

# TAX COMPETITION AND DEVELOPING COUNTRIES

Michael Keen

IMF

(very preliminary!)

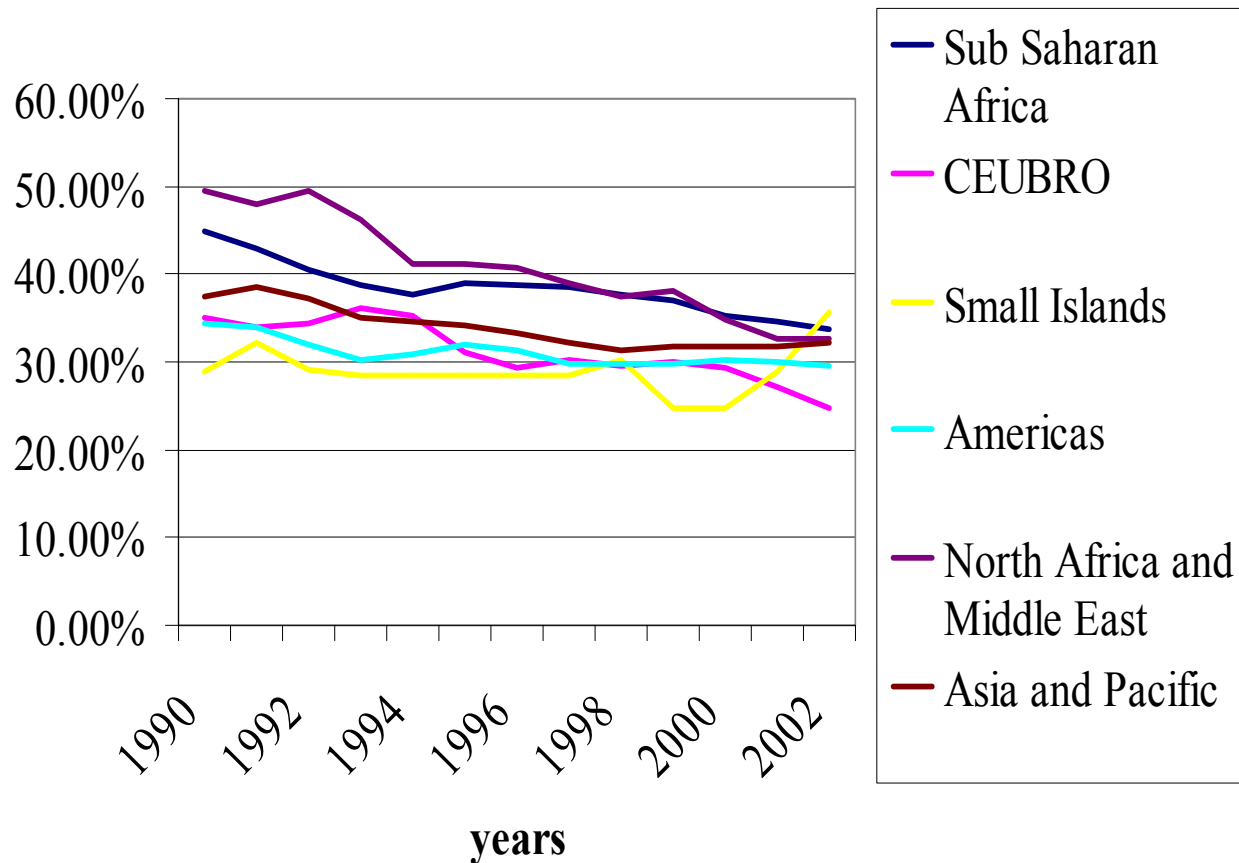
Stylized facts for OECD countries are well known:

- Statutory CIT rates have fallen markedly, but...
- CIT revenues (as percent of GDP) have been broadly stable

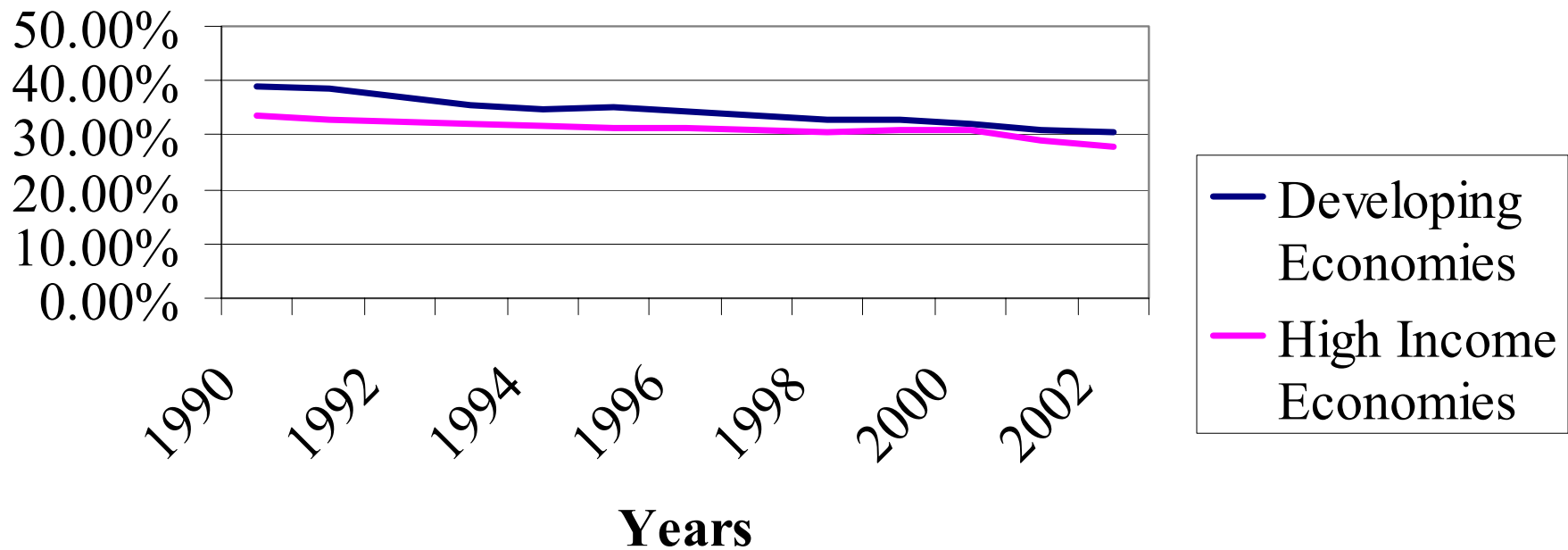
So: **Reform has been rate-reducing but base-broadening**

# What about developing countries?

**Statutory Rates of Corporation Tax in Developing Economies, by Region**



# Average Statutory Corporate Tax Rates in the 90's



## Corporate tax revenues over the 1990s, in percent of GDP (tax revenue)

	1990/91	2000/01
Low income countries	2.6 (17.6)	2.0 (14.0)
Lower middle income	2.9 (17.5)	2.3 (12.5)
Upper middle income	3.3 (15.2)	2.5 (11.6)
Developed	1.9 (7.0)	2.6 (9.7)

## Corporate tax revenues in developing countries, by region

	1990/91	2000/01
Americas	1.2 (8.3)	1.8 (11.3)
Sub-Saharan	2.0 (12.4)	1.6 (9.8)
CBRO	4.8 (17.6)	1.8 (7.2)
North Africa and middle east	3.1 (20.6)	3.2 (18.6)
Asia and Pacific	3.4 (24.8)	3.0 (23.1)
Small islands	3.3 (12.8)	3.8 (16.3)

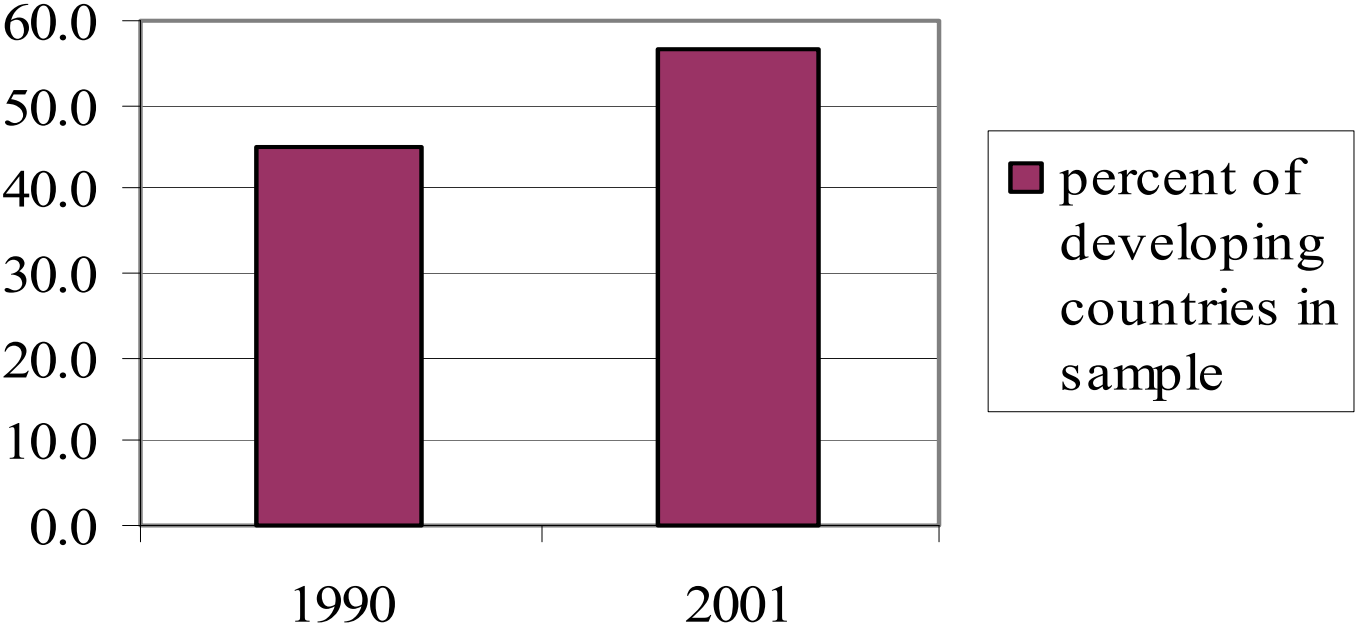
## Corporate tax base, in percent of GDP

	1990/91	2000/01
Low income	7.82	6.6
Lower middle income	8.6	7.0
Upper middle income	8.7	8.3
developed	5.4	8.7

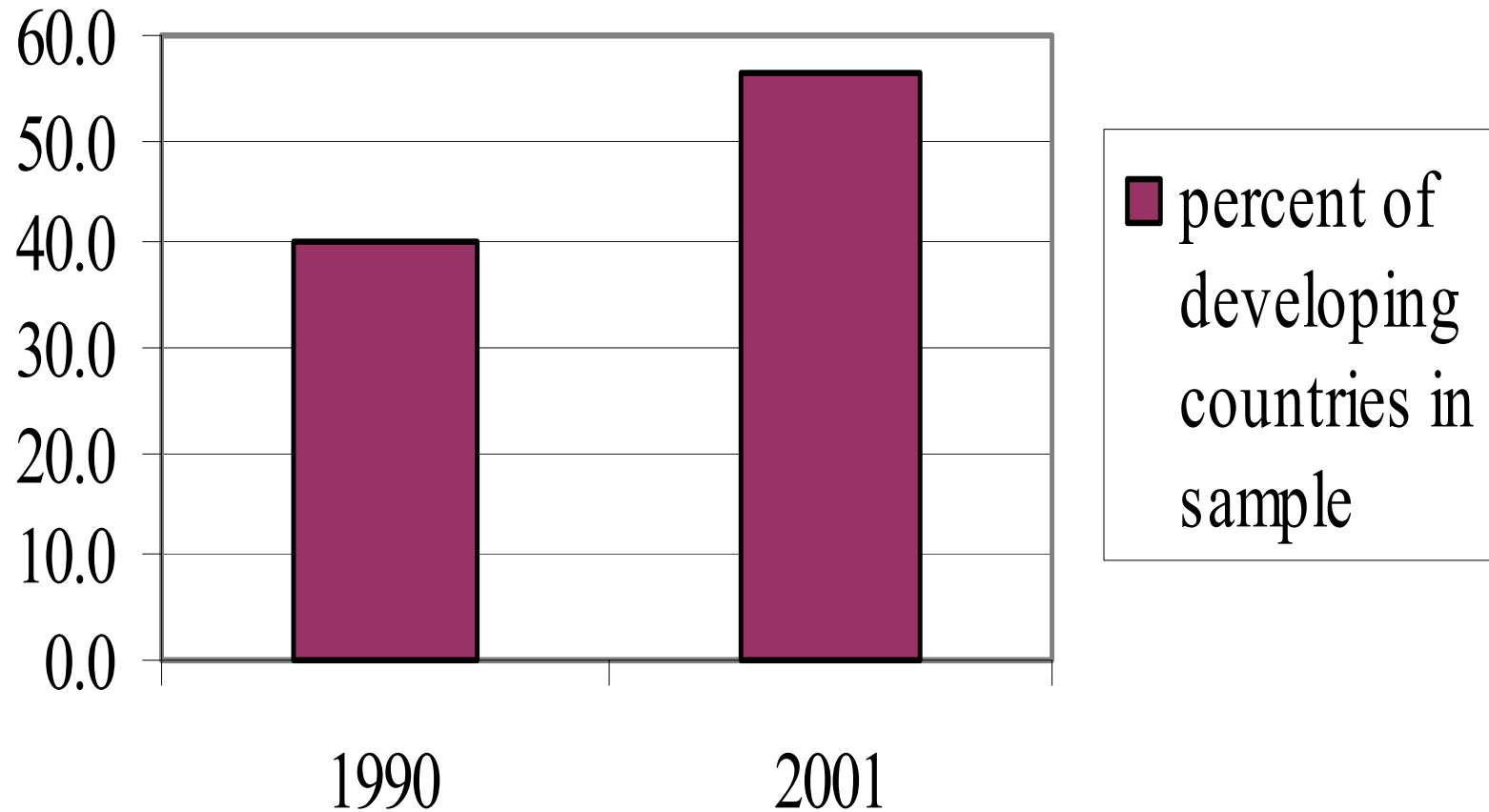
**So, in some of poorest countries, revenue effect of reduced CIT rate has been amplified by reduction of base**

—how come?

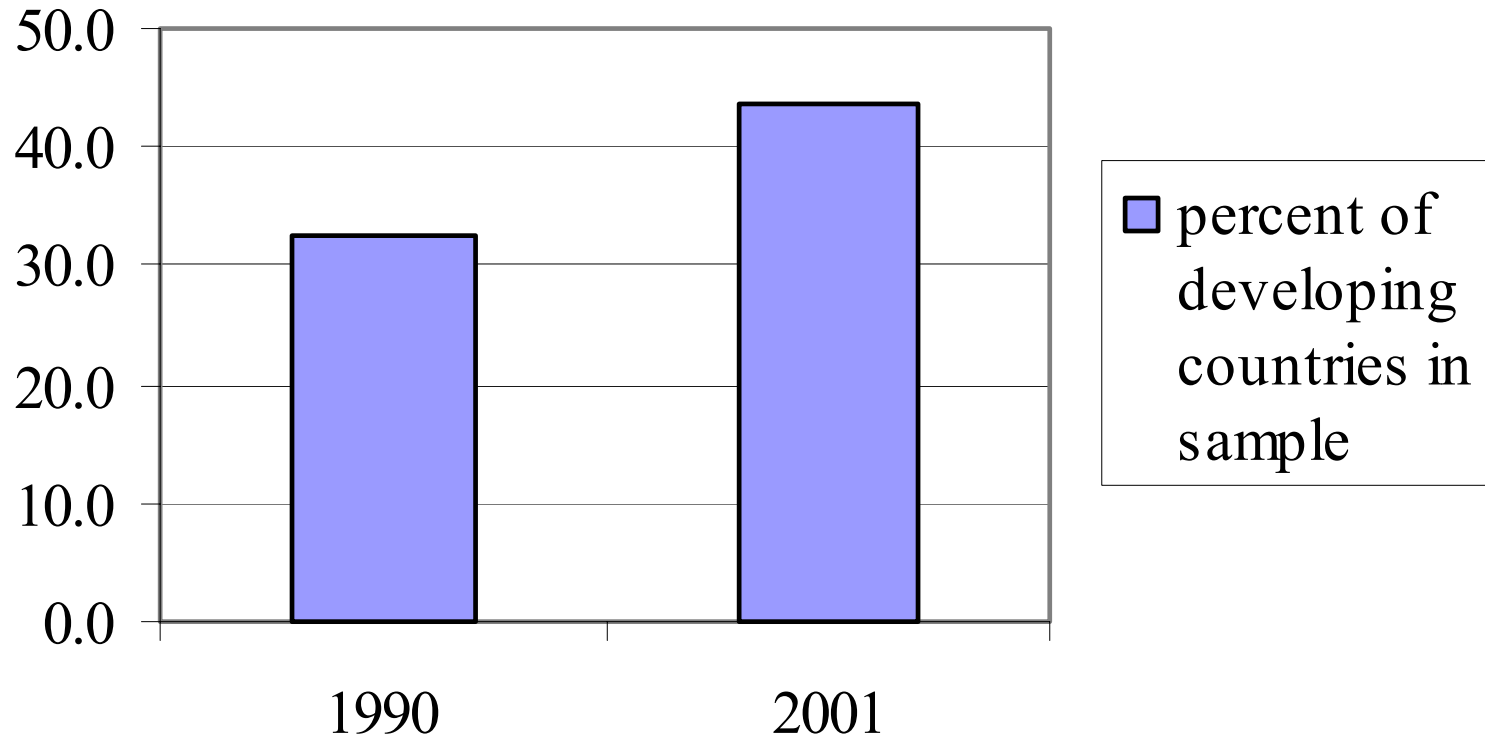
# Tax Holidays



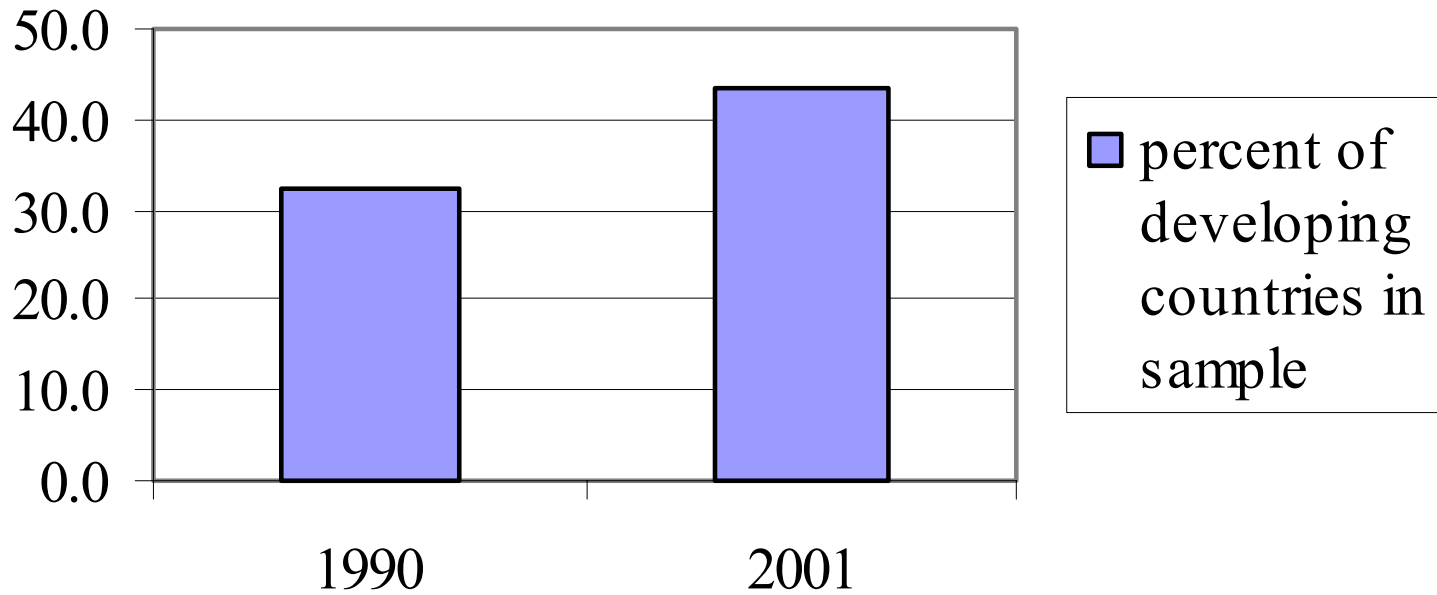
# Reduced Corporate Rates



# Tax Breaks for Exporters



## Free Trade Zones



## Tax holiday transitions, Americas

1990	2001	
	Yes	No
Yes	0	4
No	2	9

## Issues:

- **Why** these differing patterns of tax competition between developed and developing countries?

- Is the decline of the CIT in developing countries to be regretted or welcomed?
- Zero source-based METR efficient in small economies open to capital
- Usual trade-off between discipline of wasteful corrupt governments and protecting valuable public spending—but certainly thrust of policy advice usually to strengthen tax base

➤ Developing countries have been heavily reliant on CIT revenues—often an easy tax handle, with payments highly concentrated amongst a few firms....

....so, at a time when another convenient tax handle—custom revenue—is under pressure, international tax competition may add a further twist of the fiscal knife

- What is to be done?