

## Key Corporate Tax Haven Indicators

### Haven Indicator 6:

#### Tax Holidays and Economic Zones

##### What is measured?

This indicator measures whether and to what extent time-bound or geographically confined tax incentives are available in a jurisdiction. This includes temporary tax holidays, partial exemptions on corporate income tax (CIT) and capital gains tax (CGT), and special tax incentives (temporary or permanent) given to companies located in designated economic zones.

An economic zone is commonly defined as a delimited area that is physically secured and has a single administration, separate customs area and streamlined procedures<sup>1</sup>. The term 'zone' in this indicator includes free trade zones, economic development zones, export-processing zones, free ports, international trade zones, enterprise zones, high-tech zones, specified economically-depressed urban and suburban zones, regionally assisted areas, industrial, science and innovation parks, and others.

A key distinction must be drawn between different types of geographical delimitation for income tax reduction within a jurisdiction:

- a) On the one hand, certain jurisdictions maintain a local component of corporate taxation. In those cases, the income tax liability of a corporation is determined at both central and regional levels.<sup>2</sup> These regimes are assessed in [Haven Indicator 1](#) on the lowest available corporate income tax (CIT) where the "weakest link" principle is followed.
- b) On the other hand, some jurisdictions determine a different CIT regime for specific territories, regions, or zones. In these cases, the territory or region may have a varying degree of authority to unilaterally change its fiscal regime. Central authorities can allow a certain degree of fiscal autonomy, always within the legal framework mandated by central institutions. In this indicator, we consider such special tax regimes as applicable to "Economic Zones".<sup>3</sup>

Importantly, only tax exemptions considered "profits-based" are penalised by this indicator. Profit-based exemptions are applicable to a tax resident company merely because the company is engaged in a specific for-profit activity. Conversely, "cost-based" exemptions are tax reductions available

on the condition that the company undertakes additional expenses, such as hiring additional employees, or investing in fixed assets or research and development.

Tax exemptions that are given to corporations for added expenditure in the economy (cost-based) are not penalised. However, if a nominal amount of additional invested funds triggers a tax exemption, and there is no actual requirement for the company to expense these funds in fixed assets or to incur specific costs, then the exemption is considered profits-based (i.e. not cost-based) and penalised in Haven Indicators [5](#) and [6](#).

In other words, we analyse situations where companies engaging in a specific activity are accorded a tax rate that is lower than the headline rate<sup>4</sup> (applicable by default to any economic activity), without being subject to cost/expenditure requirements. If the lower rate is zero, we consider the exemption “full”, and otherwise, the lower rate will constitute a “partial” exemption.

For the assessment of tax holidays, which are tax exemptions that are limited in time, we use a 10-year threshold to establish a consistent distinction between regimes that are temporary, and regimes deemed permanent because of their very long application period. The basis for this distinction is that tax reductions that are awarded for more than 10 years may effectively apply during the entire period of economic engagement of a corporation, and thus be largely equivalent to a broad, permanent exemption accorded to companies engaging in a specific activity or zone.

Consequently, where a geographically delimited tax exemption applies for more than 10 years, we consider that it is a permanent tax exemption applicable in a specific economic zone.<sup>5</sup> Also, where a broadly applicable exemption applies for more than 10 years and over the jurisdiction’s entire territory, we consider that the regime is a broad, permanent tax exemption, which is covered in [Haven Indicator 5](#).<sup>6</sup>

In relation to a time limit for the applicability of a tax exemption, we only consider time limits as they are intended when the tax incentive is enacted. Thus, if a tax incentive is amended or abolished, but continues to be applicable through grandfathering provisions until 2021 or a later year, we consider that the tax incentive is still applicable. If such a tax incentive was intended to be applicable for 10 years or less, it will qualify as ‘temporary’. If the tax incentive was intended to be permanent, it will be considered ‘permanent’, although its applicability might end in or after 2021. Any tax regimes effectively abolished or amended in 2021 will be considered for the Corporate Tax Haven Index 2021 assessments.

The haven score is computed as explained in Table 6.1 below. In cases where the haven score would have exceeded 100 because countries offer more tax holidays or economic zone exemptions, the score is cut at 100.

**Table 6.1: Scoring Matrix Haven Indicator 6**

<b>Regulation</b> [Each jurisdiction's score starts at 0, and for each profits-based exemption found, a specific credit is added (either 25 or 12.5) according to the type of exemption applicable, up to a maximum of 100.]		<b>Haven Score</b> [100 = maximum risk; 0 = minimum risk]	
		Type of Exemption	
		Full	Partial
Temporary	<b><u>Non-Economic Zone</u></b> Income is exempt from CIT and/or CGT for a specific period, usually some years, but is not restricted to a particular geographical location.	+ 25	+ 12.5
	<b><u>Economic Zone (EZ)</u></b> Income generated by companies established in a specific geographical area is exempt from CIT and/or CGT for a limited number of years (up to 10).	+ 25	+ 12.5
Permanent	<b><u>Economic Zone (EZ)</u></b> Income generated by companies established in a specific geographical area is from CIT and/or CGT, and this exemption is either permanent, or applicable for more than 10 years.	+ 25	+ 12.5

All underlying data can be accessed freely in the CTHI [database](#)<sup>7</sup>. To see the sources we are using for particular jurisdictions please consult the assessment logic in Table 6.3 and search for the corresponding info IDs (IDs 501-504, 539 and 540) in the database report of the respective jurisdiction.

The data for this indicator was sourced from the International Bureau of Fiscal Documentation (IBFD) database<sup>8</sup>, websites of the big four accounting firms, government designated websites including those of the ministries of finance, the tax authorities and investment agencies.<sup>9</sup>

### Why is this important?

Tax holidays and geographically-confined tax incentives are usually used to encourage foreign direct investment and to foster the creation of new activities and jobs in designated sectors. Yet, there is no assurance that such policy measures will meet governments' expectations. In fact, these incentives often generate large revenue losses and administrative and welfare costs for government.<sup>10</sup>

Tax expenditures are usually defined as a reduction in tax liability and may take different forms and include exemptions, allowances tax relief,

tax deferral and credits.<sup>11</sup> Compared with outlay expenditures (ie direct costs made to support publicly financed institutions and services), tax expenditures are often subject to less public scrutiny and government control.<sup>12</sup> As a result, governments tend to use tax expenditures rather than outlay expenditures to implement policies in their interest. Countries may also prefer tax expenditures over direct spending to show a low tax-to-GDP ratio relative to their peers.<sup>13</sup> The International Monetary Fund (IMF) thus recommends governments to identify, measure and report on the cost of tax expenditures in a way that enables comparison with outlay expenditures and ensure accountability<sup>14</sup>.

Time-bound tax incentives have the tendency to attract footloose investments, mostly profitable during the tax holiday period. Indeed, they can induce rent-seeking behaviour including tax avoidance with round-tripping when existing companies use sophisticated techniques to reinvest their capital in creating a new company just to benefit from the tax holiday.<sup>15</sup> For example, if tax incentives are only granted to new companies, foreign entities will attempt to register new companies for already established operations in order to take advantage of those incentives. In some sectors, eg mining, time-bound tax incentives can be particularly harmful as they may cause a high grading of reserves.<sup>16</sup>

The objectives of geographically-confined tax incentives are usually to attract foreign direct investments, develop disfavoured/rural regions or certain sectors (eg manufacturing), increase government revenues, encourage skills upgrading, technology transfer, innovation and improve the productivity of domestic enterprises.<sup>17</sup> However, research shows that tax incentives are often ineffective in attracting foreign direct investment, especially in developing countries.<sup>18</sup> Investment climate surveys for low-income countries show that tax incentives are not as decisive for investors compared with good infrastructure, educated human resources, the rule of law, macroeconomic stability and other conditions. This may be one of the reasons why the IMF has recently been advising developing countries to phase out tax holidays as they open doors to leakages and corruption.<sup>19</sup> Evidence also suggests that providing geographically-confined tax incentives impose pressure on policymakers to provide the same benefits to other geographic areas, increasing revenue loss and social distortions.<sup>20</sup>

Furthermore, tax incentives confined in economic zones – e.g. free trade zones or freeports – can create opportunities for money laundering and tax evasion. This is because free trade zones tend to be vulnerable for abuse from illicit actors due to their weak enforcement of financial regulations, lack of transparency and inadequate customs control.<sup>21</sup> These zones are often used for the transshipment of goods without the adequate export control, to hide profits and reduce tax payments, or for the creation of legal entities to launder illicit proceeds.<sup>22</sup> The Financial Action

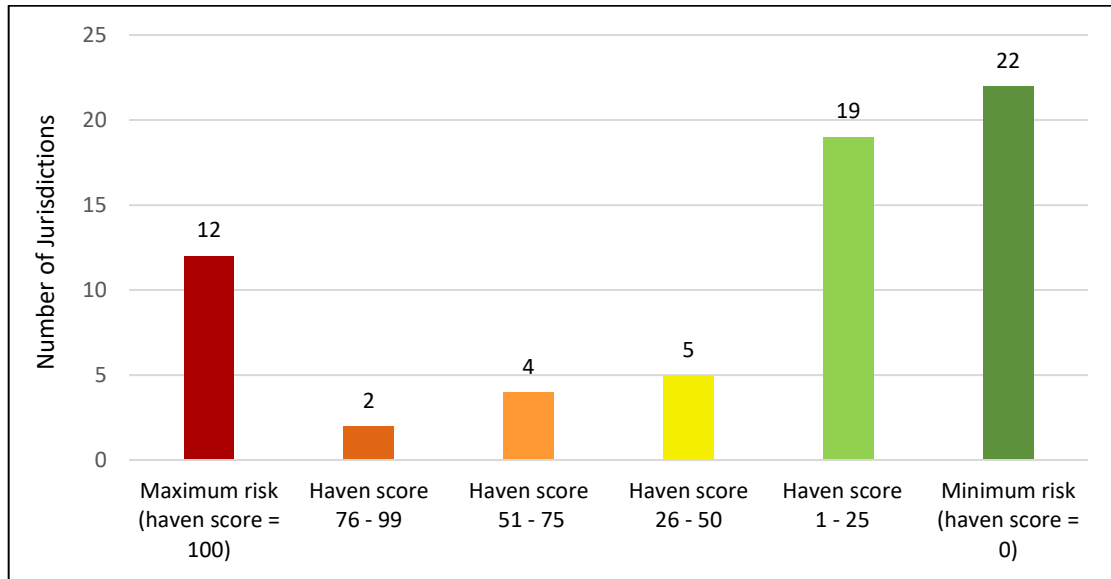
Task Force (FATF) reports cases where free trade zones are used for the laundering of drug trafficking proceeds, or to shift profit abroad while abusing transfer pricing strategies by multinational companies.<sup>23</sup>

However, despite the high risks and challenges mentioned above and the significant fall in corporate income taxes throughout the last decades, the use of tax holidays and “special” economic zones continues to rise.<sup>24, 25</sup>

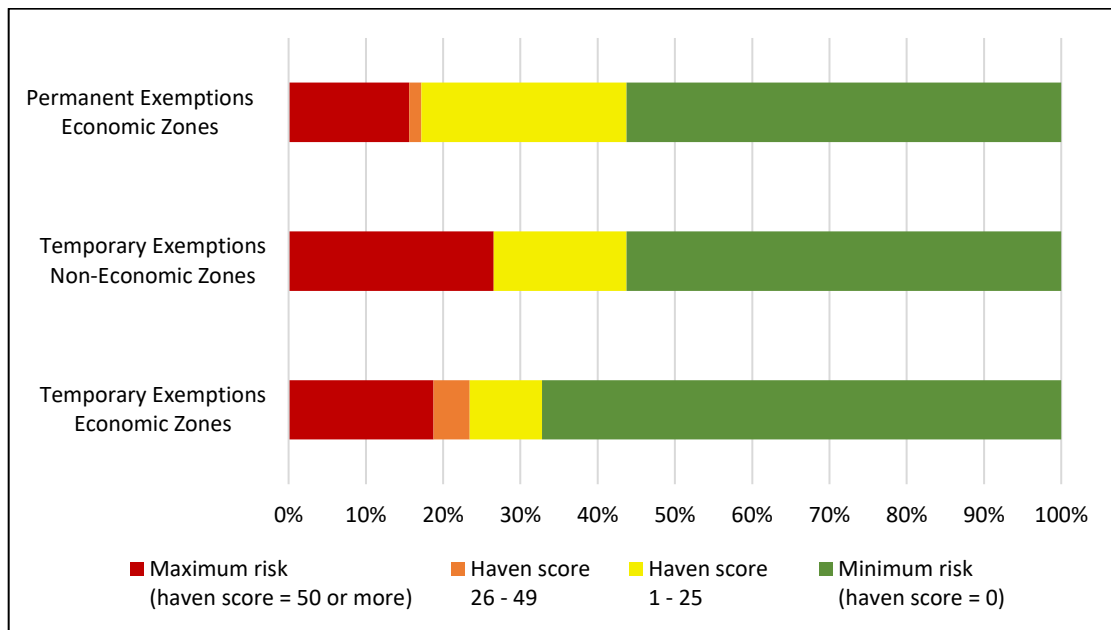
# Haven Indicator 6: Tax Holidays and Economic Zones

## Results Overview

**Graph 6.1: Tax Holidays and Economic Zones Overview**



**Graph 6.2: Exemptions in Economic and Non-Economic Zones**



# Haven Indicator 6: Tax Holidays and Economic Zones

## Results Detail

**Table 6.2: Tax Holidays and Economic Zones – Haven Indicator Scores**

ISO	Country Name	Final Score	Temporary Exemptions Economic Zones	Temporary Exemptions Non-Economic Zones	Permanent Exemptions Economic Zones
AD	Andorra	0.0	0.0	0.0	0.0
AI	Anguilla	100.0	N/A	N/A	N/A
AW	Aruba	12.5	0.0	0.0	12.5
AT	Austria	0.0	0.0	0.0	0.0
BS	Bahamas	100.0	N/A	N/A	N/A
BE	Belgium	0.0	0.0	0.0	0.0
BM	Bermuda	100.0	N/A	N/A	N/A
BW	Botswana	12.5	0.0	0.0	12.5
VG	British Virgin Islands	100.0	N/A	N/A	N/A
BG	Bulgaria	0.0	0.0	0.0	0.0
KY	Cayman Islands	100.0	N/A	N/A	N/A
CN	China	100.0	75.0	100.0	12.5
HR	Croatia	25.0	0.0	0.0	25.0
CW	Curacao	12.5	0.0	0.0	12.5
CY	Cyprus	0.0	0.0	0.0	0.0
CZ	Czech Republic	0.0	0.0	0.0	0.0
DK	Denmark	0.0	0.0	0.0	0.0
EE	Estonia	0.0	0.0	0.0	0.0
FI	Finland	0.0	0.0	0.0	0.0
FR	France	100.0	37.5	87.5	0.0
GM	Gambia	37.5	25.0	12.5	0.0
DE	Germany	0.0	0.0	0.0	0.0
GH	Ghana	87.5	25.0	62.5	12.5
GI	Gibraltar	0.0	0.0	0.0	0.0
GR	Greece	0.0	0.0	0.0	0.0
GG	Guernsey	100.0	N/A	N/A	N/A
HK	Hong Kong	0.0	0.0	0.0	0.0
HU	Hungary	25.0	12.5	12.5	0.0
IE	Ireland	0.0	0.0	0.0	0.0
IM	Isle of Man	100.0	N/A	N/A	N/A
IT	Italy	0.0	0.0	0.0	0.0
JE	Jersey	100.0	N/A	N/A	N/A
KE	Kenya	75.0	50.0	25.0	0.0
LV	Latvia	12.5	0.0	0.0	12.5
LB	Lebanon	87.5	37.5	25.0	25.0
LR	Liberia	25.0	0.0	0.0	25.0
LI	Liechtenstein	0.0	0.0	0.0	0.0

# Haven Indicator 6: Tax Holidays and Economic Zones

ISO	Country Name	Final Score	Temporary Exemptions Economic Zones	Temporary Exemptions Non-Economic Zones	Permanent Exemptions Economic Zones
LT	Lithuania	37.5	37.5	0.0	0.0
LU	Luxembourg	12.5	0.0	12.5	0.0
MO	Macao	0.0	0.0	0.0	0.0
MT	Malta	12.5	0.0	12.5	0.0
MU	Mauritius	75.0	0.0	50.0	25.0
MC	Monaco	50.0	0.0	50.0	0.0
MS	Montserrat	50.0	0.0	50.0	0.0
NL	Netherlands	0.0	0.0	0.0	0.0
PA	Panama	25.0	0.0	0.0	25.0
PL	Poland	0.0	0.0	0.0	0.0
PT	Portugal (Madeira)	25.0	12.5	0.0	12.5
RO	Romania	25.0	0.0	25.0	0.0
SM	San Marino	25.0	25.0	0.0	0.0
SC	Seychelles	37.5	0.0	0.0	37.5
SG	Singapore	75.0	0.0	75.0	0.0
SK	Slovakia	0.0	0.0	0.0	0.0
SI	Slovenia	0.0	0.0	0.0	0.0
ZA	South Africa	12.5	0.0	0.0	12.5
ES	Spain	25.0	0.0	12.5	12.5
SE	Sweden	0.0	0.0	0.0	0.0
CH	Switzerland	12.5	0.0	12.5	0.0
TW	Taiwan	25.0	0.0	0.0	25.0
TZ	Tanzania	75.0	25.0	25.0	25.0
TC	Turks and Caicos Islands	100.0	N/A	N/A	N/A
AE	United Arab Emirates (Dubai)	100.0	N/A	N/A	N/A
GB	United Kingdom	12.5	0.0	0.0	12.5
US	USA	12.5	0.0	12.5	0.0

Final Score					
Maximum Risk (Haven Score 100)	Haven Score 76 - 99	Haven Score 51 - 75	Haven Score 26 - 50	Haven Score 1 - 25	Minimum Risk (Haven Score 0)
Component score					
Maximum Risk (Haven Score 50 or more)	Haven score 26-49		Haven Score 1-25		Minimum Risk (Haven Score 0)



# Haven Indicator 6: Tax Holidays and Economic Zones

**Table 6.3. Assessment Logic**

<b>Info_ID</b>	<b>Text_Info_ID</b>	<b>Answers</b> (Codes applicable for all questions: - 2: Unknown; - 3: Not Applicable)	<b>Valuation Haven Score</b>
<b>501</b>	EZ-Temporary-Partial: How many temporary (tax holidays) and partial tax exemptions are offered by the jurisdiction to companies established in economic zones or non-autonomous regions?	Number of Tax Holidays and Tax Exemptions (NTHTE)	ID501*12.5
<b>502</b>	EZ-Temporary-Full: How many temporary (tax holidays) and full tax exemptions are offered by the jurisdiction to companies established in economic zones or non-autonomous regions?	NTHTE	ID502*25
<b>503</b>	EZ-Permanent-Partial: How many permanent and partial tax exemptions are offered by the jurisdiction to companies established in economic zones or non-autonomous regions?	Number of Tax Exemptions (NTE)	ID503*12.5
<b>504</b>	EZ-Permanent-Full: How many permanent and full tax exemptions are offered by the jurisdiction to companies established in economic zones or non-autonomous regions?	NTE	ID504*25
<b>539</b>	NonEZ-Temporary-Partial: How many temporary (tax holidays) and partial tax exemptions are offered to companies established anywhere in the jurisdiction (except in economic zones or non-autonomous regions)?	NTHTE	ID539*12.5
<b>540</b>	NonEZ-Temporary-Full: How many temporary (tax holidays) and full tax exemptions are offered to companies established anywhere in the jurisdiction	NTHTE	ID540*25

	(except in economic zones or non-autonomous regions)?		
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<sup>1</sup> Kishore Rao et al., 'Special Economic Zones Performance, Lessons Learned, and Implications for Zone Development' (2008) <<http://documents.worldbank.org/curated/en/343901468330977533/pdf/458690WP0Box331s0April200801PUBLIC1.pdf>> [accessed 9 May 2018].

<sup>2</sup> For example, in the United States, Switzerland, Portugal and Germany, corporate income tax has two components: central and local/regional. In Switzerland, for instance, a company's income tax liability is the combination of the federal tax liability and the income tax at the level of the Canton. The fact that corporate income tax is lower in one Canton in comparison to another Canton will not be treated as if the former was a tax-favoured economic zone. For further information, see OECD, 'Table II.3. Sub-Central Corporate Income Tax Rates'

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<[https://stats.oecd.org/index.aspx?DataSetCode=TABLE\\_II3](https://stats.oecd.org/index.aspx?DataSetCode=TABLE_II3)> [accessed 4 April 2019].

<sup>3</sup> In the UK, for instance, the Parliament devolved the power to set the corporate income tax rate to the Northern Ireland Assembly [in 2015](#); regional authorities have decided that a reduced 12.5% rate will apply from April 2018, see: A.M. Bal, United Kingdom - Corporate Taxation sec. 1., Country Analyses IBFD (accessed 1.5.2019), URL: [https://research.ibfd.org/#/doc?url=/document/cta\\_uk\\_s\\_1](https://research.ibfd.org/#/doc?url=/document/cta_uk_s_1). In Spain, companies established in its African enclaves Ceuta and Melilla benefit from a 50% tax exemption on income from operations in these territories, see: Á. de la Cueva González-Cotera & D. Jiménez Real, Spain - Corporate Taxation sec. 1., Country Analyses IBFD, URL: [https://research.ibfd.org/#/doc?url=/document/cta\\_es\\_s\\_1](https://research.ibfd.org/#/doc?url=/document/cta_es_s_1). Closer to the traditional understanding of an Economic Zone, companies licensed to operate in the Seychelles' "International Trade Zone" are considered tax exempt entities, see M. Jivan & L.G. Ogazón Juárez, Seychelles - Corporate Taxation sec. 1., Country Surveys IBFD, URL: [https://research.ibfd.org/#/doc?url=/document/qtha\\_sc\\_s\\_1](https://research.ibfd.org/#/doc?url=/document/qtha_sc_s_1).

<sup>4</sup> By "headline rate" we refer to the lowest available CIT rate applicable to any sector or activity that is not subject to a special rate under the law. This rate is taken into account in [Haven Indicator 1](#), usually taking the statutory rate provided by the OECD, and in some cases applying technical corrections and adjustments to reach the lowest available corporate income tax rate for any large for-profit company, as explained in the haven indicator.

<sup>5</sup> For example, in Tanzania, "investors investing in Free Zones are granted [...] exemption from payment of corporate income tax for the first 20 years." (Tanzania Revenue Authority, 'What are Tax Incentives under the Zanzibar Investment Promotion and Protection Act, 2004?' <<http://www.tra.go.tz/index.php/103-tax-incentives/170-what-are-tax-incentives-under-the-zanzibar-investment-promotion-and-protection-act-2004>> [accessed 4 April 2019].)

<sup>6</sup> For example, Singapore's Pioneer regime accords full tax exemptions for qualifying companies engaged in a broad range of services activities, and the exemption may be granted for a period of up to 15 years, see T. Toryanik, Singapore - Corporate Taxation sec. 1., Country Analyses IBFD, URL: [https://research.ibfd.org/#/doc?url=/document/cta\\_sg\\_s\\_1](https://research.ibfd.org/#/doc?url=/document/cta_sg_s_1).

<sup>7</sup> <http://www.corporatetaxhavenindex.org/database/menu.xml>

<sup>8</sup> IBFD, *Tax Research Platform: Country Surveys, Country Analyses, Country Key Features*, Accessed 2018-2019, 2018 <<https://research.ibfd.org/>> [accessed 9 May 2019].

<sup>9</sup> For more details about robustness of the data and sources, see: Markus Meinzer and others, *Comparing Tax Incentives across Jurisdictions: A Pilot Study*, 2019, 43 <[https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions\\_Tax-Justice-Network\\_2019.pdf](https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions_Tax-Justice-Network_2019.pdf)> [accessed 3 July 2019].

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<sup>11</sup> Christopher Heady and Mario Mansour, *Tax Expenditure Reporting and Its Use in Fiscal Management: A Guide for Developing Economies* (2019), 7 <<https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2019/03/27/Tax-Expenditure-Reporting-and-Its-Use-in-Fiscal-Management-A-Guide-for-Developing-Economies-46676>> [accessed 26 May 2019].

<sup>12</sup> Christopher Heady and Mario Mansour, *Tax Expenditure Reporting and Its Use in Fiscal Management*, 1.

<sup>13</sup> Christopher Heady and Mario Mansour, *Tax Expenditure Reporting and Its Use in Fiscal Management*, 2.

<sup>14</sup> Christopher Heady and Mario Mansour, *Tax Expenditure Reporting and Its Use in Fiscal Management*, 1.Ibid.

<sup>15</sup> OECD, *Implementing the Latest International Standards for Compiling Foreign Direct Investment Statistics. FDI Statistics by the Ultimate Investing Country*, 2015 <<https://www.oecd.org/daf/inv/FDI-statistics-by-ultimate-investing-country.pdf>> [accessed 6 June 2018].

<sup>16</sup> High grading is when the best grade resources (which will bring the highest return to the company) are extracted first to take advantage of prices or tax incentives and where the remaining material may no longer be economic to extract.

<sup>17</sup> Douglas Zhihua Zeng, 'Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters' (2010) <<https://openknowledge.worldbank.org/bitstream/handle/10986/2501/564470PU B0buil10Box349496B01PUBLIC1.pdf?sequence=1&isAllowed=y>>.

<sup>18</sup> 'Empirical Evidence on the Effects of Tax Incentives', *IMF* <<https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Empirical-Evidenceon-the-Effects-of-Tax-Incentives-23053>> [accessed 16 December 2018].

<sup>19</sup> The Punch, *IMF wants Nigeria to stop tax holidays* available at <https://punchng.com/imf-wants-nigeria-to-stop-tax-holidays/> accessed 19/11/2018

<sup>20</sup> 'Revenue Mobilization in Sub-Saharan Africa : Challenges from Globalization', *IMF* <<https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Revenue-Mobilization-in-Sub-Saharan-Africa-Challenges-from-Globalization-23124>> [accessed 16 December 2018].

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<sup>24</sup> Saila Naomi Stausholm, 'Rise of Ineffective Incentives: New Empirical Evidence on Tax Holidays in Developing Countries', *SocArXiv*, 2017 <<https://osf.io/preprints/socarxiv/4sn3k/>> [accessed 10 October 2018].

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