to finance public spending in essential services such as healthcare, education, and social protection are still not meeting needs in most countries in the ASEAN region.

At the same time, the region is facing an unprecedented crisis of inequality, and some countries still have some of the highest poverty levels in the world. Most countries in the region are failing to invest sufficiently in essential public services such as health, education, and social security systems. For some countries (Cambodia, Laos, Vietnam, Malaysia, and Myanmar), the situation is so critical that the Asian Development Bank (ADB) (2018) has already warned that if they do not mobilize significantly greater revenues in the coming years, the 2030 Sustainable Development Goals (SDGs) will not be met.

The most worrying aspect is that this lack of spending is being seen at a time when countries in the region are already seeing their fiscal space stretched. Six of the nine ASEAN Member States (excluding Brunei) already had significant budget deficits in 2018, and some have high levels of public debt. On average, the ASEAN region saw a budget deficit of 1.5% of gross domestic product (GDP) in 2018. Budget deficits, and consequently public debt, are likely to see further significant increases due to the extra budgetary efforts that will be required to overcome the current economic challenges and the health crisis created by the COVID-19 pandemic. It is expected that all of the nine countries face budget deficits in 2020 with the average one of 4.2% of GDP.

Estimated budget indicators in ASEAN countries



Source: Authors' calculations, based on IMF (2020c).

In the ASEAN region, levels of revenue collection, measured as a proportion of GDP, remain very low compared with OECD countries. The average budget revenue ratio across the region was 19.1% of GDP in 2018, just lower than

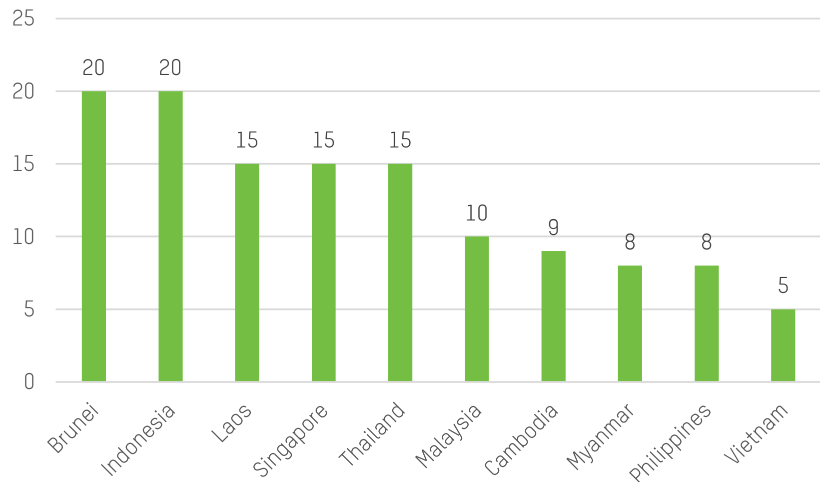
half that collected on average in OECD countries and lower than in the Latin America and the Caribbean region. These low ratios mean that countries in the region have little budget capacity and are running public deficits, and this gap has dramatic consequences for the quality of public services, infrastructure, and levels of good governance.

Even before the COVID-19 pandemic, the situation in ASEAN was no longer sustainable. Now the situation is urgent. Initial estimates from the OECD (2020) predict that the pandemic will have significant negative impacts on tax revenues, while at the same time budget burdens will increase due to governments' efforts to introduce supportive packages to help cope with the disease. In ASEAN countries the expected budget spending on responses to the coronavirus is enormous: Singapore, for example, will spend a sum equivalent to about 13% of its GDP on extensive fiscal stimulus measures and Thailand 9%, while in the Philippines, Indonesia, and Vietnam the figure will be about 3% of GDP (Hayat, 2020). Looking at tax expenditures, according to figures from OECD (2019a), the Philippines and Vietnam could decrease by at least one-third the COVID-19 budget burdens by stopping offering corporate tax incentives to both multinational and domestic companies.

How is it possible that a region that for decades has seen sustained levels of growth and which attracts substantial amounts of foreign direct investment (FDI) still collects such low amounts of tax revenue? Countries in ASEAN are still highly dependent on revenues from corporate income tax (CIT); however, they are giving up huge amounts of revenue by offering large tax incentives to foreign investors. International institutions have repeatedly warned countries in the region to stop offering redundant tax incentives (i.e. where a company would have invested anyway). ASEAN countries are losing a significant amount of potential tax revenues—6% of GDP in Cambodia and 1% of GDP in Vietnam and the Philippines (OECD, 2019a). As mentioned above, these lost revenues could have been crucial now in covering large parts of the extra budget spending on responses to COVID-19.

Tiara Audina / Oxfam

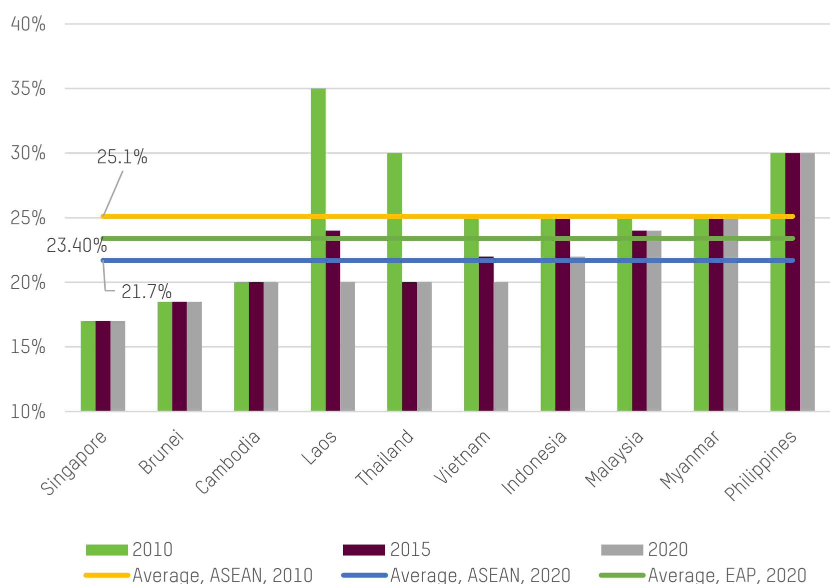
Maximum period of tax holidays in ASEAN countries, 2020 (number of years)



Source: Authors' review of legal documents of ASEAN countries.

Just as in many other regions of the world, countries in the ASEAN region are competing with one another in a disastrous race to the bottom by reducing their CIT rates and offering aggressive tax incentives to foreign multinationals. Across the region, the average CIT rate has fallen over the last 10 years, from 25.1% in 2010 to 21.7% in 2020.

Standard CIT rates in ASEAN countries, 2020

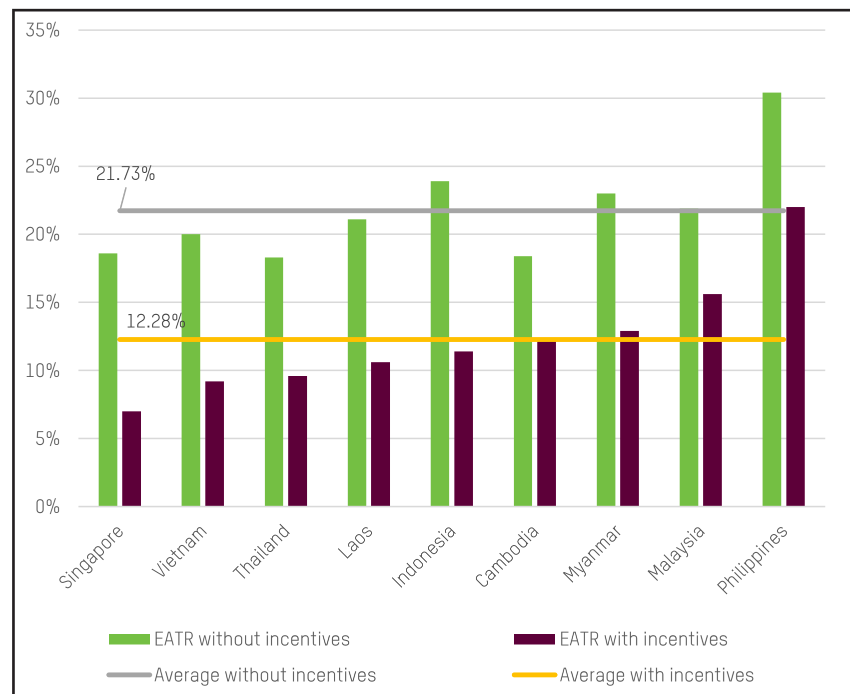


Source: Trading Economics (2020).

Taking into account the tax holidays of up to 20 years and other enormous profit-based incentives offered to multinationals by some countries, the effective corporate tax rate is on average 9.4 percentage points lower. This makes ASEAN a region with effectively some of

the lowest CIT rates in the world for large companies. Aggressive tax competition is also a fertile ground for profit shifting. Countries such as Thailand, Indonesia, and Malaysia are estimated to lose at least 6–9 percentage points of potential corporate tax revenues due to profit shifting. The race to the bottom is a lose-lose game.

Average effective tax rates (EATR) with and without incentives in ASEAN countries, 2015 (%)



Source: Wiedemann and Finke (2015).

ASEAN countries need to react at the political level to stop the race to the bottom. Countries in the region need to improve their domestic revenue mobilization if they are serious about overcoming interrelated challenges such as climate change, widening inequality, and high levels of poverty, while also recovering from the COVID-19 crisis.

There are no legitimate reasons for political inaction. There is no evidence that tax incentives increase FDI—indeed, quite the contrary (James, 2014). The majority of the corporate tax incentives current offered by ASEAN countries are not aimed at attracting long-term investments but rather are an attempt to compensate for weak governance and poor infrastructure, and they feed the short-term desire of shareholders to cut corporate tax payments to the bare minimum. Shockingly, tax incentives create an unfair investment environment for small and medium-sized local companies. In Vietnam, the effective CIT rate for foreign companies in the manufacturing sector in 2016 was 8% but for domestic companies it was 14.5%, and it was even higher for large state-owned enterprises at 16%.

Unlike in other regions, ASEAN has never taken any political action against the race to the bottom on CIT. Member countries should grasp

the opportunity offered by their next summit to begin a process of phasing out the most redundant tax incentives and should establish a clear rulebook for tax incentives in the region. The current race to the bottom is increasing economic and social divergence in the region. ASEAN needs to make sure that its members' tax policies serve the collective good and help create a stable fiscal environment. The handling of the coronavirus pandemic also highlights two pressing issues for the region: first, governments need sufficient resources for a fairer recovery and to cope with future shocks; and second, ASEAN will only ever be as strong as its weakest link.

The ASEAN countries are too far apart on many macro-level indicators, and this is exacerbated by the aggressive race to the bottom on taxation. Each country tends to prioritize its own interests when implementing fiscal policies and compete for gains, rather than sitting down with its neighbors and designing a mechanism for the common good. One of the biggest challenges for ASEAN countries is to come together and address complex emerging issues at the regional level, in particular corporate tax incentives. However, if ASEAN wants to remain cohesive, its Member States need to converge.

In light of this, this report recommends that ASEAN countries take the following actions.

RECOMMENDATION 1: DRAW UP A WHITELIST AND A BLACKLIST OF TAX INCENTIVES

ASEAN members should draw up a blacklist of all tax incentives that should no longer be allowed and establish a plan to phase them out across the region by a certain date. In parallel with this, they should agree on a whitelist of tax incentives that are acceptable and allowed. The blacklist should include first and foremost profit-based tax incentives, i.e. incentives that offer a low rate of tax on profits made, such as tax holidays, significant tax exemptions, loss carry-backs, and preferential rates. Academics and international organizations like the OECD have already called on countries in ASEAN to stop offering these kinds of incentive, due to their harmful nature and marginal positive effects. The whitelist should include investment-based tax incentives, i.e. incentives that focus on the investment itself. Such incentives are proven to be much more productive than profit-based incentives. However, these incentives should be monitored for their effectiveness and abuses should be avoided, such as super deductions or super tax credits.

A mechanism should be put in place at the ASEAN level to monitor developments in tax policy and to decide which incentives should be blacklisted or whitelisted. This mechanism should be transparent and accountable and should involve both political representatives and technical experts from governments, civil society, and academia in its operation.

Adam Patterson/Oxfam

RECOMMENDATION 2: AGREE ON A MINIMUM TAX STANDARD ACROSS THE ASEAN REGION

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

RECOMMENDATION 3: ESTABLISH RULES FOR THE GOOD GOVERNANCE OF TAX INCENTIVES

The ASEAN countries should agree on a good governance rulebook for tax. All incentives should have a legal basis in a country's corporate tax code, and no tax incentives should be given to companies arbitrarily. In all cases, tax incentives should have a clear timeline and end date included in legislation.

The ASEAN countries should also incorporate all tax incentives into the relevant corporate tax code, with clear criteria defined. Finally, all countries in the ASEAN region should publish an annual tax expenditure report; this should be transparent, and published along with their annual budget documents.

For the purposes of transparency and good governance, a cost-benefit analysis of potential provisions should be carried out as a prerequisite for the approval of any tax incentive. Where incentives have been granted, authorities (preferably tax authorities) must monitor their impact by carrying out a mid-term evaluation to establish whether outcomes are meeting their expectations.

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

1. INTRODUCTION

Many member countries of the Association of Southeast Asian Nations (ASEAN) have seen growing inequalities in income and wealth amid uneven economic growth over the past few decades (Talpur, 2019). Some countries, like the Philippines, Indonesia, and Laos, face both high levels of poverty and high indices of inequality. To address these issues, fair and progressive taxation is one of the key tools through which governments can mobilize domestic revenues and spend them on sectors that are critical for reducing poverty and inequality, such as universal education, healthcare, and social protection (UNESCAP, 2017; UNESCAP and Oxfam, 2017). This reality has become more vivid during the COVID-19 crisis: there is an increased need for financial resources to strengthen health systems, protect vulnerable people who have lost their jobs, and address immediate challenges emerging as a result of the pandemic. Countries also need fiscal resources to rebuild their economies and support small businesses to escape bankruptcy.

However, the tax bases of ASEAN countries have been eroded by reductions in regulatory corporate income tax (CIT) rates, combined with numerous tax incentives on offer for investors (ADB, 2018; OECD, 2019a; Oxfam, 2017; Wermelinger, 2018). Tax incentives involve potential costs for many ASEAN countries: for example, in Cambodia lost budget revenues are estimated to equal approximately 6% of gross domestic product (GDP), while in Vietnam and the Philippines the ratio is around 1% of GDP (OECD, 2019a). These calculations do not take into account profit-shifting activities across borders, which would increase fiscal costs through tax avoidance and evasion. In addition, many countries in the ASEAN region have been warned by ADB about their shortage of financial resources to address areas of social protection, including income security, health and education services, and other essential goods and services, with poorer Member States such as Cambodia, Laos, and Myanmar having to overcome the greatest fiscal pressures if they are to meet the Sustainable Development Goals (SDGs) (ADB, 2018).

Corporate tax incentives have become a policy norm in ASEAN countries, which offer a range of tax incentives for multinational corporations (MNCs) as well as domestic firms, with the aim of promoting investment (UNCTAD, 2000). In doing so, countries tend to compete with one another rather than cooperating to promote economic growth.

ASEAN's theme for 2020 is 'Cohesive and Responsive', and this is applicable to the ASEAN context of corporate tax incentives: for their collective good, member countries need to act responsively to create a sustainable CIT system. The handling of the COVID-19 pandemic also highlights two pressing issues for the ASEAN region. First, governments need to be better prepared and to have sufficient resources of their own to ensure recovery from future shocks, which is only possible with transparent and sustainable tax systems in all ASEAN countries. Second, governments must act together, because ASEAN will only ever be as strong as its weakest link. They need to act collectively to build a sustainable fiscal system for the ASEAN region that puts an end to redundant corporate tax incentives and reduces the cost of incentives

and other harmful tax practices, in order to prevent a 'race to the bottom'.

This study aims to bring some clarity to the complex picture of corporate tax incentives[1] in the ASEAN region with an in-depth analysis of all existing forms of incentive and their costs. It investigates the extent to which corporate tax incentives are redundant and costly, and proposes how Member States should phase them out to reduce the costs. It first reviews the recent macroeconomic development and fiscal structures of ASEAN countries, and examines the fiscal pressures they face and their diversity in governance and economic policies. It then analyses in depth various forms of corporate tax incentive available to domestic and foreign enterprises, and presents ample evidence of the costs that ASEAN countries incur as a result of such incentives. It also discusses current international tax developments, such as the ongoing negotiations at the level of the Organization for Economic Co-operation and Development (OECD) to introduce mechanisms for a minimum effective tax rate. Finally, it makes recommendations on policy for ASEAN and its Member States in seeking to establish a comprehensive mechanism of solidarity and cooperation to address common issues on corporate tax incentives.

Jed Regala/Oxfam

2. MACROECONOMIC DYNAMICS OF ASEAN COUNTRIES

2.1. ECONOMIC DEVELOPMENT AND GOVERNANCE

There are enormous differences between ASEAN countries in terms of their macro indicators, ranging from population and economic development to good governance.

Two countries, Singapore and Brunei, have the smallest populations in the region and the highest per capita incomes and the highest scores on the Human Development Index (HDI) (Table 1 and Figure 1). Their GDP per capita (in terms of purchasing power parity, or PPP) are also among the highest in the world, at over US$70,000 in 2018; those of the other ASEAN countries meanwhile are all lower than $30,000, most of them substantially so. In addition, there are significant differences in population size across the other eight countries, with the populations of Malaysia, Laos, and Cambodia being smaller than 32 million in 2018 while those of the other five countries were above 50 million, in particular Indonesia with its population of 268 million.

Table 1: Overview of ASEAN countries, 2018

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

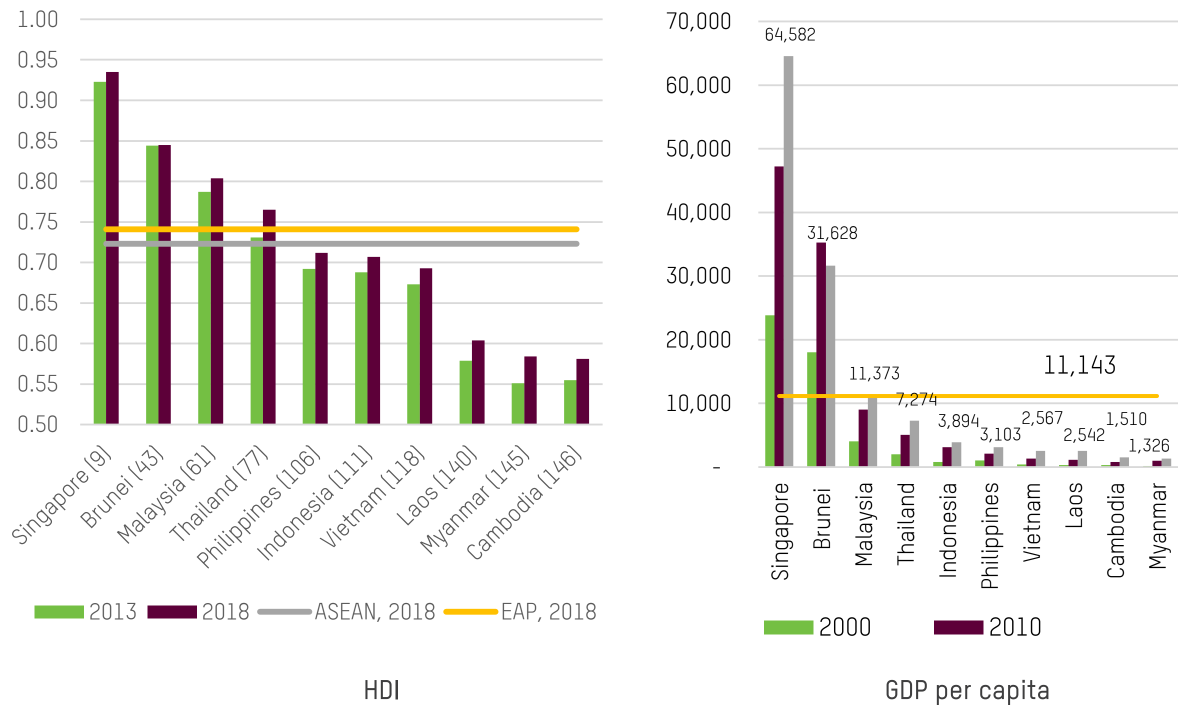
Note: Poverty data have been taken from the World Bank's World Development Indicators (WDI) for Myanmar (2017); Cambodia and Laos (2012); and the Philippines and Malaysia (2015). Poverty rates are calculated based on each country's national poverty line (WDI). n/a: not available. This table is sorted by GDP per capita (PPP).

Source: World Bank (2020).

The 10 ASEAN countries also had different proportions of their populations participating in the labor force in 2018. There were ample

labor resources in some countries, such as Singapore (62%), Vietnam (60%), Cambodia (57%), and Thailand (56%), while in the Philippines and Myanmar the figure was lower than 50%.

Figure 1: HDI rankings and GDP per capita (current $) in ASEAN countries, 2000–18



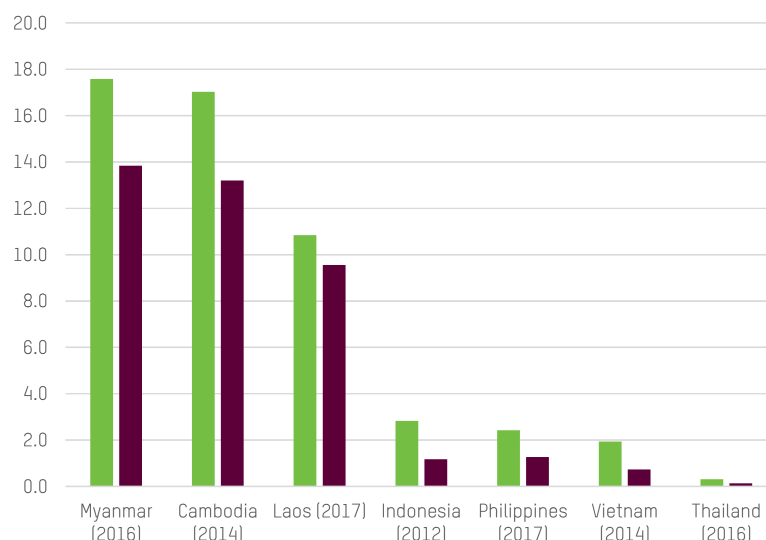
Note: EAP: East Asia and Pacific Region.

Source: World Bank (2020) and UNDP (2020).

The income gap (GDP per capita, current $) between countries has been increasing in absolute terms, but decreasing in relative terms. The gap between the country with the highest per capita income (Singapore) and the lowest (Myanmar) was more than 48 times at over $63,000 in 2018, but around 124 times and $23,000 in 2000. Seven of the 10 ASEAN countries had lower per capita income levels in 2018 than the East Asia and the Pacific (EAP) average of $11,143 (Figure 1).

Many ASEAN countries have to tackle high poverty rates measured by income, including Myanmar (24.8%), Laos (23.4%), the Philippines (21.6%), and Cambodia (17. 7%) (Table 1). Based on these figures, we estimate that 73.6 million out of 653.9 million people (11.3%) in the region were living in poverty in 2018. UNDP's Multidimensional Poverty Index (MPI) shows that Myanmar, Laos, and Cambodia are being left behind, with more than 10% of their populations living in multidimensional poverty (Figure 2). These countries therefore need to make great efforts if they are to achieve SDG 1 on reducing poverty.

Figure 2: Multidimensional Poverty Index in ASEAN countries (% population)

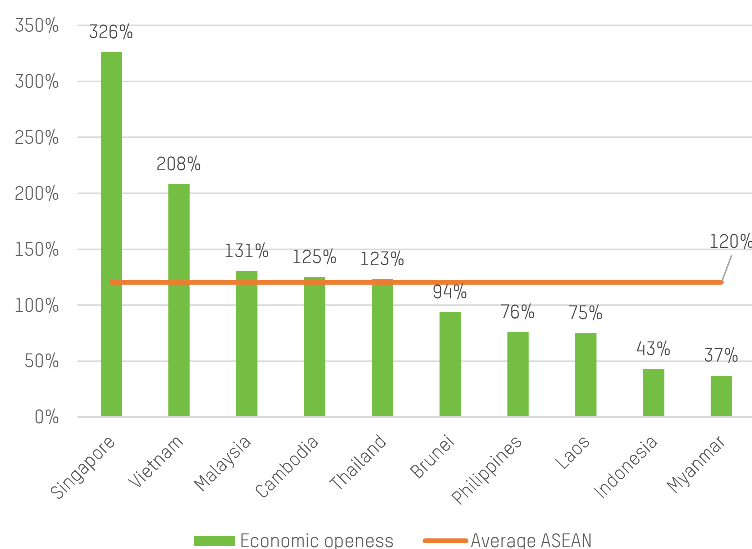


Note: end years for data surveys in parentheses, sorted by MPI; no available data for Malaysia, Brunei, or Singapore.

Source: UNDP (2020).

ASEAN countries also exhibit significant differences at the macroeconomic level in their economic openness, as measured by the ratio of the value of imports and exports to GDP. Indonesia had the fifth highest GDP per capita (PPP) in the region in 2018, but its openness level, at 43%, meant that it ranked just ninth. Vietnam, meanwhile, had the second highest level of economic openness with a total import/export ratio to GDP of 208%, but was seventh in terms of GDP per capita.

Figure 3: Ratio of value of imports and exports to GDP in ASEAN countries, 2018



Note: Ratios for Laos and Myanmar are for 2016.

Source: World Bank (2020).

Governance capabilities also vary between ASEAN countries. Income

levels are positively associated with many aspects of good governance, such as control of corruption, effectiveness of government, rule of law, and regulatory quality. Singapore ranked best in the world for the effectiveness of its government systems in 2018 with a score of 100% on a World Bank index (Table 2). However, citizens have low levels of voice and accountability in the economies of all ASEAN countries. With the exception of Indonesia (52%), all the countries scored less than 50% on this dimension. Some countries, such as Myanmar and the Philippines, are facing political instability, which prevents them from addressing other socio-economic issues such as high poverty levels, widening inequality, and a lack of voice for their citizens.

Table 2: Good governance in ASEAN countries, 2018

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

Note: The World Bank assigns a score to each country for each aspect of governance (0 = very bad, 100 = very good) and does not rank countries in an overall index of good governance. This table is sorted by simple average scores.

Source: World Bank (2020).

There are also high levels of inequality within ASEAN countries (Talpur, 2019). The Philippines faces extremely high levels of both income poverty and inequality. The country's Gini index score for income was the highest in the ASEAN region in the period 2010–17 (Table 3). It also scored highest on the Palma ratio, which calculates the income share of the richest 10% of the population divided by the share of the poorest 40% (UNESCAP, 2018a).

In other countries, high income levels are correlated with high levels of inequality—for example, in Malaysia, Singapore, and Indonesia. Singapore and Indonesia saw inequality increase at the fastest pace in the region over the period 1999–2014 (UNESCAP, 2018b). Thailand saw the biggest declines in its Gini index scores for income and wealth between the period 2000–09 and 2010–17 (Table 3). However, Talpur (2019) points out that these figures underestimate levels of income inequality in Thailand as the methodology used by sample household surveys does not take into account the richest people. UNESCAP and Oxfam (2017) show that adjusted Gini indices capturing the top incomes in Indonesia and the Philippines would be at least 15 points higher than those calculated using household surveys.

Table 3: Gini index in ASEAN countries, 2000–17

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

Note: Income Gini indices for Cambodia and Singapore and wealth Gini indices for all ASEAN countries are taken from WEF (2018); other figures are from World Bank (2020). A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. This table is sorted by income Gini Index over the 2010–17 period. No data available for Brunei.

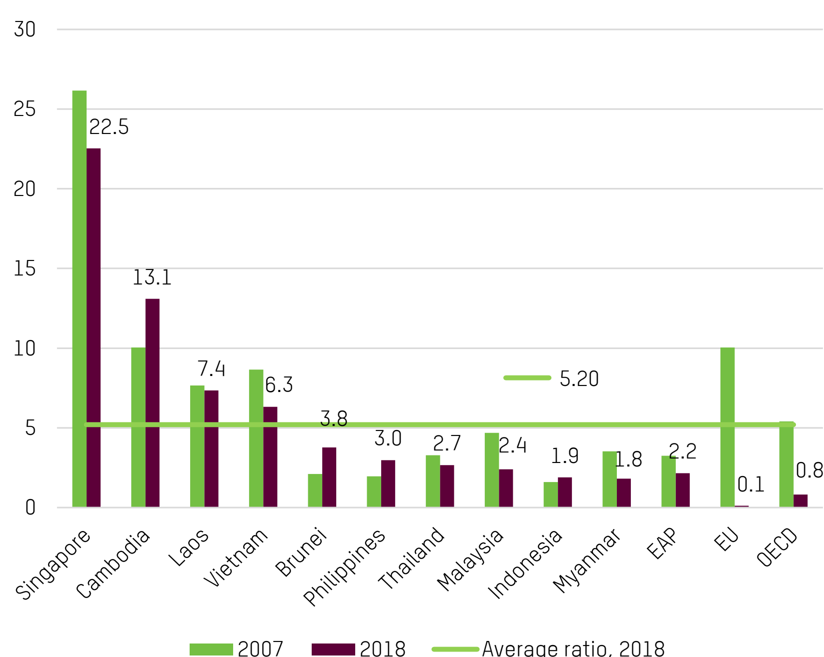
Source: World Bank (2020) and WEF (2018).

2.2. FOREIGN DIRECT INVESTMENT

Inflows of foreign direct investment (FDI) to ASEAN countries increased by an annual average of 5.2% over the 2010–18 period, and accounted for 11.5% of global FDI value in 2018 (ASEAN Secretariat and UNCTAD, 2019). The average openness level of FDI to GDP in the ASEAN region was 5.2% in 2018, 50 times larger than levels for the European Union (EU) (0.1%) and six times higher than for members of the OECD (0.8%) (Figure 4). Even the ratio for Myanmar, the lowest in the region at 1.8%, was 17 higher than the EU level and twice that of OECD countries on average.

Singapore had the highest ratio of FDI to GDP in the region. However, its ratio was inflated as it attracted a large amount of 'phantom' FDI due to its aggressive and harmful tax incentives, which are damaging to tax revenues in other ASEAN countries (Damgaard et al., 2019). Singapore is considered to be an intermediary investor, attracting phantom FDI which it then reinvests into other countries so that MNCs can enjoy low rates of CIT (Damgaard et al., 2019; Garcia-Bernardo et al., 2017). This partially explains why intra-ASEAN FDI flows account for a large proportion of FDI in the region, amounting to 16% of total FDI inflows into ASEAN countries. The large amounts of FDI flowing into Singapore and the large intra-ASEAN flows testify to a network of connections between investors in Singapore and those in other countries.

Figure 4: Net FDI inflows to ASEAN countries, 2007–18 (% GDP)



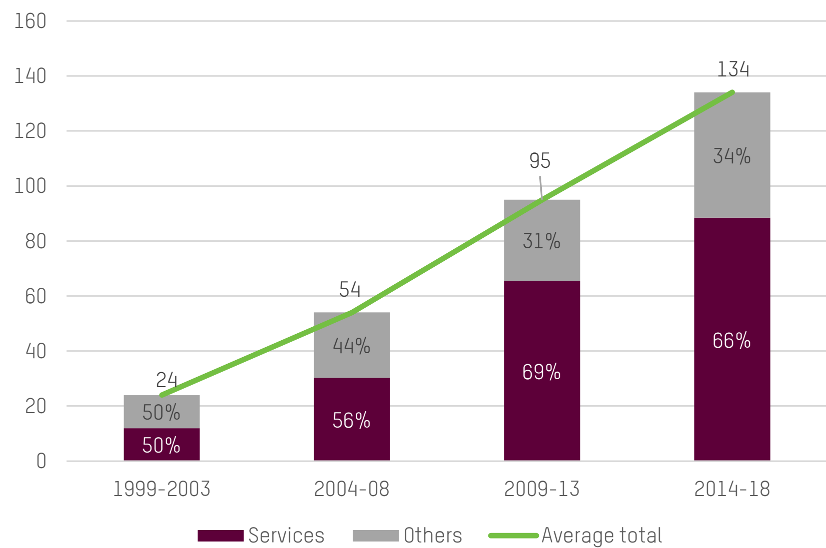
Source: World Bank (2020).

Continual increases in FDI inflows into the ASEAN region have been driven by investments in services and manufacturing. On average over the period 2014–18, FDI into the services sector accounted for 66% of total FDI inflows (Figure 5). FDI inflows to the manufacturing sector increased from $33bn in 2017 to $55bn in 2018, when they accounted for approximately 35% of total FDI.

The expansion of FDI in manufacturing is largely due to the transfer of production from China to ASEAN states and the trade tensions between the US and China (ASEAN Secretariat and UNCTAD, 2019). This provides a huge opportunity for the ASEAN region to boost economic growth; however, it seems unlikely that ASEAN countries will be able to cooperate closely with one another to manage this capital source effectively, leading to potential fiscal costs in some of them. Cambodia attracted a relatively large amount of FDI in 2018, with a ratio of FDI to

GDP of more than 13%, and China became its largest FDI source country. China was also the largest investor in Laos, providing 79% of total FDI inflows into the country (ASEAN Secretariat and UNCTAD, 2019).

Figure 5: FDI in ASEAN countries by sector, 1999–2018 ($ billion, %)



Source: ASEAN Secretariat and UNCTAD (2019).

However, one of the consequences of the COVID-19 pandemic has been a dramatic deterioration in investment flows. UNCTAD (2020) predicts that the pandemic may reduce global investment flows by up to 40%.

Aurelie Marrier d'Unienville / Oxfam

Nguyen Duc Hieu/Oxfam in Vietnam

3. FISCAL POLICY, TAX SYSTEMS, AND INEQUALITY

3.1. FISCAL SYSTEMS

Some ASEAN countries are under great pressure from public debt, with Singapore, Laos, Vietnam, and Malaysia facing the highest ratios of public debt to GDP. While Singapore has shown strong capacity to control public debt, with its budget balance reaching a surplus of 3.7% of GDP in 2018, for Laos public debt pressures have been increasing, with a large budget deficit ratio of 4.7% of GDP that year. In addition, Laos's external public debt remains large, reaching 51% of GDP in 2018, the highest of any ASEAN country (Table 4).

Table 4: Debt indicators of ASEAN countries, 2007–18 (% of GDP)

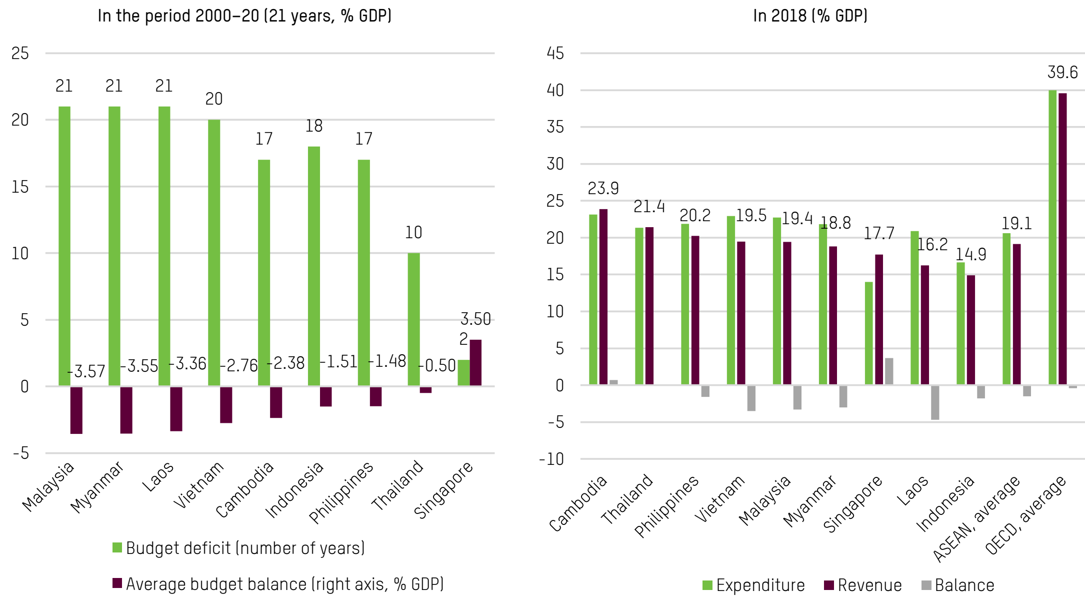
Country	Public debt		External public debt	
	2007	2015	2015	2018
Singapore	86.3	104.7	n/a	n/a
Laos	62.5	61.9	46.5	51.0
Vietnam	40.9	58.3	24.0	21.7
Malaysia	39.9	57.4	n/a	n/a
Thailand	35.1	42.7	5.6	7.1
Philippines	44.6	34.8	13.4	11.0
Myanmar	62.5	34.3	21.9	19.2
Cambodia	30.5	32.5	30.2	27.4
Indonesia	32.3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

Note: Sorted by public debt. External public debt means public and publicly guaranteed long-term external debt stocks, as calculated by the World Bank (2020); other figures calculated by the International Monetary Fund (IMF) (2020a).

Source: IMF (2020a) and World Bank (2020).

Levels of revenue mobilization vary across ASEAN countries: Cambodia saw the highest ratio of budget revenue to GDP in 2018, at 23.9%, while the lowest rate was 14.9% in Indonesia. The average ratio of budget revenue to GDP in the region was 19.1% in 2018, lower than half the OECD average of 39.6% (Figure 6). This explains why six out of nine countries (excluding Brunei) lacked resources for spending budgets in 2018, with budget deficits of 4.7% of GDP in Laos, 3.5% in Vietnam, approximately 3% in Malaysia and Myanmar, and around 1.7% in the Philippines and Indonesia. Cambodia and Thailand had marginal budget surpluses of 0.7% and 0.1% of GDP respectively, but only Singapore had a significant budget surplus, at 3.7% of GDP. On average, ASEAN countries recorded a budget deficit of 1.5% of GDP. Due to the COVID-19, it is expected that all of the nine ASEAN countries face budget deficits in 2020 with the average one of 4.2% of GDP.

Figure 6: Estimated budget indicators in ASEAN countries

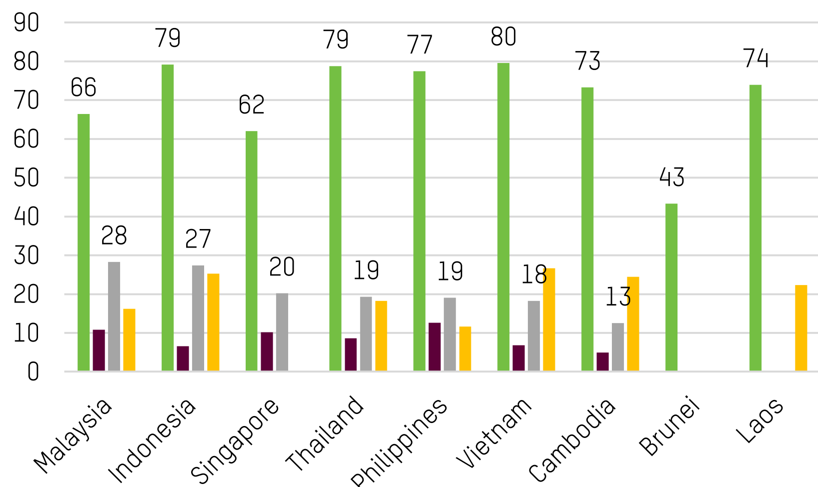


Note: Data at a general government level.

Source: Authors' calculations based on IMF (2020b).

Taxation is the most important source of budget revenue in almost all ASEAN countries. With the exception of Brunei, with its advantage of oil resources, tax revenues accounted for more than 60% of their total budget revenues, with the proportion particularly high in Indonesia, Thailand, and Vietnam, with rates of nearly 80%. Some countries are highly dependent on revenues from CIT, which accounted for more than 28% of the total budget revenue in Malaysia, 27% in Indonesia and 20% in Singapore in 2017. Singapore has reaped huge benefits from profit shifting: it is estimated that the country raises 30% of its CIT revenues by artificially attracting profits worth $98bn from countries with higher tax rates in 2017.[2]

Figure 7: Budget revenues in ASEAN countries, 2017 (% budget revenue)



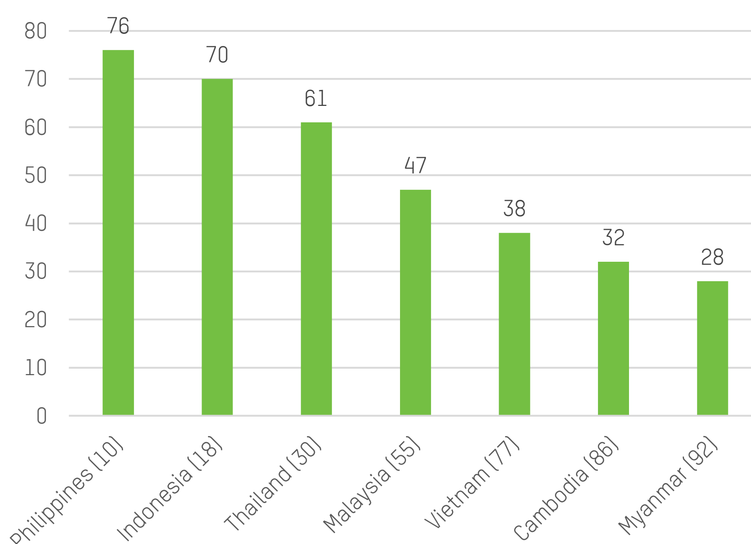
Note: Data from Cambodia and Malaysia are for 2016; no data available for Myanmar since 2006. PIT: personal income tax. VAT: value-added tax.

Source: IMF (2020c) and Vietnamese Ministry of Finance (2019).

With low levels of budget revenues as a proportion of GDP, most ASEAN countries have suffered persistent budget deficits over a long period of time. Malaysia, Myanmar, and Laos experienced such deficits every year in the period from 2000 to 2020, with annual average budget deficit ratios to GDP of more than 3% (Figure 6). Vietnam, Cambodia, Indonesia, and the Philippines saw deficits in 17–20 of the years in this 21-year period, and Thailand for 10 years. Only Singapore has maintained a sustainable budget balance and even achieved budget surpluses in 19 of those years, with an average budget balance ratio of 3.5% of GDP.

In terms of budget transparency, measured by the Open Budget Index (OBI), the Philippines has the highest level of budget transparency among ASEAN countries, with a score of 76% and ranking 10th out of 117 countries assessed. Myanmar meanwhile recorded the lowest score at 28% and ranked 92nd.

Figure 8: Open Budget Index (OBI) scores and rankings for ASEAN countries, 2019



Note: No data available for Brunei, Laos, or Singapore. The OBI assesses the budget transparency of 117 countries on a scale of 0 (not transparent) to 100 (very transparent).

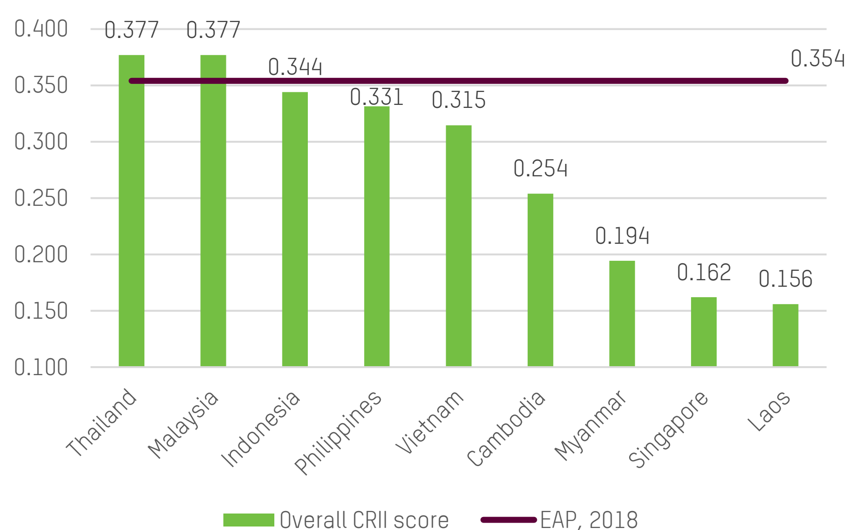
Source: International Budget Survey (2020).

3.2. FISCAL POLICIES TO TACKLE INEQUALITY

Development Finance International (DFI) and Oxfam (2018) developed the Commitment to Reducing Inequality Index (CRII) to emphasize the key roles played by fair taxation, public spending on health, education, and social protection, and labor regulations in tackling inequality. All the ASEAN countries are ranked in the bottom half of this index. Within ASEAN, Thailand and Malaysia have implemented the greatest number

of policies aimed at addressing inequality and so had higher CRII scores than the average for the EAP region.

Figure 9: CRII scores and rankings for ASEAN countries, 2018



Note: No data available for Brunei. The CRII 2018 ranked 157 countries on their policy performance on social spending, progressive taxation, and labor rights—three areas that are critical in reducing inequality.

Source: DFI and Oxfam (2018).

According to the CRII pillar of progressive taxation, Singapore has the most regressive tax system of all the 157 countries assessed (Table 5). In terms of harmful tax practices (HTPs), Thailand, Singapore, and Malaysia were in the bottom half of countries in the world (Table 5).

Table 5: CRII scores for progressive taxation for ASEAN countries, 2018

Country	Tax structure rank	Tax incidence rank	Tax effort rank	HTP rank	Standard-ized tax score	Tax rank
Indonesia	23	45	94	21	0.70	23
Laos	59	88	79	32	0.62	44
Vietnam	95	135	30	32	0.61	46
Myanmar	37	55	116	59	0.58	62
Malaysia	62	66	62	97	0.54	74
Thailand	93	142	16	112	0.52	82
Philippines	36	98	129	59	0.50	91
Cambodia	91	128	93	32	0.49	95
Singapore	92	79	111	130	0	157

Note: No data available for Brunei. Table sorted by tax rank.

Source: DFI and Oxfam (2018).

Many countries in the ASEAN region have been warned by ADB (2018) that shortages of financial resources to pay for public services risk hampering their progress towards achieving the SDGs. Almost all ASEAN

countries are facing fiscal stress in terms of providing social protection in the broad sense of income security, health and education services, and other essential goods and services (ADB, 2018). The problem is most acute for three poor ASEAN countries, Cambodia, Laos, and Myanmar. Therefore, improvements in the region's tax system are crucial to reallocate fiscal revenue adequately and fairly among Member States to help achieve the SDGs.

Table 6: Fiscal stress in meeting the social protection agenda in ASEAN countries, 2018

With no or with low levels of fiscal stress expected	With manageable levels of fiscal stress expected	With major levels of fiscal stress expected
= relative stress of <10%	= relative stress of 10–20%	= relative stress of >20%
Indonesia	Malaysia	Cambodia
Philippines	Vietnam	Laos
Thailand		Myanmar

Note: Singapore and Brunei not included.

Source: ADB (2018).

Inequality is not tackled effectively via progressive taxation alone, but also through budget spending on education, health, and social protection (Table 7). Myanmar and Laos, the two least developed countries in the ASEAN region, were ranked by the CRII in the bottom 10 countries in the world with the most regressive budget spending, with Myanmar ranked 156th of the 157 countries assessed. Thailand, Vietnam, and Singapore scored best on progressive budget spending in the ASEAN region, and these three countries had its highest levels of universal health coverage (UHC), reaching over 70% of their populations in 2015 (ASEAN Secretariat and UNCTAD, 2019). Thailand's health system is considered a typical model for developing countries in promoting health and gender equality (Oxfam, 2019); the country's public spending on education, health, and social protection was 56.2% of its budget expenditure, three times larger than Myanmar's at 18.7% (Table 7). However, in terms of world rankings Thailand, along with Vietnam and Singapore, performed at only around the medium level for this kind of spending.

Table 7: CRII scores for progressive budget spending for ASEAN countries, 2018

Country	Education		Health		Social protection		Spending effort rank	Impact on Gini index for income		Spending rank
	%	Rank	%	Rank	%	Rank		Incidence	Rank	
Myanmar	9.86	138	5.16	145	3.70	140	156	-0.012	153	156
Laos	12.19	106	6.04	135	0.93	154	151	-0.015	143	153
Cambodia	13.69	90	8.48	107	6.27	119	124	-0.018	133	129

Country	Education		Health		Social protection		Spending effort rank	Impact on Gini index for income		Spending rank
	%	Rank	%	Rank	%	Rank		Incidence	Rank	
Philippines	18.31	32	8.00	110	7.35	111	107	-0.021	126	114
Malaysia	22.05	11	9.17	99	4.24	139	88	-0.020	127	99
Indonesia	20.63	18	7.10	122	10.70	93	90	-0.022	120	98
Singapore	16.39	54	12.08	54	10.56	94	78	-0.021	121	91
Vietnam	17.01	47	6.19	133	21.01	60	85	-0.026	108	89
Thailand	18.93	26	14.20	29	23.10	55	38	-0.030	101	56

Note: Spending as a percentage of total budget spending. No data available for Brunei. Sorted by spending rank.

Source: DFI and Oxfam (2018).

In sum, the ASEAN countries are a long way apart on many macro indicators, and this situation is sustained by the aggressive race to the bottom on taxation. Each country prioritizes its own interests when implementing fiscal policies and they tend to compete with one another for gains rather than sit down together to devise a mechanism for their collective good. It is a huge challenge for the ASEAN countries to come together and address complex emerging issues at the regional level, particularly that of corporate tax incentives. However, if ASEAN wants to remain cohesive, its members need to converge. With low levels of budget revenue to GDP, their levels of public debt and their budget deficits are not sustainable. ASEAN countries urgently need to improve their rates of domestic revenue mobilization (DRM) if they are serious about overcoming interrelated challenges such as climate change, widening inequality, and high poverty rates in order to meet the SDGs.

Nguyen Duc Hieu/Oxfam in Vietnam

4. TAX PRACTICES: THE CASE OF CORPORATE TAX INCENTIVES

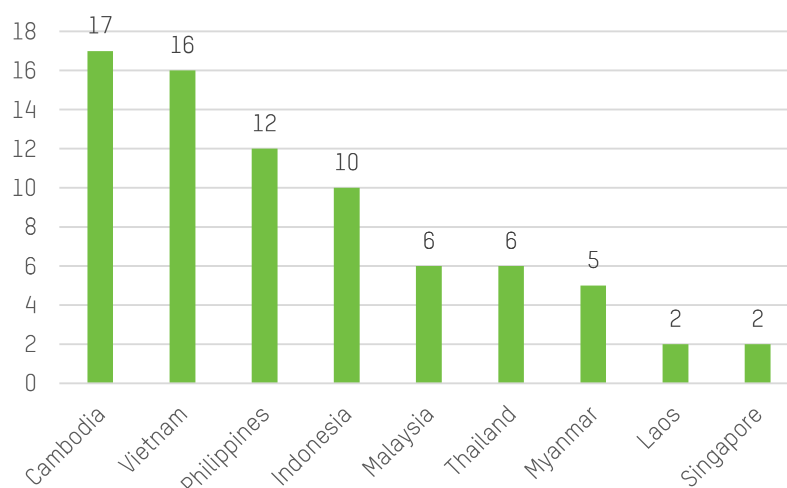
There are difficulties involved in accessing tax expenditure data and calculating revenue lost due to corporate tax incentives, as not all ASEAN countries publish their tax expenditures in their annual budget reports. Therefore, this section endeavors to review the legal framework of each ASEAN country on corporate tax incentives and to group and compare such incentives, in particular tax exemptions, tax holidays, tax preferences, tax deductions, and the transfer of losses forward, in order to capture an overall picture of corporate tax incentives in ASEAN countries. The authors have also conducted a review of existing academic research on the links between corporate tax incentives, attracting FDI, fiscal costs, and transparency to show how certain of the corporate tax incentives offered by ASEAN countries are redundant, or even harmful. In addition, tax incentives offered by these countries in response to the COVID-19 pandemic need to be analyzed in order to prevent a 'new normal' race to the bottom, if they fail to cooperate on harmonizing tax incentive systems across the region.

4.1. LEGAL FRAMEWORKS FOR TAX INCENTIVES

All ASEAN countries provide tax incentives to investors, especially incentives relating to CIT. It is challenging to harmonize legal systems and practice on corporate tax incentives across the ASEAN region, due to the complexity of such systems and countries' own sovereignty. Different types of incentive enjoyed by investors are promulgated in legal documents at different levels of government. In legal terms, incentives are often stipulated in tax laws and in laws related to attracting FDI: for example, the Law on Corporate Income Tax in Vietnam, the Law on Investment Promotion in Laos, and the Law on Taxation and Law on Investment in Cambodia.

Figure 10 shows the number of effective legal documents relating to corporate tax incentives in ASEAN countries, including both laws and their sub-regulations. For some countries, such as Laos and Singapore, only official laws are listed. In short, each ASEAN country implements its own mechanism of institutions and processes in support of profit-based tax incentives. National laws on tax incentives have also been amended frequently to meet countries' own requirements for investment promotion and for socio-economic development. In some countries, such as Cambodia and Indonesia, governments have mechanisms at their disposal that allow them to easily adapt policies on such incentives.

Figure 10: Number of effective legal documents on corporate tax incentives in ASEAN countries, 2020



Source: Authors' review.

4.2. SCREENING TAX INCENTIVES IN ASEAN COUNTRIES

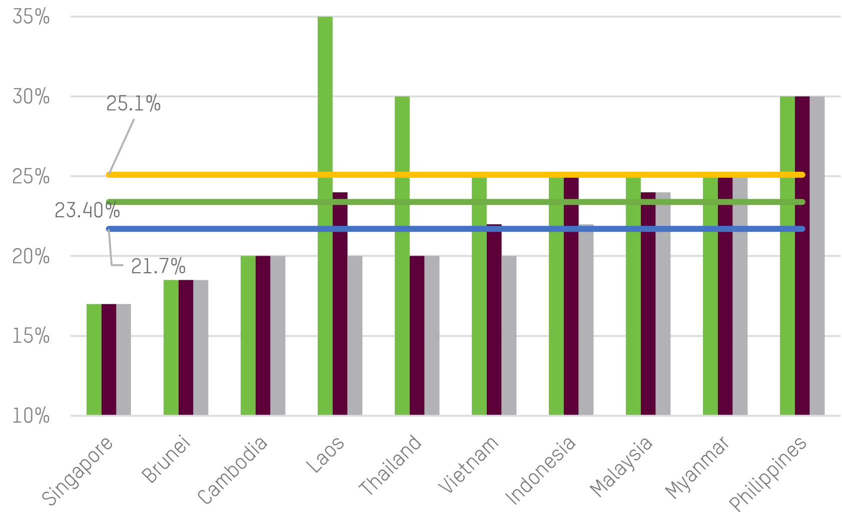
4.2.1. Standard corporate income tax rates

Corporate income tax is a direct tax imposed on the income or chargeable gains accruing to a company. ASEAN countries have set varying standard rates for CIT, determined by numerous factors depending on the priorities of the government, levels of development, and the nature of the economy (Dezan Shira & Associates, 2018). The average standard CIT rate across the ASEAN region has been gradually falling, from 25.1% in 2010 to 22.6% in 2015 and to 21.7% in 2020 (Figure 11). The average rate in 2020 is 1.7 percentage points lower than the average rate in selected countries in the EAP region.[3]

Laos, Thailand, and Vietnam have seen the sharpest declines in their standard CIT rates over the past 10 years (2010–20): 15 percentage points, from 35% to 20%, for Laos; 10 percentage points, from 30% to 20%, for Thailand; and five percentage points, from 25% to 20%, for Vietnam. Indonesia meanwhile has seen its rate decline by three percentage points and Malaysia by one point, with rates of 22% and 24% respectively in 2020.

Singapore offers the lowest CIT rate of any ASEAN country at 17% of taxable corporate income, and this has remained unchanged for the past 10 years. Brunei's rate of 18.5% is the second lowest.

Figure 11: Standard CIT rates in ASEAN countries, 2020 (%)



Source: Trading Economics (2020).

4.2.2. Tax exemptions

'Tax-exempt' refers to income or transactions that are free from tax, with the effect of reducing the amount of income that would otherwise be taxed. The governments of ASEAN countries use this tool to support and encourage enterprises to invest in selected economic activities (OECD, 2019a). As with the standard CIT rate, CIT exemptions and activities or sectors eligible for this form of incentive depend on the choices made by governments. Activities and sectors that enjoy tax exemptions are relatively diverse in the ASEAN region; however, they can be divided into four main groups: reinvestments, agriculture, selected services and trade activities, and scale of enterprise (Table 8).

Tineke D'haese/Oxfam

Table 8: Selected groups of tax exemptions in ASEAN countries

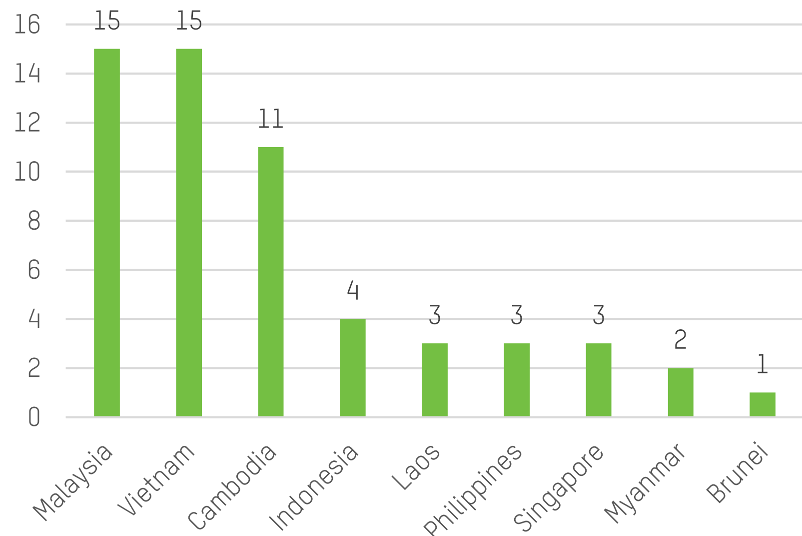
Category	Country	Exemptions
Reinvestments	Laos	Investors who reinvest their net profits in additional operations or investment activities qualify for tax exemption on profits for the next accounting year, for one year based on the proportion of profit reinvested.
	Myanmar	Enterprises are exempted from CIT if the profits obtained from investment in a business are reinvested in the same business or in a similar type of business within one year.
	Indonesia	Indonesia provides an exemption from tax on branch profits if all of the net profits after tax of a permanent establishment are reinvested.
Agriculture	Vietnam	Certain incomes from agriculture, incomes of cooperatives engaged in the agriculture sector in disadvantaged or extremely disadvantaged areas, and incomes of companies from selected agricultural and aquaculture products in disadvantaged areas are free from CIT.
	Cambodia	Tax exemptions are offered on profits from the sale of agricultural products that a person who is not considered to be a taxpayer within the regime of the taxation system produces by himself.
Services and trade	Malaysia	CIT exemptions are only granted to approved services projects.
Scale of enterprise	Brunei	Companies with gross sales/turnover of BND 1m (equivalent to $718,000) or less are exempted from CIT or are charged at a 0% rate.
	Singapore	A partial tax exemption scheme is available to all companies, with exemption thresholds designed to target the benefits at small and medium-sized businesses (SMEs).

Source: Authors' review and classification.

Making a rough comparison between ASEAN countries, Vietnam, Malaysia, and Cambodia have the largest numbers of forms of eligibility for CIT exemptions. There are differences between countries in the way that tax exemptions are defined: for example, in Vietnam and Cambodia

they are classified by income source; in Singapore, Indonesia, Laos, Malaysia, Myanmar, and the Philippines by business activity; and in Brunei by the scale of the business.

Figure 12: Number of forms of CIT exemptions in ASEAN countries, 2020



Source: Authors' review and classification.

4.2.3. Tax holidays

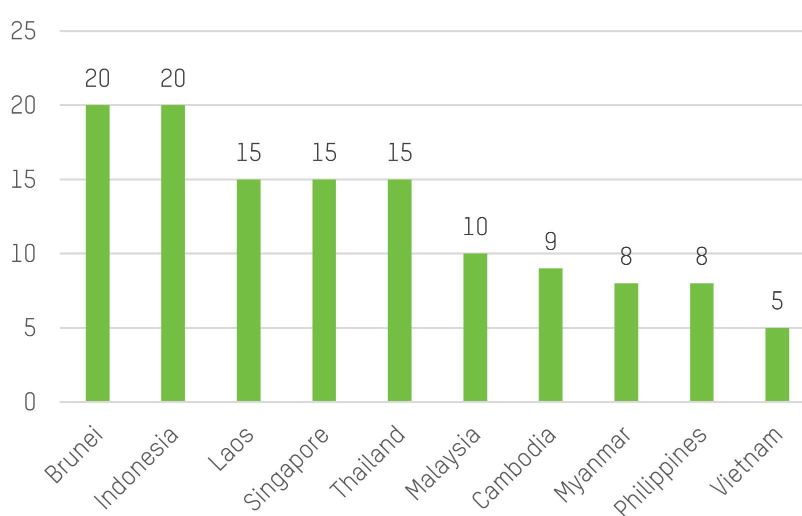
A tax holiday is a time-limited exemption from taxation, for example when tax rates applied to corporate income or capital gains are temporarily removed (UNCTAD, 2000). This profit-based tool is frequently employed by developing countries in the expectation of promoting capital investment or attracting more FDI. A common form of tax holiday is to grant 'pioneer' firms operating in a designated industry a full or part exemption from corporate taxation during their first years of operation, with full taxation applied after the holiday period (Jack, 1990). However, Stausholm (2017) concludes that this incentive tool is not effective in achieving sustainable development for developing countries; on the contrary, it can undermine development. Similarly, the OECD argues that tax holidays and other profit-based incentives should be reduced and eliminated (OECD, 2019a).

In ASEAN countries, the maximum periods for official tax holidays vary from five to 20 years, with the average period being about 12 years (Figure 13). Brunei and Indonesia offer the longest periods of tax holiday. Companies located in hi-tech industrial parks in Brunei can be offered breaks extending to a total of 20 years; and depending on the amount of new capital investment, Indonesia's Ministry of Finance may similarly approve a maximum period of up to 20 years from the fiscal year in which a business begins commercial operations. After the tax holiday has ended, companies receive a 50% reduction in CIT for the next two years.

Laos, Singapore, and Thailand offer investors a maximum of 15 years of tax holiday. In Laos, investments in Zone 1 areas (poor or remote areas with socio-economic infrastructure unfavorable to investment) and in priority sectors, with capital of at least LAK 200m (roughly equivalent to $22,200), or using the skilled labor of at least 30 Lao nationals or employing 50 or more Lao nationals on a contract of at least one year, receive tax exemptions on profits for a period of 10 years, with an additional five years available. In Singapore, a qualified project or corporation can apply for tax exemptions lasting for between five and 15 years under 'pioneer' tax incentive rules. Thailand, by virtue of the Investment Promotion Act 1977 (including its amendment No. 4 [2017]) and the Competitive Enhancement Act (2017), offers tax holidays from CIT equal to or greater than the value of the investment, excluding the cost of land and working capital, for up to 15 years, depending on the applicable law, the activity promoted, and the location.

The other ASEAN countries implement tax holidays for a maximum period of 10 years or less. Vietnam offers the shortest maximum period for tax holidays of five years. Income from the sale of products made using new technologies applied in Vietnam for the first time is eligible for tax exemptions, but the period does not exceed five years from the day on which the revenue derived from the sale of such products was earned. Other business activities enjoy incentives of tax holidays lasting 2–4 years.

Figure 13: Maximum period of tax holidays in ASEAN countries, 2020 (number of years)



Source: Authors' review of legal documents of ASEAN countries.

4.2.4. Tax preferences

'Tax preferences' refers to lower standard CIT rates as an exception to general tax regimes (UNCTAD, 2000). While tax exemptions and holidays are limited to certain groups of investors, tax preferences are more widely applied to various business activities. However, to enjoy this profit-based incentive, businesses also need to meet certain conditions, depending on regulations in each country.

Table 9 compares standard CIT rates to the CIT rates with the highest preferential levels in ASEAN countries. Businesses can enjoy CIT reductions of between 50% and 100%. Four countries—Cambodia, Thailand, Indonesia, and Malaysia—offer the most attractive preferential tax rate, at 100%. The OECD (2019a) points out that in Malaysia certain companies can enjoy CIT rates of 0%, 5%, or 10% for a 10-year period. In Cambodia and Thailand, CIT rates are progressive for each level of profitability from 0% to 20%. A portion of annual taxable profits, from KHR 0 to KHR 6m (equivalent to $1,460) in Cambodia and THB 0 to THB 300,000 (equivalent to $9,300) in Thailand, is taxed at 0%. In addition, in Cambodia the amendment to the Law on Investment 2003 stipulates a tax exemption period for qualified investment projects (QIPs).

Table 9: CIT rates and preferential levels in ASEAN countries, 2020

Country	General CIT rate	CIT rate with the highest preferential level
Brunei	18.5%	n/a
Cambodia	20%	0%
Indonesia	22%	0%
Laos	20%	5%
Malaysia	24%	0%
Myanmar	25%	12.5%
Philippines	30%	5%
Singapore	17%	5%
Thailand	20%	0%
Vietnam	20%	10%

Source: Authors' review of legal documents of ASEAN countries.

In Indonesia, reductions in CIT can be granted to new taxpayers conducting business in the production chain if their main activities are in special economic zones (SEZs), depending on the amount of new investment capital. The Ministry of Finance decides on CIT reductions for investment plans with capital of less than IDR 500bn and periods ranging from five to 15 years. Projects with capital ranging from IDR 500bn–1,000bn ($33m–66m) attract CIT reductions of 20–100% over periods of 5–15 years; and projects with capital of more than IDR 1,000bn

($66m) qualify for reductions of 20–100% over periods of 10–25 years. Investors in Wilayah Pengembangan Industry are offered CIT reductions of 10% to 100% over periods of 5–15 years from the start of commercial production.

Laos, Singapore, and the Philippines apply the highest preferential CIT rates at 5%, equivalent to maximum CIT reductions of 70–83%. Meanwhile, Vietnam and Malaysia employ a maximum reduction of 50%, with the most preferential CIT rates set at 10% and 12.5% respectively.

4.2.5. Tax deductions

Tax deductions allow businesses to deduct reasonable expenses from their income before calculating the amount of tax they are liable to pay. In doing this, companies often seek to maximize legally any production and business costs that may be tax-deductible, such as expenses related to labor (UNCTAD, 2000).

In some countries, such as Cambodia, Malaysia, Singapore, and Thailand, extra tax deductions are offered for activities related to SMEs, training, research and development (R&D), exporting, and expansion overseas. Singapore, in particular, offered a 400% tax deduction on certain expenditures incurred in respect of six qualifying activities during the accounting periods ending between 2010 and 2017. In Thailand,

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the Revenue Code provides for an additional 100% tax deduction in respect of expenditures incurred on R&D for technology and innovation, including innovation in both products and processes, when firms hire government agencies or the private sector, which are approved by the Director-General of the Revenue Department. The Investment Promotion Act of 1977 also provides double deductions for the costs of transportation, electricity, and water supply and an additional 25% deduction for the cost of installation or construction of facilities.

Vietnam and the Philippines offer additional deductions for labor expenses. In Vietnam, tax deductions are applicable to additional expenses relating to employing female workers in companies in the manufacturing, construction, or transport sectors and to ethnic minority workers in all types of business. In the Philippines, for the first five years from its date of registration, an enterprise is allowed an additional deduction from taxable income equivalent to 50% of the wages of skilled and unskilled workers in the direct labor force. This incentive is granted only if the enterprise meets a prescribed capital-to-labor ratio and is not simultaneously benefiting from an income tax holiday. This additional deduction is doubled or is equal to 100% if the activity is located in less developed areas (LDAs). This privilege, however, is not granted to projects related to mining or forestry, as these are naturally located in particular areas in the proximity of raw materials.

4.2.6. Transferring losses forward

In both Malaysia and Singapore, unutilized losses can be carried forward indefinitely and offset against future trading profits. In Malaysia, tax losses and unutilized allowances such as capital allowances, reinvestment allowances, investment allowances, and investment tax allowances can be carried forward indefinitely with specific regulations (Ernst & Young, 2019). In Singapore, depending on compliance with the 'substantial shareholders test', losses from a business may be carried forward indefinitely. Losses can even be carried back for one year, subject to a cap of SDG 100,000 (equivalent to $70,300) (Deloitte, 2019).

Table 10: Transferring losses forward in ASEAN countries, 2020

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

Source: Authors' review.

Indonesia offers an extension of tax loss carry-forward of up to 10 years to companies in certain designated business areas or in certain designated regions. In the Philippines, net operating losses for any taxable year immediately preceding the current one which had not previously been offset as a deduction from gross income may be carried over as such for the next six consecutive years immediately following the year of the loss.

In Vietnam, Thailand, and Cambodia, in the case of a loss in any financial year, the loss is considered as a charge to the following tax year and is deducted from profits in that following year. If these profits are not sufficient to definitively settle the loss, the remaining part of the loss is carried over successively, with a maximum transfer period of five years. In Myanmar, businesses in SEZs can carry forward losses for five years from the year in which the losses are sustained.

Investors incurring losses from business operations in Laos may carry such losses forward to be deducted against profits in the following fiscal year for up to three years, subject to proper certification by the tax authority. Expansions of investment and/or operations by investing additional capital can also qualify for this incentive.

4.2.7. Other tax incentives

Along with the incentives described above, ASEAN country governments offer other incentives such as tax credits, investment allowances, and depreciation allowances.

The Tax Policy Center (2019) defines tax credits in the following way: '[T]ax credits are subtracted directly from a person's tax liability; they therefore reduce taxes dollar for dollar. Credits have the same value for everyone who can claim their full value.' In Singapore, income earned from treaty countries can avoid double taxation by means of foreign tax credits granted under those treaties. For non-treaty countries, unilateral tax credits are granted in respect of foreign tax on all foreign-sourced income. These foreign tax credits may be pooled, subject to certain conditions. In Indonesia, tax paid or payable in foreign countries on income from abroad received or obtained by a resident taxpayer can be credited against tax payable in the same fiscal year. If the tax treaty stipulates that the taxing right on income applies only in Indonesia, no foreign tax credit can be claimed for such income.

In the area of investment allowances, under certain conditions Singapore offers a mergers and acquisitions (M&A) allowance which permits companies to write off 25% of the value of an acquisition executed between April 1, 2015 and March 31, 2020. In Malaysia, the Income Tax Act 1967 offers businesses an accelerated capital allowance. Benefits include an initial allowance of 20% and an annual allowance of 40% for the purchase of computer and information technology assets (including software), and an initial allowance of 40% and an annual allowance of 20% for environmental protection equipment and for companies that reinvest.

In terms of depreciation, being granted accelerated depreciation can help a business to reduce its current tax bill, which has great significance for new businesses facing short-term cashflow problems (Ghazanchyan, Klemm, and Zhou, 2018). In Myanmar, accelerated depreciation was introduced in the Investment Law 2016, with increased depreciation rates in certain sectors. In Vietnam, the minimum timeframe for the depreciation of fixed assets can be 5–6 years, or even 2–3 years. Accelerated depreciation is also offered for certain qualified projects in Singapore and Indonesia. The Philippines provides an additional 10% value for buildings and 20% for machinery used in the production of goods and services.

4.2.8 Tax incentives as a response to the COVID-19 pandemic

In the context of the COVID-19 pandemic, ASEAN countries have put in place supportive policies to counter the negative economic effects, including fiscal and monetary policies. Additional tax incentives applied during the pandemic are not substitutes for other tax incentives that already exist, however, and it is expected that they will just be temporary solutions to bail out economies in the short term. It is crucial to support businesses in an emergency context of this kind; however, support should be targeted towards the most affected and most vulnerable sectors rather than being applied in an unplanned way, which risks creating another 'new normal' race to the bottom once the pandemic is over.

Table 11: Tax incentives during the COVID-19 pandemic in selected ASEAN countries, 2020

Country	Incentives
Cambodia	Companies severely affected by disruption have been given tax holidays of six months to one year.
Indonesia	Hoteliers and restaurants located in 10 tourist destinations promoted by the government have had their taxes waived for six months. CIT has been reduced by 30% for businesses in 19 selected manufacturing industries for six months.
Laos	Micro enterprises are exempted from paying income tax for three months from April 2020.
Malaysia	Businesses in the tourism industry, such as hotels, airlines, and travel agencies, have been granted a deferment of their monthly tax instalments for six months starting from April 1, 2020.
Myanmar	Income and commercial tax payments due in the second and third quarters of the fiscal year have been made extendable to the end of the fiscal year, and an exemption has been applied for the 2% advance income tax on exports to the end of the fiscal year.
Singapore	Incentives aimed at helping businesses include a CIT rebate for the 2020 financial year at a rate of 25%, capped at SGB 15,000 ($10,700) per company.
Thailand	The deadline has been extended for companies and legal partnerships to file annual CIT returns and transfer pricing disclosure forms, to August 31, 2020. The deadline for filing half-year CIT returns has also been extended, to September 30, 2020. Tax deductions have been increased for SMEs relating to loan interest and employee salaries.
Vietnam	Incentives include tax breaks and delaying tax payments and land use fees for businesses, which is estimated will cost the government $1.16bn (VND 27 trillion). Vietnam's central bank has already cut interest rates from February 2020.

Source: Authors' review of ASEAN Briefing (2020), Deloitte (2020), IMF (2020d), and ITR (2020).

In general, there are positive associations between tax revenues and GDP, but tax revenues tend to fall more rapidly than GDP when GDP growth is limited or negative (Belinga et al., 2014). As a consequence of the COVID-19 pandemic, it is estimated that the global economy will contract significantly, by three percentage points in 2020—much worse than during the 2008–09 financial crisis (IMF, 2020e). Initial estimates predict that the pandemic will have significant negative impacts on tax revenues (OECD, 2020). Furthermore, budget burdens have increased as governments make efforts to introduce supportive packages to deal with the pandemic. In ASEAN countries, expected budget spending on responses to COVID-19 is enormous. Singapore is spending a sum equivalent to about 13% of its GDP and Thailand 9% on extensive fiscal stimulus measures. In the Philippines, Indonesia, and Vietnam, the figure is about 3% of GDP (Hayat, 2020). Meanwhile, according to the OECD (2019a), tax expenditure from CIT in the Philippines and Vietnam accounts for 1% of GDP. If no tax incentives were available for corporations, the budget burden in these countries would decrease by one-third. With insufficient fiscal resources in most ASEAN countries, governments cannot continue to lose budget revenue because of redundant tax incentives: they need to cooperate to build a sustainable tax system across the region.

Even before COVID-19, the situation in ASEAN was no longer sustainable. Now the situation is urgent, and ASEAN needs to react at a political level to stop this race to the bottom. ASEAN countries need to improve their DRM if they are serious about overcoming interrelated challenges such as climate change, widening inequality, and high levels of poverty.

4.3. TAX INCENTIVES AND FDI

Overuse of tax incentives can draw developing countries into a race to the bottom, as neighboring countries try to outdo each other in generosity in their efforts to attract investors from industrialized countries. However, until now there have been no effective coordination mechanisms in the region to prevent the transfer of profits and the erosion of national tax bases. ASEAN countries with similar economies often compete with each other by offering greater incentives than their peers in order to attract investments from MNCs, rather than coordinating their actions to secure collective gains. The process of shifting production from China to the ASEAN region may worsen this competition between countries, as they seek to attract FDI inflows to further their own interests in boosting economic development, without seeing the wider regional picture (Box 1).

Box 1: Competition between tax systems in ASEAN countries

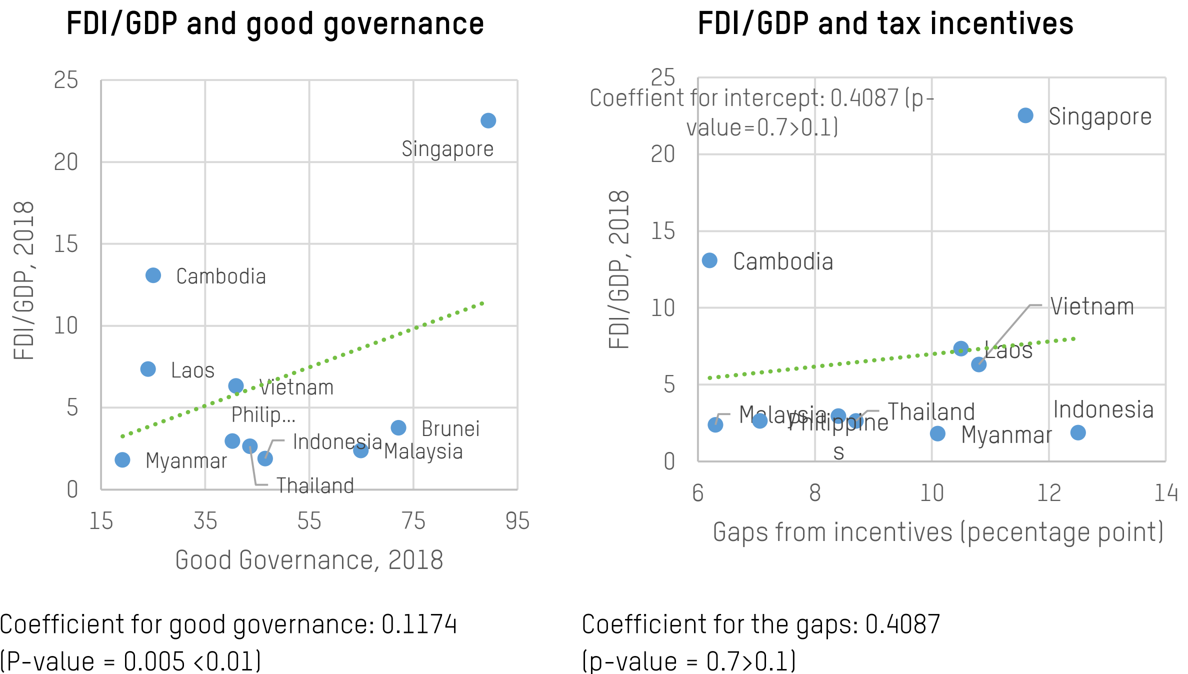
There has been a long history of tax competition between the Philippines, Vietnam, Thailand, and Indonesia, with the four countries vying with one another for manufacturing investments and using tax incentives as a tool to attract FDI.

In 1996, competing to lure investment from the US firm General Motors, the Philippines offered a CIT exemption of eight years and Thailand offered a similar exemption, but with an additional amount equivalent to $15m. In 2001, hoping to win investment from Canon of Japan, Vietnam offered a CIT exemption of 10 years, but was out-competed by the Philippines, which offered an exemption of 8–12 years. In 2014, in an attempt to entice investment from Samsung of South Korea, Indonesia offered a CIT exemption of 10 years, while Vietnam offered one of 15 years.

Source: Budiantoro (2015).

In attracting sustainable FDI to promote economic growth, good governance plays a decisive role over the long term (Globerman & Shapiro, 2002). Tax incentives encourage businesses to focus on reducing their tax burden, rather than expanding their production (Shukla et al., 2011)after two decades of rapid economic growth, Vietnam passed the threshold to become a lower-middle-income economy. Sustained market-oriented reforms combined with intensive efforts to integrate into the world economy are among the key drivers of this achievement. The reform of tax policy and administration has been a vital part of this transition. This is leading to a fundamental change in the composition of taxpayers, from large state-owned enterprises (SOEs. In the ASEAN region, there is a statistically significant and positive correlation between FDI/GDP and good governance; however, no correlation has been confirmed between FDI/GDP and tax incentives, as measured by gaps in tax rates with and without incentives (Figure 14). UNCTAD (2000) also points out that MNCs always set the quality of governance and investment environment as the first criterion when selecting investment locations. The ASEAN countries should focus on providing good governance and conditions for investment, such as good quality infrastructure, availability of skills, macroeconomic stability, and better protection and enforcement of intellectual property rights (Oxfam, 2016; OECD, 2019a).

Figure 14: FDI, good governance, and corporate tax incentives in ASEAN countries



Note: An ordinary least squares (OLS) technique has been employed to regress FDI/GDP by good governance and gaps from incentives in the ASEAN region.

Source: Authors' calculations, from World Bank (2020) and Wiedemann and Finke (2015).

4.4. COST OF CORPORATE TAX INCENTIVES IN THE ASEAN REGION

4.4.1. Tax expenditure from corporate tax incentives

Corporate tax incentives can pose significant threats to national budget revenues and create fiscal costs in ASEAN countries in terms of tax expenditure.

According to VATJ (2019), Vietnam's tax expenditures in terms of corporate tax incentives were estimated to be worth $2.7bn in 2016, equivalent to 7% of state budget revenues, 30% of CIT revenue, or 5% of total state expenditure, and larger than budget spending on health. The cost of reductions in CIT accounted for the highest proportion of total tax expenditures, at up to 75%. If the government were to abolish tax expenditures from corporate tax incentives, it would see an increase in its budget revenues. And if the increased budget were used effectively, this abolition would have no negative impacts on Vietnam's output or its GDP.

Corporate tax incentives impose substantial costs on other ASEAN countries: for instance, it has been estimated that lost budget revenue

in Cambodia is equivalent to about 6% of GDP, while in Vietnam and the Philippines the figure is around 1% of GDP (OECD, 2019a).

In the Philippines, an estimated PHP 1.12 trillion (equivalent to $22.17bn) was given away through tax incentives and exemptions to a group of 3,150 companies between 2015 and 2017 (DOF, 2019). The revenues foregone included income tax incentives and incentives on customs duties and value-added tax (VAT) on imports.

In Malaysia, the tax revenue base has been narrowed due to the generous incentives on offer and the availability of various reliefs and reductions in tax rates. At the end of 2017, while 62.4% of a total 1,251,190 companies were registered with the Inland Revenue Board, only 7.8% were subject to tax (Fiscal Outlook, 2020).

One of the criticisms often leveled against tax incentives in developing countries is that they are redundant, which means that the same investment would have been made even without the incentives (James, 2014). This implies that tax expenditures from CIT are incurred without sufficient management or evaluation. In Thailand, a study by World bank affiliate the Foreign Investment Advisory Service (FIAS) demonstrated that 81% of investments would have been made even without incentives (James, 2014), while Wells et al. (2001) estimated that at least 70% of investments that received incentives would have happened without them. In Vietnam, UNIDO (2011), in a survey of 1,426 enterprises, found that macroeconomic and political stability were two decisive factors with the biggest impacts on investment decisions, and tax incentives were not the key determinant. In addition, James (2014) has shown that the degree of redundancy of tax incentives for investors was high in the ASEAN countries assessed, and that tax incentives did not meaningfully affect investment decisions.

Table 12: Cost of corporate tax incentives, amounts and case studies from ASEAN countries

Country	Category	Type	Content
Brunei	Economic inefficiency	Case study	A secrecy jurisdiction in the business ecosystem known as the Brunei International Financial Centre.
Cambodia	Tax expenditure from CIT	Value	6% of GDP.
Indonesia	Profit shifting	Case study	Potential tax losses from coal mining company Adaro Indonesia (AI): $14m each year from 2009 to 2017. 27 tax disputes between Indonesia and the Netherlands: a substantial loss of $26.5m.

Country	Category	Type	Content
Laos	Non-transparent mechanism	Case study	Concession investments negotiated case by case and no details of the final concession agreement.
Malaysia	Tax expenditure from CIT	Case study	62.4% of 1,251,190 companies registered with the Inland Revenue Board, but only 7.8% subject to tax. No or low effective rates on income from geographically mobile financial and other service activities.
Myanmar	Redundant incentives	Case study	Incentives in exploitation of natural resources (offshore gas, minerals, and forestry) where the country has comparative advantages in this field (Oxfam, 2017).
Philippines	Tax expenditure from CIT	Value	1% of GDP.
	Tax expenditure from CIT	Case study	$22.17bn given away to a select group of 3,150 companies between 2015 and 2017.
Singapore	Profit shifting	Case study	Special purpose vehicles (SPVs) utilized by MNCs for tax evasion and tax avoidance through tax treaties.
Thailand	Redundant incentives	Case study	81% of investments would have been made even without incentives. At least 70% of the investments that benefited from incentives would have been made without them.
Vietnam	Tax expenditure from CIT	Value	7% of state budget revenue in 2016 (VATJ, 2019). 1% of GDP (OECD, 2019a).
	Redundant incentives	Case study	85% of investors said that tax incentives were not necessary (James, 2014).
	Economic inefficiency	Case study	Unfair investment environment for domestic companies compared with foreign-invested ones.

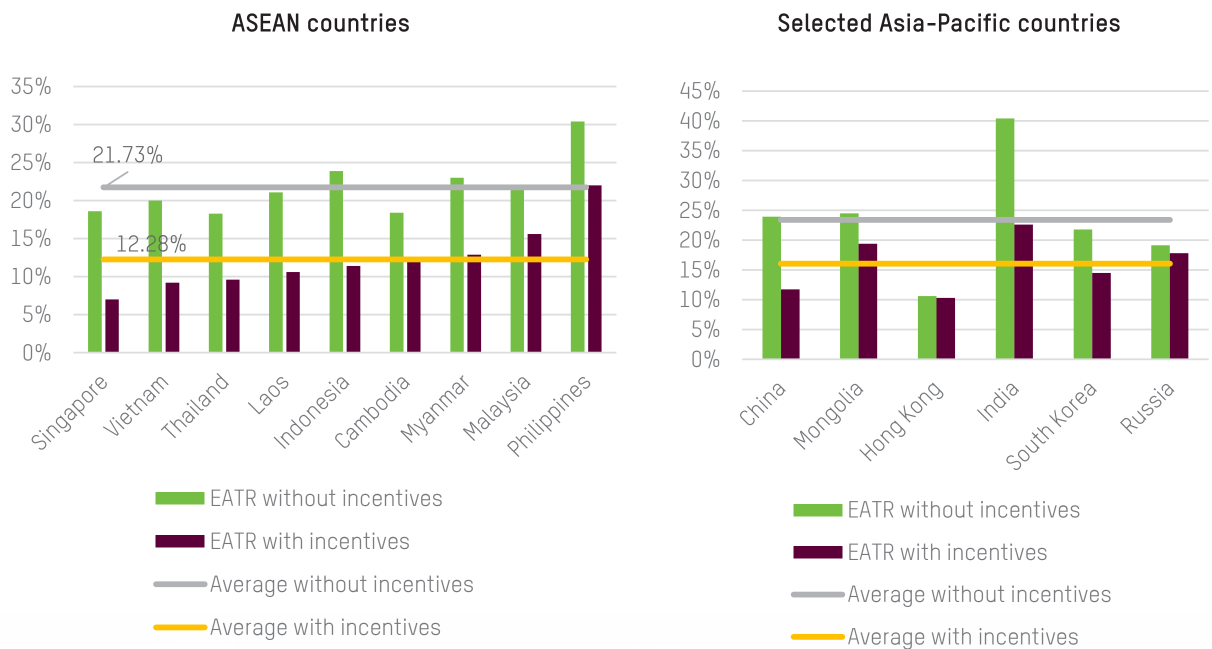
Note: Sources are detailed in the text. Selected sources are provided in the table to clarify sources and to add those not included in the text. In terms of tax expenditure, there are two subgroups: (i) values and case studies on tax expenditure; and (ii) case studies on redundant tax incentives.

Source: Authors' review.

According to calculations by Wiedemann and Finke (2015), the average effective CIT rate with incentives in the ASEAN region is 9.4 percentage points lower than the rate without incentives, while the gap in selected EAP countries is 7.3 percentage points on average (Figure 15). Singapore

and Indonesia, with gaps between CIT rates with and without incentives of more than 11 percentage points, provide the most tax incentives in the region.

Figure 15: Average effective tax rates with and without incentives (%)



Source: Wiedemann and Finke (2015).

4.4.2. Profit shifting

Tax incentives in the ASEAN region reinforce tax avoidance through profit shifting. Countries such as Thailand, Indonesia, and Malaysia are estimated to lose at least 6-9 percentage points of potential corporate tax revenues due to profit shifting.[4]

In addition, Mae et al. (2020) examine tax losses in Indonesia from Adaro Indonesia (AI), the country's biggest coal mining company, and a subsidiary in Singapore. In addition to the incentives that AI is legally entitled to, such as special legal status, fixed tax rates, and tax exemptions, there are warning signs of tax avoidance through transfer pricing involving the company and its Singapore-based subsidiary (Mae et al., 2020). This activity involved losses to the Indonesian government of CIT revenue worth on average $14m each year between 2009 and 2017.

In Singapore, which attracts much phantom FDI with huge tax incentives, and the growing use of special purpose entities (SPEs) and special purpose vehicles (SPVs) globally, FDI has become less useful as a measure of real economic activity (Damgaard and Elkjaer, 2017). Singapore has a large number of SPVs through which FDI financing often passes in only a transitory way. SPVs ostensibly allow MNCs to increase their investment opportunities; however, in practice, they can also be utilized to evade or avoid tax through tax treaties that provide various incentives (Damgaard and Elkjaer, 2017).

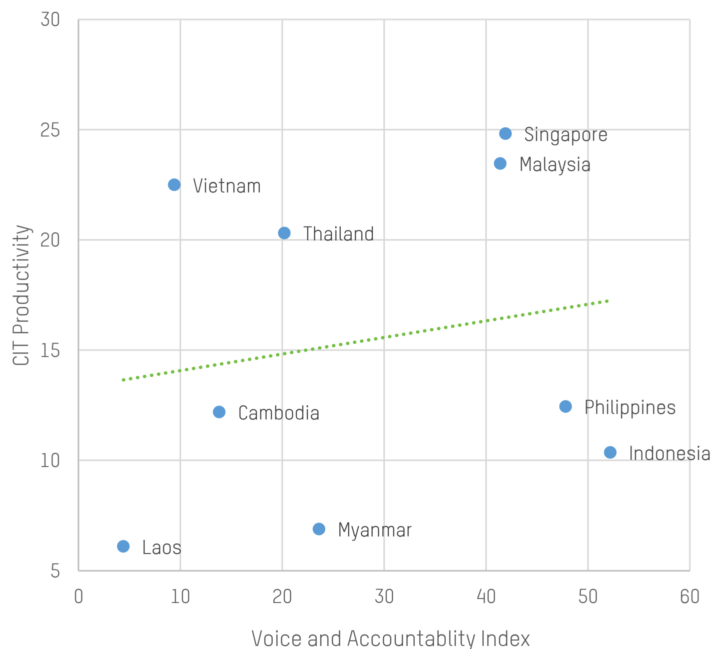
Eleanor Farmer/Oxfam

Beyond the ASEAN region, a legal analysis of 27 tax disputes between Indonesia and the Netherlands reveals a substantial loss in tax revenues for Indonesian society, valued at $26.5m. This amount relates only to tax disputes arising from the Indonesia–Netherlands Double Tax Agreement (DTA), which is just one bilateral treaty out of the 69 active tax treaties that Indonesia has signed with other countries and which provide for tax incentives. The treaty signed with the Netherlands is one of the most favorable, due to its inclusion of very low withholding taxes. Before amendments were made in 2015, withholding taxes on dividends and royalties were set at just 10% and interest on specific loans was set at 0%. The 2015 amendments raised this latter withholding tax to 5%, while the rate for dividends was set at 5% for substantial holdings, 10% for pension funds, and 15% for portfolios. Despite this, the Dutch tax treaty is still one of the most favorable of the 69 that Indonesia has agreed (Aidha et al., 2019).

4.4.3. Non-transparent mechanisms

The existence of tax incentives not only offers access to freedom from income tax or other generous incentives but also encourages financial secrecy. A lack of transparency in the process of granting corporate tax incentives is one of the factors that exacerbates their fiscal cost. For example, in Laos incentives for investments in concession agreements are negotiated on a case-by-case basis and no details of the final agreement are released for public scrutiny (Oshani, 2011). This can increase the risk of corruption and undermine good governance objectives that are fundamental to creating an attractive investment environment. It can also give investors more bargaining power during the negotiation phase and can create opportunities for rent-seeking (OECD, 2015).

Figure 16: CIT productivity and voice and accountability in ASEAN countries



Note: Coefficient for the World Bank Voice and Accountability Index:

13.32>0, p-value = 0.03 < 0.05. No data available for Brunei.

Source: Authors' calculations from World Bank (2020).

Brunei has a secrecy jurisdiction within its business ecosystem known as the Brunei International Financial Centre. This lacks any effective exchange of information and, consequently, lacks transparency. Brunei scores 78 on the Financial Secrecy Index (FSI) (Tax Justice Network, 2020), which makes it exceptionally secretive compared with an average score of 64.

In the ASEAN region, the World Bank's Voice and Accountability Index has positive associations with CIT productivity (Figure 16). Indices for voice and accountability are low in all ASEAN countries, indicating their weak capacities for collecting CIT revenue under the non-transparent provisions of tax incentives. For these reasons, Laos scored lowest on the Voice and Accountability Index and also had the lowest level of CIT revenue productivity.

4.4.4. Economic inefficiencies

Shukla et al. (2011) after two decades of rapid economic growth, Vietnam passed the threshold to become a lower-middle-income economy. Sustained market-oriented reforms combined with intensive efforts to integrate into the world economy are among the key drivers of this achievement. The reform of tax policy and administration has been a vital part of this transition. This is leading to a fundamental change in the composition of taxpayers, from large state-owned enterprises (SOEs, when proposing a 'good tax system' for Vietnam, criticize tax incentives for their economic inefficiencies in the allocation of resources because, instead of focusing on expanding production, companies seek to minimize the amount of taxes they pay. Therefore, negative externalities can be created as a result of offering tax incentives.

In Vietnam, the preferential tax regimes offered to foreign-invested companies create an unfair investment environment: the effective CIT rate in the manufacturing sector in 2016 was 8% for foreign-invested companies but 14.5% for domestic firms, and even higher at 16% for large state-owned enterprises (VATJ, 2019).

Profit-based tax incentives, including tax holidays and reductions, are closely associated with high levels of redundancy and foregone revenue, while failing to promote development objectives or spillover effects from investments; they should therefore be reduced and ultimately eliminated in the ASEAN region (OECD, 2019a). In Cambodia, Ghazanchyan, Klemm, and Zhou (2018) believe that moving away from tax holidays could help attract more investment in higher value-added industries. The preferred choice when incentives are offered should be to base them on investment or the cost of investment, such as tax deductions and credits and accelerated depreciation, as these incentives are more likely to attract long-term investment and to have positive spillover effects (Ghazanchyan, Klemm, and Zhou, 2018; OECD, 2019a).

Aurelie Marrier d'Unienville / Oxfam

4.5. TAX INCENTIVES AS A GLOBAL ISSUE

Tax competition has intensified not only in the ASEAN region but also globally. This intensification becomes apparent when looking at corporate tax rates around the world. In 1980 corporate tax rates averaged 40.4%, but in 2019 the average was 24.2% (Tax Foundation, 2019). Tax incentives across different countries further lower the effective rate paid by MNCs. So far no meaningful policy action has been taken to stop this damaging race to the bottom. However, policy makers, academics, and civil society have been sounding the alarm in recent years about the need to establish a floor to ongoing tax competition. In March 2019 the IMF officially recognized the damage caused by continued harmful tax competition and warned against the risk of the race to the bottom (IMF, 2019). The organization also noted that tax competition remains largely unaddressed and that most of the consequences are suffered by low-income countries.

Following the 2008 financial crisis, a first round of negotiations on international tax reform was led by the OECD; this concluded in 2015 under the mandate of the G20. The Base Erosion and Profit Shifting Agreement (BEPS 1.0) closed some of the loopholes in the tax system that allowed corporations to avoid tax—for example, through the abuse of tax treaties. However, the reforms did not adequately address tax competition through corporate tax incentives.

In 2019 a new round of negotiations—referred to as BEPS 2.0—began, on the basis that more fundamental reforms were needed and in

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parallel with the IMF's recognition of the damaging nature of aggressive corporate tax competition. The ongoing BEPS 2.0 negotiations are exploring, among other issues, whether there should be a global agreed minimum effective corporate tax rate for multinationals that could be applied on a country-by-country basis. This could mean that all MNCs would be required to pay a minimum amount of tax, no matter whether the profits they made were tax-exempt or taxed at zero percent rates due to tax holidays. According to preliminary OECD calculations, this minimum rate would increase governments' tax revenues by $100bn a year—equivalent to a 4% increase in global CIT revenues.

The negotiations are taking place under the OECD's Inclusive Framework, a process that now involves 137 member states around the globe. For the first time, developing countries will have a seat at the negotiating table from the outset and a real opportunity to ensure that reforms meet their needs. Six of the 10 ASEAN members are involved: Singapore, Thailand, Malaysia, Indonesia, Brunei, and Vietnam (OECD, 2019b). BEPS 2.0 is meaningful not only to OECD and G20 members but is also of great importance for ASEAN as a whole. Whatever the outcome of the OECD negotiations, international policy decisions will have to be translated into legislative changes in the ASEAN region. ASEAN Member States should not wait passively for a global agreement but should set their own region-specific standards in order to defend their tax bases and seek better rules. A minimum tax standard for the ASEAN region should be seriously considered and discussed, and should be set at a level that is at least equivalent to the level now being discussed in the BEPS 2.0 process.

Aiden Dockery/Oxfam

5. RECOMMENDATIONS

Unlike other regions, ASEAN has never taken any political action against the race to the bottom in terms of CIT. ASEAN Member States should grasp the opportunity of their next summit to begin a process of phasing out the most redundant tax incentives and establishing a clear rulebook for incentives across the region. The current race to the bottom is increasing economic and social divergence in the region. ASEAN countries need to make sure that tax policies in the region serve the common good and provide for a stable fiscal environment. The response to the COVID-19 pandemic also highlights two pressing issues for the region: first, governments need sufficient resources to cope with future shocks, and second, ASEAN will only ever be as strong as its weakest link.

In light of this, this report recommends that ASEAN countries take the following actions.

RECOMMENDATION 1: DRAW UP A WHITELIST AND A BLACKLIST OF TAX INCENTIVES

ASEAN countries should draw up a blacklist of all the tax incentives that should no longer be allowed, and establish a plan to phase them out across the region by a certain date. In parallel with this, they should agree on a whitelist of tax incentives that are acceptable and allowed. The blacklist should include first and foremost profit-based tax incentives, i.e. those that offer a low rate of tax on profits made, such as tax holidays, significant tax exemptions, loss carry-backs, and preferential rates. Academics and international organizations like the OECD have already called on countries in ASEAN to stop offering these kinds of incentive due to their harmful nature and marginal positive effects. The whitelist should include investment-based tax incentives, i.e. those that focus on the investment itself. Such incentives have been proven to be much more productive than profit-based incentives. However, these incentives should be monitored for their effectiveness and abuses should be avoided, such as super deductions or super tax credits.

A mechanism should be put in place at the ASEAN level to monitor developments in tax policy and to decide which incentives should be blacklisted or whitelisted. This mechanism should be transparent and accountable and should involve both political representatives and technical experts from governments, civil society, and academia in its operation.

RECOMMENDATION 2: AGREE ON A MINIMUM TAX STANDARD ACROSS THE ASEAN REGION

The race to the bottom in ASEAN needs to stop, and while international policy developments towards a worldwide minimum tax rate are ongoing, member countries need to agree on an approach tailored to the region. The ASEAN countries should agree that corporate tax incentives offered should not be set below the level of a minimum effective corporate tax rate. The appropriate rate is a subject for discussion, with a possible

range of 12.5% to 20%.[5] This would protect countries' domestic tax revenues and stop the beggar-thy-neighbor approach to policy making that has existed until now.

RECOMMENDATION 3: ESTABLISH RULES FOR THE GOOD GOVERNANCE OF TAX INCENTIVES

The ASEAN countries should agree on a good governance rulebook for tax. All incentives should have a legal basis in a country's corporate tax code, and no tax incentives should be given to companies arbitrarily. In all cases, any tax incentive should have a clear timeline and end date included in legislation.

The ASEAN countries should also incorporate all tax incentives into the relevant corporate tax code, with clear criteria defined. Finally, all countries in the ASEAN region should publish an annual tax expenditure report; this should be transparent, and published along with their annual budget documents.

For the purposes of transparency and good governance, a cost-benefit analysis of potential tax incentive provisions should be carried out as a prerequisite for the approval of any tax incentive. Where incentives have been granted, authorities (preferably tax authorities) must monitor their impact by carrying out a mid-term evaluation to establish whether outcomes are meeting their expectations.

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

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ENDNOTES

1. This report focuses on incentives relating to corporate income tax and does not analyse other types of incentive for corporations, such as trade tax and value-added tax.

2. See more at: **HTTPS://MISSINGPROFITS.WORLD/**

3. These countries include Japan (30.6%), China (25%), Mongolia (25%), Hong Kong (16.5%), India (25.17%), Taiwan (20%), South Korea (25%), and Russia (20%).

4. See more at: **HTTPS://MISSINGPROFITS.WORLD/**

5. The rate should be discussed thoroughly between ASEAN countries without undermining the global approach on this issue. The range suggested here is a proposal intended to balance global practice and the lack of fiscal revenues faced by ASEAN countries.

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