REIS Programme Supports Major Milestones in SADC Tax Cooperation

The Regional Economic Integration Support (REIS) Programme organised a Seminar on Tax Incentives on January 19-21, 2015 in Gaborone, Botswana. The seminar's four main objectives were; for Member States to update each other on the tax incentives currently offered in each Member State; to review the final draft SADC Tax Incentives Guidelines; for the SADC Investment Sub-committee to present its work on development of a SADC Investment Policy Framework (IPF) that includes tax incentives as one of its four Pillars; and for Member States to consider a proposal for an assignment to develop a SADC tax expenditure model for estimating the revenue cost of tax incentives offered.

Following the Seminar's success in achieving its objectives, the Tax Incentives Guidelines will now be referred to the SADC Tax Subcommittee en-route to adoption by the SADC Ministers of Finance and Investment later this year. The Seminar also mandated the proposed tax expenditure model assignment to proceed and agreed a way forward to ensure ongoing interaction between tax and investment stakeholders especially with regard to the IPF.

Tax incentives are commonly used by countries to attract investment and achieve other aims that are of interest both to tax administrations and investment promotion bodies. There are many different kinds of tax incentives but common examples include "tax holidays" whereby a business would not have to pay any tax for a set period or special zones where selected business activities are exempted from all taxes and duties.

Whilst tax incentives can create benefits such as attracting new investment into a country, they also carry costs in terms of tax revenue foregone and also risk abuse and fuelling corruption. A major risk is that a tax incentive may be given to businesses that would have invested anyway, in which case tax revenue is foregone unnecessarily.

For developing economies such as those in the SADC region, effective sustainable domestic tax revenue collections are vital for investment in infrastructure and social programmes; and also to provide independence from donor support and as such tax revenues need to be protected.

In addition to the risks posed to individual countries, tax incentives can also lead to challenges with regard to other countries by what is termed "harmful tax competition". This is where a country, by offering tax incentives may "poach" businesses from other countries, with the end result that both countries lose out on their tax revenues. This can create a cycle where countries offer ever more beneficial tax incentives in competition with each other to secure investment that is sometimes called a "race to the bottom".

As a regional grouping committed to mutual growth, it is vital that Member States do not get involved in harmful tax competition or a race to the bottom that would damage both the Member States' and the regional tax base. But nonetheless, Member States are determined to encourage investment into the region as a vital contributor to development and tax incentives can play a part in that.

This is a challenging balance to maintain and recognising this SADC Protocol on Finance and Investment (FIP) provides guidance for investment promotion (in Annex 1) and tax cooperation (in Annex 3). The FIP is clear in committing Member States to make SADC an investment friendly region and also to avoid harmful tax competition with each other through tax incentives. Annex 3 of the FIP also commits Member States to develop Guidelines to ensure the appropriate application of tax incentives in the Region and to develop tools for measuring the costs and benefits of tax incentives.

Finalising the SADC Tax Incentives Guidelines was a special milestone in that work on the Guidelines has been ongoing for more than three years.

The REIS Programme provided funding support to ensure that the main stakeholders were able to participate, i.e. officials from tax policy, revenue administration and investment promotion, from each Member State.

The importance that Member States attach to this topic was illustrated by the fact that there was 100% participation.