



ROLE OF TAX INCENTIVES


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OUT LINE

- Some facts about tax incentives
 - Aspects of tax incentives
 - Comparing different forms of tax incentives
 - Review of evidence on the effectiveness of incentives
 - Pakistan case study
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FACTS

- Use of tax incentives are wide spread in both developed and developing countries
 - Evidence on the effectiveness of tax incentives is very mixed
 - Tax incentives are not going away
 - Not all tax incentives are like in their economic impact. Attention must be paid to their proper design
 - Harmful effect is not their revenue loss but the corruption they engender in developing countries
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ASPECTS

IF INVESTMENT (Domestic or Foreign)IS THE OBJECTIVE THEN

- Tax related factors- features of the tax system
 - Non tax related factors- macroeconomic, microeconomic/structural
 - Non economic factors-legal, regulatory, political economy
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COMPARISON OF DIFFERENT FORMS OF TAX INCENTIVES

- Marginal effective tax rates (METR)
 - Direct tax incentives
 - CIT rate incentives
 - CIT holidays
 - Investment allowances/credits
 - Accelerated depreciation
 - Investment subsidies
 - Indirect tax incentives
 - Tariff and VAT exemption
 - Export Processing Zones
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EMPIRICAL EVIDENCE

Factors above tax considerations

- Political and Economic stability
 - Infrastructure of most country
 - Size of market of host country
 - Ease of profit repatriation
 - Governance
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PAKISTAN CASE STUDY

- Export Processing Zone
 - Industrial Estates
 - Technology Park
 - SEZ
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