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Chapter 7
Tax Incentives in Developing Countries: A Case Study—Singapore and Philippines

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List of Abbreviations

ALS	The Aircraft Leasing Scheme
ASEAN	The Association of Southeast Asian Nations
BEPS	Base Erosion and Profit Shifting
BIMP-EAGA	The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BOI	Philippine Board of Investments
CIAT	The Inter-American Center of Tax Administrations
CIT	Corporate income tax rate
CITIRA	Corporate Income Tax Reform and Fiscal Incentives Modernization
CREATE	Corporate Recovery and Tax Incentives for Enterprises Act
CTPR	The Comprehensive Tax Reform Program

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DEI	The Development and Expansion Incentive
EDB	The Economic Development Board
EEIA	The Economic Expansion Incentives Act
FDI	Foreign Direct Investment
FIRB	The Fiscal Incentives Review Board
FTC	The Finance and Treasury Centre Incentive
IBFD	The International Bureau of Fiscal Documentation
IDI	The IP Development Incentive
IMF	International Monetary Fund
IP	The Intellectual Property
IPA	Investment Promotion Agency
IPP	The Investment Priorities Plan
IRAS	The Inland Revenue Authority of Singapore
ITA	The Income Tax Act
LIA	The Land Intensification Allowance
MNE	Multinational Enterprises
OECD	The Organisation for Economic Co-operation and Development
PC	The Pioneer Certificate Incentive
PEZA	Philippine Economic Zone Authority
REG(E)	The Resource Efficiency Grant for Energy
RISC	The Research Incentive Scheme for Companies
ROHQ	Regional Operating Headquarters
R&D	Research and Development
SDGs	Sustainable Development Goals
SIPP	Strategic Investment Priorities Plan
TGC	The Training Grant for Company
TIMTA	The Tax Incentives Management and Transparency Act
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added tax

7.1 Introduction

Globalisation and increased mobility of capital allow companies to structure their business operations across various jurisdictions and to select countries that offer the most favourable investment climate. Decisive factors include, among others, lower capital costs, ability to benefit from free trade agreements and favourable tax incentives (Easson 2001). In principle, tax incentives are considered to be very useful means for attracting foreign direct investment; however, their design and implementation can have a great impact on whether they prove to be successful in a particular country. Most common types of tax incentives offered are tax holidays, reductions in tax rates and deductions for certain expenditures and free-trade zones, among others. An overview of the incentives introduced by countries to promote

foreign direct investment has been developed by the United Nations Conference on Trade and Development (UNCTAD) (2000).

While tax incentives in developed countries mainly aim to promote export, research and development activities and improve the overall position of the domestic firms on global market, the primary role of tax incentives in developing countries is often the opposite. Tax incentive regimes in developing countries aim to attract foreign direct investment, often into specific regions in the country or specific market sectors.

The assessment and efficiency of tax incentive regimes in developing countries have been discussed for almost more than two decades now (Holland and Vann 1998; Raff and Srinivasan 1998; Kinda 2014; Munongo et al. 2017). Among other reasons, there are concerns whether tax incentives generate the desired economic growth and social development (Brauner 2013: 26). There are also concerns that the incentives erode the tax base without having actual effects on the level of investment in the country (Brauner 2013). Therefore, the focus is no longer only on tax incentives as the methods of attracting investment but also on the impact they have on countries' economies (IMF et al. 2015).

More recently, and in light of the Base Erosion and Profit Shifting (BEPS)[1] Action Plans, countries have been reviewed in light of BEPS Action 5. BEPS Action 5 deals with tax incentives on geographically mobile business income regarded as preferential tax regimes to assess whether these regimes can be regarded as harmful tax practices. BEPS Action 5 is one of the four minimum standards that countries participating in the BEPS Inclusive Framework have committed to implement. The assessment of BEPS Action 5 is outside the scope of this chapter (Mosquera Valderrama 2020b); however, some reference will be made to the compatibility of tax incentives in Singapore and the Philippines with BEPS Action 5.

In light of this background, the first aim of this chapter is to compare the tax incentives for developing countries with a case study of two countries: Singapore and the Philippines.[2] Singapore has been regarded in literature as one of the countries that has successfully attracted foreign direct investment; however, it is not yet clear whether this is the result of tax incentives or any other measure. The Philippines is at the time of writing in the process of introducing a comprehensive tax reform program (CTRP) that aims to redesign the tax incentives to become more

[1]The BEPS Project contains ten best practices and four minimum standards. The BEPS four minimum standards that should be implemented are countering of harmful tax practices and exchange of rulings (Action 5), preventing of treaty abuse (Action 6), re-examining transfer pricing documentation including country-by-country reporting (Action 13) and enhancing resolution of disputes (Action 14). At the time of writing (June 2020), 137 jurisdictions have committed to implement the BEPS 4 minimum standards. In addition, a Multilateral Convention to swiftly implement in double tax conventions some of the BEPS measures has been signed by more than 90 jurisdictions. This Convention is in force since 1 July 2018.

[2]The focus of this contribution is in corporate income tax mainly for multinationals. The main reason is the argument that tax incentives favours or not foreign direct investment (which is mainly done by multinationals). The tax incentives for small and medium enterprises and individuals are outside the scope of this analysis.

competitive in the region and to achieve social and economic growth. These countries also belong to the same region (i.e. South East Asia), and therefore, the comparison of the incentives in these countries can also contribute to best practices in the region. Following this comparison, the second aim of this chapter is to evaluate the tax incentives granted in Singapore and the Philippines considering a new proposed evaluative framework for tax incentives in light of the Sustainable Development Goals (SDGs). The economic analysis of costs and benefits is outside the scope of this contribution.[3]

This chapter is structured as follows: Sect. 7.2 introduces the framework to evaluate tax incentives developed by literature, international organisations and our own proposed framework. Section 7.3 contains a case study of Singapore and the Philippines, where their respective tax incentive regimes are analysed and other considerations for attracting investment in both countries are addressed. Due to the COVID-19 pandemic (at the time of writing June 2020), a short reference will be made to the tax incentives to provide fiscal stimuli introduced by Singapore and the Philippines. Section 7.4 provides a comparison of these two countries and the assessment of the design of tax incentives in these two countries in light of our proposed framework presented in Sect. 7.2. Section 7.5 concludes this chapter.

7.2 Framework to Evaluate Tax Incentives

This section provides an overview of the main concerns in the literature by academics and international tax organisations regarding the framework to evaluate incentives in light of the effectiveness and efficiency of tax incentives in developing countries. Thereafter, our proposed evaluative framework for tax incentives will be presented.

7.2.1 Literature

Tax incentives have been discussed extensively by academic scholars. In the analysis of literature, the findings on the relevance of tax incentives and the role they play in attracting foreign direct investment (FDI) tend to be inconclusive. For instance, van Parys and James argue that the effectiveness of tax incentives is linked to the investment climate and more specifically investor's confidence in the revenue authorities (Van Parys and James 2009). This is crucial for regions where tax

[3]The reason is the recent reports from the UN-CIAT and World Bank that have been published (Sects. 7.2.2.2. and 7.2.2.5, respectively). In order to contribute to the discussion of tax incentives, this contribution and the proposed assessment framework focus on the administrative considerations for the design of tax incentives which has received less attention from scholars and international organizations.

competition is high and the neighbouring countries race to the bottom to provide more favourable tax incentives. In a situation where two countries from the same region provide an identical tax incentive, it is more likely that the country with the better investment climate will attract the FDI. James estimates the chances of countries with good investment climate are eight times greater at attracting FDI as opposed to countries with less favourable investment environment (James 2010).

Bird and Zolt share this view and argue that tax policy is just a fraction of the problem and when considering the bigger picture, improving investment climate in general will prove to be more efficient in attracting more foreign direct investment (FDI) (Bird and Zolt 2008). Investment climate is influenced by a number of factors including, for example, political stability, stability of fiscal policy, adequate infrastructure and effective, transparent and accountable public administration (James 2009). Zolt also argues that tax incentives bring economic growth, which results in an increase in the spending power of local residents, and they ultimately generate greater tax revenue (Zolt 2015). Brauner, on the other hand, voices concerns that tax incentives do not bring the desired economic growth to the region and are not necessarily the decisive factor for attracting foreign investment (Brauner 2013).

7.2.2 International Organisations

7.2.2.1 2015 Toolkit on Tax Incentives for Low-Income Countries

In the 2015 Toolkit on Tax Incentives for Low-Income Countries (2015 Toolkit), the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), the World Bank and the United Nations (UN) stated that: "Tax incentives generally rank low in investment climate surveys in low-income countries, and there are many examples in which they are reported to be redundant—that is, investment would have been undertaken even without them. Their fiscal cost can also be high, reducing opportunities for much-needed public spending on infrastructure, public services or social support, or requiring higher taxes on other activities" (IMF et al. 2015).

These organisations have therefore provided recommendations to low-income countries to improve the effectiveness and efficiency of their investment tax incentives. Some of these recommendations are: "At the national level, there is generally scope to improve the design of tax incentives (for example by placing greater emphasis on cost-based incentives rather than profit-based ones; and by targeting tax incentives better), strengthen their governance (for instance through more transparency, better tax laws and a stronger role of the Minister of Finance) and by undertaking more systematic evaluations. At the international level, countries may gain by coordinating their tax incentive policies regionally, so as to mitigate the negative spillovers from tax competition" (IMF et al. 2015: 32).

7.2.2.2 2018 UN-CIAT Design and Assessment of Tax Incentives in Developing Countries

In 2018, the United Nations and the Inter-American Center of Tax Administrations (CIAT) published a report for design and assessment of tax incentives in developing countries with a case study of the Dominican Republic (UN-CIAT 2018).[4] This report provided a cost and benefit analysis of tax incentives and also a checklist for drafting tax incentives legislation in developing countries. The checklist contained the list of things to be considered to maximise clarity and administration of tax incentives and to ensure consistency of legal drafting with the policy underlying the tax incentive.

The main elements of the cost-benefit analysis provided in the report are (1) costs—revenue costs, resource allocation costs, enforcement and compliance costs and the costs associated with corruption and lack of transparency—and (2) benefits, to attract investment and to correct market inefficiencies or general positive externalities.

In light of this analysis, one of the findings of this report is that for developed countries, it is sometimes easier to provide tax incentives than to correct deficiencies in the legal system or to improve the infrastructure of one country. However, tax incentives cannot compensate for the deficiencies in the design of the tax system or inadequate physical, financial, legal or institutional infrastructure. Therefore, this report recommends that developing countries bring the corporate tax rate regime closer to international practice and to correct the deficiencies rather than provide investors with additional tax benefits.

7.2.2.3 2018 Asian Development Bank (ADB) Tax and Development: Challenges in Asia and the Pacific

Even though there is no specific report dealing with tax incentives published by the Asian Development Bank, there has been attention to the challenges in Asia and the Pacific regarding tax incentives. For instance, the 2018 Report on Tax and Development addressed in Chap. 2 the need for tax incentives "to be controlled by the Ministry of Finance. If they are managed by the Investment Board or ministries to promoted FDI, tax incentives proliferate and can become too complex at the expense of government coffers. In such a scenario, lost revenues will have to be raised from other distortionary taxes" (Nakabayashi 2018: 12). In addition, the report stated the need to prevent a race to the bottom tax competition and the need to broaden "the tax base by rationalizing tax incentives and exemptions" (Nakabayashi 2018: 12).

The Asian Development Bank has published an overview of tax incentives which provides a comparison of the tax guidelines and regulations pertaining to direct

[4]The chapters were authored by three external consultants: Eric Zolt, Peter A. Harris and Duanjie Chen.

investment in South East Asia and South Asia. According to the website, "data sources include official reports and press releases from respective government were government agencies such as ministries of finance, trade and commerce; economic development boards; boards of investment; and related agencies of national governments pursuing investment creation and promotion, and to some extent, trade". However, the database does not provide the current developments, for instance, the current tax reform in the Philippines, or information related to fiscal stimulus regarding COVID-19. Therefore, for a comparison of fiscal stimuli measures, the database of international organisations (e.g. IMF) is relevant.[5]

7.2.2.4 2018 United Nations ESCAP Report on Tax Policy for Sustainable Development in Asia and the Pacific

The 2018 ESCAP report contains a chapter addressing tax incentives and tax base protection for developing countries. The focus of the chapter is on the economic effect of tax incentives. Therefore, administrative considerations regarding the complexity, arbitrariness and use of discretionary tax incentives are not addressed in this chapter (Jun 2018: 75).[6] Despite this caveat, the report addresses the choice of governments to "use a more visible and readily available tool, such as a tax holiday, to attract investors rather than resort to such time-consuming measures as enhancing macroeconomic stability and upgrading public infrastructure" (Jun 2018: 74).

The chapter contains an analysis of some Asia-Pacific countries (i.e. Singapore, Hong Kong, China and the Republic of Korea). Regarding Singapore, the author analysis is that "Singapore excels in state efficiency items compared to its neighbours. This suggest that a given incentive is likely to be more cost-effective in Singapore than, say, in the Republic of Korea because administrative costs and corruption possibilities associated with tax incentives might be much lower in Singapore" (Jun 2018: 92). The report also addresses the changes that Singapore has made to its incentive policy stating that "in fact, Singapore has adjusted its incentive policy from an aggressive, broad-based incentive scheme at earlies states of development when its competitive advantage was limited, to a more target-based one couple with lower statutory rates in the mid-1980s when it already became an attractive investment location" (Jun 2018: 93).

Finally, the report concludes based on the comparative study of countries that "effective use of tax incentives critically hinges on country-specific factors and priorities, defying 'one-size-fits-all' best practices. While investment incentives

[5]The COVID-19 pandemic has resulted in countries introducing, for instance, tax payment deferral, more generous loss offset provisions and tax exemptions, among others. See overview IMF website Policy Responses to COVID-19 at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19. Accessed 16 June 2020.

[6]See also footnote 43 in Jun (2018: 75).

may work well in conjunction with strong climate investments, their roles should not be precluded in countries with weak investment climates" (Jun 2018: 94).

7.2.2.5 2020 World Bank Evaluating the Costs and Benefits of Corporate Tax Incentives

The 2020 Report by the World Bank focuses on the cost-benefit analysis of tax incentives (as it was also the case in the UN-CIAT Report). The report states that the "cost-benefit analysis can help policy makers demonstrate the direct cost (tax revenue foregone) incurred by governments against the economic benefits being pursued. Global evidence on investment location decisions suggests that while tax incentives can help attract investment, other factors, such as the wider investment climate and market opportunities, matter most. Tax incentives should therefore be conceived as part of a country's broader investment policy framework and governments should be realistic about the potential impact any measure may have. In this light, cost-benefit analysis can serve as a powerful tool to inform incentives policy reform and offer important inputs into a country's investment policy strategy" (Kronfol and Steenbergen 2020: 1).

For the authors of this report, this cost-benefit analysis can be useful to "policy reforms to improve the targeting, design, transparency, and administration of tax incentives" (Kronfol and Steenbergen 2020: 4). In order to calculate the estimate of tax expenditure related to incentive, the report addresses three approaches (i.e. calculation of the revenue foregone, or revenue gain or outlay equivalence) (Kronfol and Steenbergen 2020: 5).

The report also makes a distinction between location (attracting new firms) and behavioural (shifting firm behaviour) incentives to determine the success of the incentive (whether the business establishes in the region because of tax incentives or whether the business produce more output due to incentives) (Kronfol and Steenbergen 2020: 6). In order to measure the benefits, the report provides an overview of different tools to assess the effectiveness of locational and behavioural incentives (Kronfol and Steenbergen 2020: 6–7).

7.2.3 Proposed Evaluative Framework for Tax Incentives in Light of the SDGs

Following the analysis of tax incentives by scholars and international organisations, this chapter provides an evaluative framework of tax incentives in developing countries. This framework takes into account not only the administrative considerations and legal drafting of tax incentives but also the link of tax incentives to the sustainable development goals. This framework has been further developed by one of the authors elsewhere (Mosquera Valderrama 2020a).

Ideally, an effective and efficient tax incentive will generate social benefit, which is greater than the associated social cost of the incentive (IMF et al. 2015: 32). The resulting social benefit should improve living conditions for the people and also contribute to the country's economic growth and development. The assessment of the social cost and the resulting social benefit is crucial and also very challenging, as there are a number of factors, which need to be considered.

In order to link the analysis of tax incentives to the sustainable development goals, we argue that tax incentives in developing countries should be evaluated taking into account the "effectiveness" of tax incentives in achieving their aims (social and economic growth)—and then the cost side—and their "efficiency" in terms of revenue loss, fair taxation and equal opportunities for all citizens.

In this proposed framework, the "reference to social and economic growth and also to fair taxation and equal opportunities are linked to the sustainable development goals. These goals include achieving decent work in economic growth, eradication of poverty and building resilient infrastructure. The governments have an important role in encouraging growth and development which also contribute to SDG targets 17.1: Strengthen domestic resource mobilization and 17.16 on global partnerships for sustainable development" (Mosquera Valderrama 2020a).

This framework should be designed by each country and, if possible, take into account the practice of other countries in the region so that countries can also exchange best practices. For the purposes of the assessment of the tax incentives in Singapore and the Philippines, the following criteria can be used (Mosquera Valderrama 2020a):

- Systematic review of tax incentives. This review should focus on whether the tax incentive has achieved the specific goals in terms of effectiveness and efficiency.
- Clear target and eligibility criteria for granting the incentive, to be measured in light of the social and economic development of the region/sector/country.
- Tax incentives should be transparent, and the granting of the tax incentive should not be discretionary. To achieve greater accountability and transparency of tax incentives, it is important that the general tax expenditure of the country is periodically analysed and tax budgets are implemented (UN-CIAT 2018: 19). Efforts should be made by international organisations to train staff and use data analytics to carry out this analysis in developing countries. For instance, the OECD regional revenue statistics including the one for the Asia and Pacific Region refers to the need to include the reporting in the revenue side and the expenditure side (OECD 2019b). After providing a distinction between tax and expenditure provisions, this report also states that the focus of the report is on tax provision rather than the expenditure provision.[7] However, in our opinion, in

[7] Annex A of the report para. 24 states:

"Because this publication is concerned only with the revenue side of government operations, no account being taken of the expenditure side, a distinction has to be made between tax and expenditure provisions. Normally there is no difficulty in making this distinction as expenditures are made outside the tax system and the tax accounts and under legislation separate from the tax

order to increase transparency, countries should also include in their annual budgets the expenditure report as it has been done by the Philippines and Singapore (see Sect. 7.3.6).
- The tax incentive should have a fiscal budget and perhaps also a ceiling in the budget so that once reached the ceiling of revenue loss, the tax incentive will be terminated.

The institutional conditions for these incentives should be also taken into account mainly:

- Developing countries should appoint one person, typically the Ministry of Finance, to administer and monitor the tax incentives.
- Developing countries should prevent the use of several laws (investment, tax, other) to regulate tax incentives. Furthermore, to enhance transparency, legislation regulating tax incentives should be publicly available with a specific reference in English (to the incentive, the tax benefit and the criteria used to systematically evaluate the tax incentive).
- The use of one-stop-shop agencies should be encouraged, since investors may find it useful to access the information but also dealing with all permits/licenses and further questions regarding their investment. This agency should have a code of conduct to guide their activities within the agency, and in addition, a list of sanctions (administrative fine or imprisonment) should be introduced. In case that there is any corruption or bribery, the sanction for the respective agency official should be made publicly available.

For the two countries of study, Singapore and the Philippines, this framework will be further developed in Sect. 7.4.2. The following section will provide an overview of the tax incentives in Singapore and the Philippines.

7.3 Case Study: Singapore and the Philippines

At the time of writing, Singapore is ranked 2 and the Philippines 95 in the World Bank Doing Business Guide (ease of doing business worldwide), and within the East Asia-Pacific Region (25 countries), Singapore is ranked 1 and the Philippines 11 (The World Bank 2019). This shows that in terms of attractiveness to investors and ease of doing business, Singapore is a leading example in the world and the region.

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legislation. In borderline cases, cash flow is used to distinguish between tax provisions and expenditure provisions. Insofar as a provision affects the flow of tax payments from the taxpayer to the government, it is regarded as a tax provision and is taken into account in the data shown in this publication. A provision which does not affect this flow is seen as an expenditure provision and is disregarded in the data recorded in this publication" OECD (2019), *Revenue Statistics in Asian and Pacific Economies 2019*, OECD Publishing, Paris, https://doi.org/10.1787/b614e035-en.

In order to exchange best practices, Sect. 7.2 provides a comparison of the tax incentives in Singapore and the Philippines by looking at (1) the types of incentives offered, (2) whether they are cost or profit based, (3) whether they are targeted at specific locations/sectors, (4) their overall transparency, (5) the role of the Minister of Finance, (6) systematic evaluations of incentives, (7) regional coordination and (8) other considerations including the influence of BEPS Action 5 in their tax incentives. The Philippines is currently in the process of passing a comprehensive tax reform, and only one out of four proposed packages was signed into law. The second package that dealt with tax incentives was expected to be adopted in 2019 (at the time of writing, June 2020, the adoption has not yet taken place; instead some changes have been introduced to cope with COVID-19).[8] Therefore current incentives system and the proposed changes will both be discussed in this section.

7.3.1 Type of Incentives Offered

7.3.1.1 Singapore

Corporate tax in Singapore is levied at 17%, which makes it the country with the lowest corporate income tax rate in the Association of Southeast Asian Nations (ASEAN) region. On top of this, Singapore provides generous tax incentives including concessionary tax rates for selected industries and free-trade zones.[9] Due to the COVID-19 pandemic, Singapore has introduced several measures to support business. For companies, the fiscal stimulus measure aims to ease the cash flow of companies; therefore, two measures have been introduced a deferral of payment (3 months) of corporate income tax and the extension of tax filing deadlines.[10]

The main legislative sources of incentives are the Economic Expansion Incentives (relief from income tax) Act (EEIA) and the Income Tax Act (ITA). The administration of incentives is vested in government statutory boards, based on industry segmentation,[11] and in the Inland Revenue Authority of Singapore (IRAS).

The Economic Development Board (EDB), forming part of the Ministry of Trade and Industry, administers a number of the incentives offered. The objective of Singapore's tax incentives is to attract companies that will contribute to the wider benefit in Singapore. EDB expects the companies to accomplish this via local spending, creation of skilled employment, financing research and development or

[8] See Sect. 7.3.1.2.

[9] For example, the Jurong Port and the Changi Airport Group.

[10] See for an overview of the measures the website of the IRAS at https://www.iras.gov.sg/irashome/COVID-19-Support-Measures-and-Tax-Guidance/COVID-19-Support-Measures-and-Tax-Guidance/. Accessed 16 June 2020.

[11] Including Enterprise Singapore, Maritime Port Authority of Singapore for the shipping sector and Monetary Authority of Singapore for the financial sector and Singapore Economic Development Board.

anchoring cutting-edge technology. EDB defines its goal as "to develop high-value and substantive economic activities in Singapore" (EDB Singapore 2018).

Some tax incentives aim to encourage companies to grow certain treasury management and strategic finance capabilities[12] or grow aircraft leasing industry in Singapore.[13] Other tax incentives focus on development of research in the areas of science and technology,[14] on providing the employees with various training programmes[15] and on encouraging the use and commercialisation of intellectual property rights from research and development (R&D) activities.[16] These incentives are tied to certain activities ascertained as beneficial to Singapore's development and aim to enable long-term economic growth. There are also incentives that support facilities to be more energy efficient and improve competitiveness.[17]

The incentives administered by the EDB can be split into three main categories: (1) growing industries; (2) innovation, R&D and capability development; and (3) productivity. These incentives include the Pioneer Certificate Incentive (PC) and Development and Expansion Incentive (DEI), Finance and Treasury Centre (FTC) Incentive, Aircraft Leasing Scheme (ALS), Research Incentive Scheme for Companies (RISC), Training Grant for Company (TGC), Intellectual Property Development Incentive (IDI), Resource Efficiency Grant for Energy (REG(E)) and Land Intensification Allowance (LIA). For example, under the PC and DEI, companies enjoy exemption from corporate tax or a concessionary rate of 5 or 10%. Companies benefit from 8% concessionary tax rate on income from qualifying FTC activities under the FTC incentive and 5 or 10% on qualifying IP income under the IDI. In 2019, the Ministry of Finance published the Income Tax (Amendment) Bill, which extends and refines tax incentive schemes for funds managed by Singapore-based fund managers (IBFD 2019).

7.3.1.2 Philippines

The corporate income tax rate in the Philippines is 30% for both domestic and non-resident corporations, the highest corporate income tax rate in all of ASEAN

[12]Finance and Treasury Centre (FTC) Incentive.

[13]Aircraft Leasing Scheme (ALS).

[14]Research Incentive Scheme for Companies (RISC).

[15]Training Grant for Company (TGC).

[16]IP Development Incentive.

[17]Resource Efficiency Grant for Energy (REG(E)), as part of the Enhanced Industry Energy Efficiency package, with the Energy Market Authority (EMA), Singapore Economic Development Board (EDB) and the National Environment Agency (NEA), each rolling out initiatives to extend stronger support to companies in their drive to become more energy efficient and reduce carbon emissions. In addition to this, the Land Intensification Allowance (LIA) aims to promote the intensification of industrial land use towards more land-efficient and higher value-added activities.

countries.[18] Despite the corporate income tax (CIT) revenue increasing each year, the tax incentive regime lacks efficiency.[19] Even though the Philippines provide the most generous tax incentive system[20] in the region, when compared to neighbouring countries, Philippine's inward FDI does not reach the desired amounts (Philippines Department of Finance 2018c). Philippines' incentives under the current regime include tax holidays, regional operating headquarters incentives and concessionary tax rates under the Regional Operating Headquarters (ROHQ) and gross income earned tax regimes.

Incentives are legislated under the Omnibus Investments Code of 1987 and the Special Economic Zone Act of 1995, which include both fiscal and non-fiscal incentives. At the heart of Philippines incentives system are income tax holidays offered to Board of Investment (BOI)/Philippine Economic Zone Authority (PEZA)-registered activities with pioneer status (6 years income tax holidays) and non-pioneer status (4 years income tax holidays). After the lapse of income tax holidays, PEZA-registered activities can then benefit from 5% gross income earned (GIE) tax regime. The GIE is given for an indefinite period of time and applies to all income, value-added tax (VAT) and local taxes. As of 2015, the Tax Incentives Management and Transparency Act (TIMTA) requires that tax incentives granted to registered investments are reported (Philippines Department of Finance 2018c).

Multinational enterprises (MNEs) that establish ROHQ in the Philippines benefit from a preferential CIT rate of 10% and are exempt from numerous local taxes, charges and fees. ROHQs are set up to render R&D services and product development to its affiliates, branches and subsidiaries. This ROHQ regime has been listed on OECD BEPS 5 Preferential Tax Regimes List and is currently marked as in the process of being eliminated (see Sect. 7.3.8.2).

The Comprehensive Tax Reform Program (CTRP) The aim of the reform is to correct the country's deficient tax system caused by special treatment and exemptions for some taxpayers. According to Philippines Department of Finance, this special treatment coupled with lack of transparency leads to unequal, complex and inefficient tax system (Philippines Department of Finance 2018c). The proposed reform will likely impact all of these incentives. The aim of the CTRP is to "accelerate poverty reduction" and to "sustainably address inequality" (Philippines Department of Finance 2018c). The CTRP introduced four packages, with the first package enacted in 2017 and the second to be adopted in 2019. A reform of tax incentives is covered in Package 2: "Corporate Income Tax Reform and Fiscal

[18]Philippines 30%; Indonesia 25%; Malaysia and Lao DPR both 24%; Vietnam, Thailand and Cambodia all 20%; and Singapore 17%.

[19]According to OECD's individual country statistics office and DOF staff calculations, revenue productivity was 12.3%, second lowest in the region right behind Indonesia.

[20]Compared to tax holidays in other ASEAN countries, where Brunei officially provides the longest tax holiday (20 year), the Philippines offer 4 years + 8 years tax holidays and after that indefinite benefit of just 5% gross income tax (GIT).

Incentives Modernization (CITIRA)".[21] This package has been recalibrated in light of the COVID-19 pandemic. The new Package 2 is referred as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE). According to the Philippines Department of Finance website, the recalibration was necessary "to make it more relevant and responsive to the needs of businesses, especially those facing financial difficulties, and increase the ability of the Philippines to attract investments that will benefit the public interest" (Philippines Department of Finance 2018f).[22]

The goal of CTRP Package 2 in its CITIRA form is to (1) lower the CIT rate gradually from 30 to 20% over the next 10 years; (2) reorient fiscal incentives towards strategic growth industries; and (3) make incentives available to investors who make net positive contributions to society (Department of Finance 2018f). In addition, corporations registered for corporate incentives will receive further deductions for labour costs, training costs, purchases from local suppliers, infrastructure development, research and development, accelerated depreciation allowance and enhanced net-operating loss carryover.

The new measures proposed by the CTRP Package in its CREATE form are mainly the introduction of fiscal stimuli for business.[23] These measures include an immediate 5% corporate income tax reduction starting July 2020, extension of the applicability of carryover for losses incurred in 2020 from 3 to 5 years for non-large taxpayers, companies benefiting from the 5% gross income earned (GIE) incentives will benefit from a sunset clause from 4 to 9 years (in CITIRA form was 2–7 years); and more flexibility for the President in granting fiscal and non-fiscal incentives, which according to the Department of Finance, it "will be critical as the country competes internationally for high-value investments".[24]

The CTRP recognises the need for tax incentives in order to attract investment, which supports achieving Philippines' objectives, including job creation, stimulation of domestic industries and encouraging innovation. However, the Philippines also

[21]See for a short overview package 2 https://taxreform.dof.gov.ph/wp-content/uploads/2019/08/CTRP-Package-2-Corporate-Income-Tax-and-Incentives-Reform-1-page-briefer.pdf. Accessed 16 June 2020.

[22]See also https://taxreform.dof.gov.ph/news_and_updates/pcci-head-says-create-to-give-phl-fighting-chance-in-attracting-more-investments/. Accessed 16 June 2020.

[23]CREATE is one of instruments under the Philippine Program for Recovery with Equity and Solidarity or PH-PROGRESO. PP-PROGRESO is currently being discussed at the Senate. Report to the Joint Congressional Oversight Committee dated 8 June 2020. https://www.officialgazette.gov.ph/downloads/2020/06jun/20200608-Report-to-the-Joint-Congressional-Oversight-Committee.pdf. Accessed 16 June 2020.

See for a short overview http://www.neda.gov.ph/wp-content/uploads/2020/05/Economic-recovery-program-v9-short-for-Sulong_1589436221.pdf. Accessed 16 June 2020.

[24]Website Department of Finance https://taxreform.dof.gov.ph/tax-reform-packages/p2-corporate-recovery-and-tax-incentives-for-enterprises-act/. Accessed 16 June 2020. See Report to the Joint Congressional Oversight Committee dated 8 June 2020. https://www.officialgazette.gov.ph/downloads/2020/06jun/20200608-Report-to-the-Joint-Congressional-Oversight-Committee.pdf at 15. Accessed 16 June 2020.

acknowledge the need for fair and accountable incentives systems. The rationale is that the money supporting the incentives comes from the government's budget and would otherwise be part of public spending that benefits the society. To ensure fair and accountable tax incentives regime is in place, incentives need to be (1) performance based, (2) targeted, (3) time bound and (4) transparent. However, the discretionary power to the President to grant fiscal and non-fiscal tax incentives in CREATE may reduce the effectiveness of the transparency goal of the CTRP reform.

The new tax incentives will also include sunset provisions, putting a time limit on the benefits the companies can enjoy. As a result, tax incentives will no longer be granted for indefinite periods of time as, e.g. tax holidays, which could be prolonged but will rather be time restricted. This can result in greater accountability and improved performance of the MNEs.

7.3.2 Cost-Based Incentives vs. Profit-Based Incentives

Profit-based incentives are linked to the profits of the company and include, e.g. reduced tax rates or tax holidays that exempt the profits in their entirety. Cost-based tax incentives reduce costs for the company and can include, e.g. tax credits and accelerated depreciation. Profit-based incentives, although easier to administer when introduced, require continuous monitoring[25] to ensure the taxpayers qualify for the incentives, which is not always easy (Abramovsky et al. 2018). This can prove to be particularly difficult for tax administrations in developing countries, where resources are limited. Therefore, scholars and international organisations recommended for developing countries to introduce cost-based tax incentive even though it is more complex to administer (Abramovsky et al. 2018; IMF Toolkit).

Singapore and the Philippines have a mix of profit-based and cost-based incentives, and while there is a prevalence of profit-based incentives in both countries at the moment, this will likely change for the Philippines following the introduction of the second package in the CTRP which is expected to be adopted in 2019.

7.3.2.1 Singapore

In Singapore, profit-based incentives prevail. This is mainly due to the concessionary tax rates and exemptions offered to a wide range of activities. While incentives

[25]Both profit-based and cost-based incentives require monitoring, but profit-based incentives are usually subject to stricter qualifying conditions as well as targets that need to be reached with the investments. Therefore, a higher level of monitoring is required to ensure the companies continuously meet the conditions to qualify for the incentive and also that they deliver the wanted results—e.g. creation of desired number of jobs, meeting their investment targets, etc. This monitoring has to be done on a regular basis and requires more financial and human resources.

offered under the EEIA are mainly profit based, incentives offered under the ITA are a mixture of exemptions, deductions and rate reductions.

7.3.2.2 Philippines

In the Philippines, tax incentives under the current regime are prevalently profit based and focus on reducing the tax rates for companies. The reason for this could be the high corporate tax rate to begin with and the need to lower this to attract investment. The proposed CTRP aims to lower the corporate income tax rate so the focus of the new incentive regime will shift to cost-based incentives instead. The proposed deductions for companies registered for incentives further prove that the new incentive system will look to introduce more cost-based incentives with the objective of achieving social benefits.

7.3.3 Targeted Incentives

7.3.3.1 Singapore

The issue with targeted tax incentives is that they can put non-targeted firms at disadvantage. They may however be justified in cases where it reduces the cost of the policy or when targeting certain mobile investments is more cost-effective (Abramovsky et al. 2018). Singapore offers a number of incentives that target specific industries, such as exemptions and concessionary rates for angel investors, fund management companies, businesses engaged in various shipping and maritime activities and companies setting up global or regional headquarters in Singapore. When looking at the activities, it mainly targets areas of manufacturing and services, trading, investment and financial services, shipping and research and development activities.[26] To benefit from the incentives, investors must meet qualitative and quantitative criteria. As a result, only selected investors benefit from the incentive, and the associated costs are therefore kept to minimum.

[26]Headquarter and internationalisation activities, manufacturing and services activities, trading activities, finance and treasury activities, R&D and IP management and human capital and capability development.

7.3.3.2 Philippines

At the time of writing (June 2020), tax incentives target companies in different sectors, and the resulting effective CIT rates are unequal.[27] The investment activities that are targeted are included in the Investment Priorities Plan (IPP). The 2017 IPP listed the following investment priorities areas for 2017–2019: export activities, agriculture, basic industries, infrastructure, industrial service facilities, engineering, logistics, BIMP-EAGA investments, tourism, health and education, halal, banking and energy investments (IPP 2017).

Under the new tax reform CTRP, incentives are to be targeted at a specific group of companies or an industry, thereby limiting the number of companies benefiting from them. This should eliminate the unfair grant of benefits to big MNEs whose effective tax rate is then well below what local micro and small enterprises pay. Incentives will be targeted at activities, which bring significant benefits to the country (Philippines Department of Trade and Industry-Board of Investments 2018).

7.3.4 Granting of Tax Incentives: Transparency

7.3.4.1 Singapore

The EDB publishes brochures and circulars on its website. They provide an overview of each incentive including the assessment criteria as well as detailed administration of the incentive. However, since Singapore's tax incentives are not all covered through income tax law, their extent is not as straightforward and clear as it could be. The IRAS attempts to make them transparent by having a consolidated list published on their website along with instructions how and where to apply. Each incentive also describes detailed administration of the incentives and mentions the provision of either the Income Tax Act (ITA) or Economic Expansion Incentives Act (EEIA), where the incentive was implemented.

The design and administration of Singapore's incentives by numerous bodies results in more complex coordination of incentive measures. This could lead to inconsistencies and an overlap of incentives (OECD 2015). While tax authorities worry about forgone revenue, agencies and bodies are primarily focused on attracting investment. It can also render the tax incentives inefficient, as investors can potentially benefit from incentives offered by various bodies and thereby erode their tax base.

[27] According to the Philippines Department of Finance, effective tax rates for agriculture and fishery businesses can be as little as 6.9% and, e.g. manufacturing and energy businesses are taxed at around 10%.

7.3.4.2 Philippines

According to a survey conducted by the World Economic Forum, inefficient government bureaucracy, corruption, tax regulations and tax rates were identified as some of the biggest problems when it comes to conducting business in the Philippines (World Economic Forum 2018). This need for transparency and simplicity was also highlighted by Yasuyuki Sawada, Chief Economist and Director General of Asian Development Bank.

At the moment, incentives are provided through 123 investment laws and 192 non-investment laws. Having incentives in a number of legislations creates a complex incentive regime, which leads to lack of transparency (OECD 2016). With the CTRP, these 123 special laws will be replaced by one single law.

As of June 2020, incentives can be granted by 1 of 19 Investment Promotion Agencies (IPAs), and in order to benefit from them, registration with Philippine Economic Zone Authority (PEZA) or Board of Investments (BOI) is necessary for most of them (Philippines Department of Finance 2018a, b, c, d, e, f). To be able to register with BOI, the business activity must be listed in the 2017 Investment Priorities Plan.[28] The fact that incentives are granted through numerous agencies results in less transparency and increased complexity when it comes to monitoring decisions to whom and under what circumstances the incentives were granted. This leaves room for undesired discretion and can result in tax base erosion by investors who would normally not qualify for the incentive.

Following the current tax reform CTRP, the Fiscal Incentives Review Board (FIRB) is to serve as the overall administration of IPAs and incentives. FIRB will have an oversight over 13[29] existing IPAs and will be responsible for monitoring that the benefiting taxpayers are continuously meeting the qualifying conditions and are reaching the desired targets. This should simplify the incentive regime and aid the overall transparency, as all incentives will be administered and monitored by one central body.

[28]In 2017 IPP, these were, namely, (1) all qualified manufacturing activities, (2) export activities, (3) activities based on special laws granting incentives and (4) priority activities for projects located in the Autonomous Region in Muslim Mindanao (ARMM).

[29]While the Philippines have 19 investment promotion agencies, 13 of them "are largely autonomous, each with its own mandate, menu of tax incentives and authority to grant them largely without the approval or knowledge of the DOF", and these will now come under oversight of DOF. See more at: https://www.dof.gov.ph/dof-says-firb-to-promote-good-governance-enhance-grant-of-tax-incentives-to-firms/. Accessed 16 June 2020.

7.3.5 Role of the Ministry of Finance

7.3.5.1 Singapore

Under the Income Tax Act, the Minister of Finance appoints a Comptroller of Income Tax, who is responsible for the assessment and collection of tax in Singapore (ITA 2014). The Ministry of Finance therefore has primary responsibility for the assessment and development of tax incentive proposals. The proposals for new tax incentives can only be accepted if the incentives further the country's economic objectives and are then, if adopted, included in the annual budget submitted to Parliament.

Due to the nature of Singapore's political system, the government effectively controls much of the legislature, and the Ministry of Finance has the government's support for its proposals. After Parliament approves the proposals, the tax incentives become effective, but the main push comes straight from the Minister of Finance. Each year a budget report is published, detailing which incentives are accounted for in the budget. The budget provides an end date for some of the tax incentives, thereby ensuring that they are budgeted only for a specific number of years.[30]

7.3.5.2 Philippines

The Department of Finance participates in talks elaborating on the IPP as opposed to Philippines Bureau of Internal Revenue, which has very minor involvement. It can prioritise different activities based on national and budgetary needs through the IPP.

7.3.6 Assessing the Cost of the Incentive (Revenue Foregone)

Since one of the concerns about incentives is the direct cost (revenue foregone) incurred by governments, it is of great importance that incentives are transparent regarding the revenue foregone. More recently, the World Bank report evaluating the costs and benefits of tax incentives has stated the need to foster greater transparency of public finances. According to the 2020 World Bank Report, "systematically estimating the revenue foregone from incentives can result in greater transparency of public finances. Especially since the costs associated with tax incentives can face less scrutiny than direct government spending, estimating and incorporating such analysis as part of the budgetary process can lead to more informed budgetary and fiscal policy decision-making" (Kronfol and Steenbergen 2020: 9).

Furthermore, the World Bank report states that it is important in the calculation of the direct costs (revenue foregone) to consider "not only corporate income tax

[30]For example, the Land Intensification Allowance and the IP Development Incentive.

incentives, but should also extend to the wider combination of tax concessions offered to firms, including customs duties, capital gains tax, pay-as-you-earn, and value added tax" (Kronfol and Steenbergen 2020: 5).

7.3.6.1 Singapore

In order to ensure consistency and accountability, the Ministry of Finance provides guidelines for administering tax incentives and requires agencies to monitor the companies that receive tax incentives for their compliance with the obligations and commitments. Furthermore, the EDB lays down the assessment process for each of the incentives it administers.

All of the incentives are subject to the provisions of the Economic Expansion Incentives Act, and in addition to this, companies need to submit regular reports to the EDB so their performance can be evaluated. The analysis of revenue and expenditure is also provided in Singapore and submitted to the Parliament for evaluation in the Budget Day.[31]

7.3.6.2 Philippines

In the Philippines, the Department of Budget and Management provides for a Budget of Expenditures and Sources of Financing Report.[32] In December 2015, the Tax Incentives Management and Transparency Act (TIMTA) was passed. Its aim is to promote transparency and accountability in the area of granting and administration of tax incentives. TIMTA was tasked with creating a single database system to record and evaluate the impact of Philippines' tax incentives. Furthermore, TIMTA is responsible for monitoring and tracking the tax incentives granted by IPAs. TIMTA is regarded as a positive development towards transparency. According to Sawada, Chief Economist and Director General Asian Development Bank, due to TIMTA "it is now possible to evaluate whether tax incentives have delivered employment, income and export growth" (Sawada 2018).

In light of the CTRP, Philippines Department of Finance carried out an initial cost-benefit analysis of the tax incentives under the old regime and concluded that: "on average, there is no difference between the performance of firms receiving incentives and firms not receiving incentives in terms of employment, exports,

[31]The most recent of 2019 is available at https://www.singaporebudget.gov.sg/docs/default-source/budget_2019/download/pdf/FY2019_Analysis_of_Revenue_and_Expenditure.pdf. Accessed 16 June 2020.

[32]For instance, the 2019 report is available at https://www.dbm.gov.ph/index.php/budget-documents/2019/budget-of-expenditures-and-sources-of-financing-fy-2019. Accessed 16 June 2020. See also 2015 Report Fiscal Transparency Evaluation https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Philippines-Fiscal-Transparency-Evaluation-43014. Accessed 16 June 2020.

investments, and productivity. This means many incentives are redundant" (Philippines Department of Finance 2018c).

According to the proposed CTRP Package 2 (pending adoption; see Sect. 7.3.1.2), incentives will be granted to investors who encourage upskilling, create more and better jobs, promote research and development, encourage innovation, stimulate domestic industries, invest in agribusiness, diversify their product base to higher value exports, reinvest their capital, invest in less developed areas and invest in areas recovering from calamities or armed conflict (Department of Finance 2018a). There is a clear aim for the incentives to aid economic and social growth of the country.

The CTRP Package 2 also plans to introduce performance-based incentives. Performance-based incentives will as their name suggests set performance targets/requirements that the company needs to meet in order to be able to benefit from the tax incentive. These targets will aim to benefit the society and will result in positive development. The main difference compared to the incentives under the old regime is that they will no longer be granted to "everyone" and "for free". Incentives will instead be given to firms that actually need them and if they also meet the performance requirements. The introduction of these types of incentives will require more evaluations on how these objectives and performance requirements are being met.

7.3.7 Regional Cooperation

7.3.7.1 Singapore

Singapore is a member of ASEAN and has a number of free trade agreements in place.[33] Singapore has also signed the Convention on Mutual Administrative Assistance in Tax Matters and is member of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. Regional cooperation, especially in regions with developing countries, which compete to attract the investments, is crucial in minimising or avoiding harmful tax competition. OECD acknowledges the need for regional cooperation and also links it to enhanced transparency (OECD n.d.). Singapore has the lowest CIT rate in the region, and this can encourage other countries to provide favourable incentives and compensate for their higher tax rates. While it encourages positive change, e.g. creation of tax incentives and revision of existing tax rules, the negative spillovers can cause neighbouring countries to race to the bottom (Nugroho 2012).

[33]Singapore is a member of the Asia Regional Integration Center.

7.3.7.2 Philippines

The Philippines is a member of ASEAN and has signed the Convention on Mutual Administrative Assistance in Tax Matters. Furthermore, the Philippines is a member of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

7.3.8 BEPS Action 5 Review

From the two countries of study, Singapore as a member of the BEPS Inclusive Framework has committed to the implementation of BEPS 4 Minimum Standards including BEPS Action 5. At the time of writing (June 2020), the Philippines is not a member of the Inclusive Framework. Even though the assessment of BEPS Action 5 is outside the scope of this chapter (Mosquera Valderrama 2020b), it is important to take into account that despite the fact that the Philippines is not a member of this framework, both countries have been reviewed for their preferential tax regimes. As a result, Singapore and the Philippines have amended or abolished some of these incentives to comply with the recommendations of the BEPS Action 5 peer review report.

7.3.8.1 Singapore

Singapore as one of the members of Inclusive Framework on BEPS was initially included on the 2015 list of harmful tax practices (OECD 2017). The 2015 report reviewed some of Singapore's tax incentives, all of which proved to be not harmful or they were subsequently amended or abolished.[34] No regimes are subject to review on the 2018 report.

7.3.8.2 Philippines

Even though the Philippines has not committed to the BEPS Inclusive Framework, the Philippines has been reviewed in their tax incentives in light of BEPS Action 5. The 2018 report reported that the Regional Area Headquarters was out of scope since it did not apply to mobile activities, while the Regional Operating

[34]Development and Expansion Incentive—services, Pioneer Service Company, Aircraft Leasing Scheme, the Finance and Treasury Centre, the Insurance Business Development and Financial Sector Incentive, the Global Trade Programme, Maritime Sector Incentive and DEI legal services incentive, International Growth Scheme, IP Development Incentive.

Headquarters has some potential harmful features, and it was in the process of being eliminated (OECD 2019a: 24).

7.4 Comparison and Framework for Assessment of Tax Incentives

7.4.1 Comparative Analysis Tax Incentives in Singapore and the Philippines

In the description in Sect. 7.3, some differences can be highlighted between Singapore and the Philippines. The first notorious difference is the corporate tax rate which in Singapore is 17% while in the Philippines is 30%. In addition, there are differences in the way that tax incentives are being granted in both countries mainly regarding legislative sources and agencies granting the tax incentives. While Singapore has a more centralised decision-making with 2 main legislative sources, the Philippines has incentives in 123 investment law and 192 non-investment laws. In addition, the granting of tax incentives is organised in Singapore by industry segmentation, whereas in the Philippines, there are 13 Investment Promotion Agencies granting the incentives.

The Philippines is since 2017 in the process of introducing a CTRP to reduce the tax rate and to correct the country's complexity of the tax systems including the different type of tax incentives. However, it remains to be seen how many of the proposals will pass, since from the four packages only one (at the time of writing June 2020) has been adopted. However, the government of the Philippines is aware of the need to change their tax incentive regime and also the need to provide more transparency in the granting of tax incentives.

While Singapore is successful in attracting foreign investment, it is hard to tell whether it was achieved through its tax incentives. It could be argued that opposed to other developing countries or countries in transition, Singapore did not have investment deterrents (e.g. bad economic or political climate). This supports the argument that tax incentives on their own cannot correct the tax regime and investment climate in the country and thereby make it more attractive for investors. Even the government stresses that without these non-tax factors, tax incentives would likely not be effective in attracting foreign investment (Zolt 2015). The well-educated and highly skilled workers, extensive network of infrastructure, efficient public transport, clean environment, high quality of life and overall political and economic stability all contribute to Singapore's position among the most attractive business destinations.

However, this is not the case for the Philippines, since the high tax rate and the unstable political climate make difficult to attract foreign investment. The changes introduced by the new CTRP including the reduction of the tax rate can partially solve this issue. But the tax incentive should not be the only motivation for countries to introduce changes. Attention should be given to infrastructure, economic and

political climate so that foreign investors will decide to invest in the country regardless of the tax incentives.

Furthermore, other elements that need to be kept in mind for a stable investment system are transparency in tax incentives including a systematic assessment before and after the tax incentives have been granted. The elements of the evaluative framework of tax incentives will be provided in the following section.

7.4.2 *Evaluative Framework for Tax Incentives in Light of the SDGs*

Tax incentives need to be assessed on a case-by-case basis; however, there are certain elements in an evaluative framework of tax incentives that should be considered in all instances. This framework has been developed elsewhere (Mosquera Valderrama 2020a), and it will be used to analyse the tax incentives of Singapore and the Philippines so that countries can also exchange best practices.

- Systematic review of tax incentives: The review takes place in both countries; however, it is more focused on the granting of tax incentives. There is no clarity whether the review takes place before or after the tax incentive is granted. The assessment in the Philippines of the tax incentives before introducing the CTRP showed that many incentives were redundant. However, this assessment should not only take place at the time that there is a new tax reform but on a regular basis.

  The comparison in Sect. 7.3 shows that such assessment is very limited in the two countries. For the assessment, it is important that the government carefully plans the amount of revenue foregone to give the tax incentive and, also if necessary, to have a ceiling of the amount of revenue foregone. After the incentive is being granted, this incentive should be evaluated systematically by the government taking into account the requirements to give the incentive and whether the incentive is still necessary. Therefore, the two countries can benefit from establishing a specific time for the review of the tax incentive before and after the tax incentive is granted and on a regular basis (every 2 years) and also include in the review the specific budget evaluations that can limit the amount of revenue foregone in the tax incentive.
- The incentive should have a clear target and eligibility criteria for granting the incentive; this target should be measurable to achieve the social and economic development of the region/sector/country. This is not the case in the two countries of study. The current Philippine tax reform aims to attract investment that makes positive contributions to society, but it is not clear as to the criteria to achieve this objective. In Singapore, the Economic Development Board could have a role in designing clear targets and eligibility criteria for granting the incentive which can be also measured in the light of the social and economic development.

  Due to the COVID-19 pandemic, tax incentives are being introduced to ease cash flow from business. However, it is also important that even in COVID-19,

the introduction of these tax incentives have a clear target and eligibility criteria. The description shows that while Singapore decided to grant deferral of tax payments and tax filing, the Philippines decided to immediately reduce the tax rate from 30 to 25%, to introduce favourable rules for carry forward of losses, to extend sunset clauses for certain type of incentives (see Sect. 7.3.1.2) and to give to the President the discretionary power to grant tax incentives.

- Transparency and discretionary power. There should be no room for administrative discretion on the granting of tax incentives; one person/body should be in charge of granting tax incentives, and the incentive should be transparent (publicly available on the website of the tax administration or administrative agency). In both countries, the role of the Ministry of Finance is very important in the granting of tax incentives. However, one problem in both countries is the design and administration of incentives by several bodies resulting in complex coordination and lack of transparency. For instance, the Philippines has 19 Investment Promotion Agencies in charge of granting incentives. This is already being targeted in the new CTRP by introducing a Fiscal Incentives Review Board to serve as overall administration and to have an oversight over 13 of the 19 IPAs granting incentives.[35] However, the COVID-19 measure granting discretionary power to the President may affect the path taken by the Philippines to increase the transparency and reduce the discretionary power in granting tax incentives.

  The monitoring by one central body is desirable. However, it is also important that this body has a code of conduct to guide their activities including also a list of sanctions (administrative fine, dismissal or imprisonment) in case that there is any corruption or bribery. The Philippines has already such a Code of Conduct with several sanctions (Rule XI)[36]; nevertheless, one of the problems identified in the Philippines by the World Economic Forum Global Competitiveness Index is corruption (see Sect. 7.3.4.2). Therefore, one possible way to enhance more transparency is to make the sanction for the respective agency official publicly available.

  Singapore provides a consolidated list of tax incentives which is published where the Philippines does not. This should change in order to achieve more transparency. In addition, both Singapore and the Philippines could benefit from drafting for each incentive a fiscal budget and perhaps also a ceiling in the budget so that once reached the ceiling of revenue loss, the tax incentive will be terminated. The amount of allocated budget used can be made available on a year basis to investors so that they are not surprised when the ceiling has been reached.

  To achieve greater accountability of tax incentives, it is important that the general tax expenditure of Singapore and the Philippines is periodically analysed

[35] See supra n. 32.

[36] "Code of Conduct and Ethical Standards for Public Officials and Employees", approved on February 20, 1989 and which took effect on March 25, 1989. https://www.bir.gov.ph/index.php/anti-corruption-law.html

and tax budgets are implemented. From the comparison in Sect. 7.3.6, there is a budget published each year in Singapore and the Philippines specifying which incentives are accounted for in the budget. However, this budget also requires monitoring and systematic evaluation, and efforts should be made by international organisations to train staff and use data analytics in developing countries to conduct cross-sectoral policy-oriented research on how tax incentives influence investments. The main objective should be to find out how incentives are being used, including in which sector, and their impact in terms of investment and/or foregone revenues.

- Both Singapore and the Philippines introduced their incentives in the Income Tax Law and Investment Law, but in the Philippines, the number of investment laws (i.e. 123) and non-investment laws (i.e. 192) providing incentives creates more complexity in the tax regime. Both countries provide the information in English in the respective government websites. However, this information should have not only the incentive but also the criteria to be used to systematically evaluate the tax incentive.

7.5 Conclusions and Recommendations

Following the analysis of tax incentive regimes in Singapore and the Philippines, this chapter concludes that when properly drafted and implemented, tax incentives can be very effective in attracting foreign direct investment; however, they do not seem to be sufficiently attractive for the investors on their own.

The case studies show two very different experiences of countries in the same region. Singapore succeeded in attracting foreign investment and is often seen as a role model for other developing countries and countries in transition. However, Singapore did not create tax incentives with the aim to correct market imperfections (Lipsey and Lancaster 2016). It complemented its already attractive investment environment instead. On the other hand, the Philippines tax incentives under the old regime compensated for its high CIT. The proposed reform corrects this by setting out clear objectives to be achieved and how to monitor the efficiency and effectiveness of the incentives. To properly analyse the new regime and how successful it will prove, ex-post analysis and systematic evaluations will need to be carried out to check if the initial cost-benefit analysis will be confirmed.

When designed and implemented correctly, tax incentives can also contribute to social and economic development of the country. It is important to keep in mind the primary objectives of the tax incentive when it is being drafted and in addition to design considerations. Already existing studies that attempted to assess the extent to which tax incentives attract foreign direct investment provide different framework references and use different methodologies to carry out their assessment (see Sect. 7.2). That is the main reason why their findings are inconclusive and there are dividing views on this topic.

General consensus is that an overall attractive investment climate will have a greater impact on investors' decision than beneficial tax incentives on their own. The persuasiveness of the tax incentive will depend on its design and implementation, coupled with the general tax system in the country and other factors including political and fiscal stability and developed infrastructure.

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