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Tax Competition and Harmonization in Southeast Asia

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Abstract

Policy makers in the Southeast Asian region are faced with many challenges in national policy taxation from globalization, in particular the increasing cross-border mobility of capital. One of the challenges is the competition to attract a mobile capital base which leads to a trend towards declining statutory corporate taxation rates and a pressure to harmonize taxation policy. This study explores taxation literature and uses empirical evidence from the period of 1996-2006 to examine tax competition and tax harmonization in the region.

The study seeks evidence for the existence of tax competition by analyzing recent trends in two groups of measures of taxation: tax rates and tax revenues. This begins with looking at the trends of statutory corporate tax rate. Evidence is found for a decline in statutory corporate tax rates, developments commensurate with the existence of tax competition. On the contrary, the tax revenue data presented here, show that the expected decline in total tax revenues has not occurred; indeed, a significant increase has been recorded. It is also supported by empirical evidence of the ratio of corporate tax revenue either relative to GDP or to total tax revenue. The strengthening of these revenues has meant that the expected shift in the tax burden away from mobile to immobile factors has also failed to materialize. The two groups of measures of taxation thus provide apparently inconsistent views of the impact of tax competition.

There follows an analysis of the elements of tax competition according to literature, in an attempt to draw out its implications for the experience within the Southeast Asian region. This study also examines the case for tax harmonisation and the Southeast Asian experience and it is concluded that the progress of tax harmonisation between countries has tended to be difficult to achieve because of the differences among the countries in terms of the tax structures and level of economies.
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# Table of Contents

Cover ........................................................................................................... i  
Abstract ...................................................................................................... ii  
Acknowledgements .................................................................................. iii  

Table of contents ........................................................................................ iv  
List of Tables ............................................................................................... vi  
List of Figure ............................................................................................... vii  

**Chapter One**  
**Introduction** ..................................................................................... 1  
1.1 Background ......................................................................................... 1  
1.2 Study Objective .................................................................................... 2  
1.3 Scope of the Study ............................................................................... 2  
1.4 Importance of The Study .................................................................... 2  
1.5 Structure ............................................................................................... 3  

**Chapter Two**  
**Literature Review** ............................................................................... 4  
2.1 Defining Tax Competition ................................................................... 4  
2.2 Consequences of Tax Competition .................................................... 5  
2.3 Harmful Tax Competition .................................................................. 6  
2.4 Tax Harmonization Theory .................................................................. 7  
2.5 Tax Harmonization Scale ..................................................................... 8  
2.6 Previous Study ..................................................................................... 9  
2.7 Measurement ....................................................................................... 11  
  2.7.1 Measuring Tax Rate ...................................................................... 11  
  2.7.2 Measuring Tax Revenue ............................................................... 11  
  2.7.3 Shifting of Tax Burden ................................................................. 12  

**Chapter Three**  
**Methodology Research** ..................................................................... 13  
3.1 Methodology ....................................................................................... 13  
3.2 Method ............................................................................................... 14  
3.3 Collecting the Data ............................................................................. 15  

**Chapter Four**  
**Empirical Evidence** .......................................................................... 18  
4.1 Tax Rates ........................................................................................... 18  
4.2 Tax Burden ......................................................................................... 20  
4.2.1 Total Tax Revenue ........................................................................ 21  
4.2.2 Discussion ...................................................................................... 22  
4.3 Immobile Tax Burden ......................................................................... 26  
4.3.1 Personal Income Tax Revenue ...................................................... 26  
4.3.2 VAT/GST ....................................................................................... 27  
4.3.3 Discussion’ .................................................................................... 29  

**Chapter Five**  
**Elements of Tax Competition** ............................................................ 30  
5.1 Taxation for Companies ...................................................................... 30  
5.2 Taxation for Individuals ..................................................................... 31
5.3 Tax Haven ................................................................. 33
5.4 Preferential Tax Regime .............................................. 34
5.5 Tax Incentives Competition ........................................ 35
  5.5.1 What is Tax Incentives? ........................................ 38
  5.5.2 The Case of Southeast Asia ..................................... 38
  5.5.3 Tax Holiday .......................................................... 41
  5.5.4 Competition for Headquarters ................................. 41
  5.5.5 Competition for High Technology ......................... 42

Chapter Six  Tax Harmonisation In Southeast Asia .......... 43
  6.1 Explicit and Implicit Tax Harmonization ..................... 43
  6.2 Velayos Scale of Tax Harmonization ......................... 44
  6.2.1 Convergence ......................................................... 45
  6.2.2 Cooperation .......................................................... 48
  6.2.3 Coordination .......................................................... 50
  6.2.4 Compatibility .......................................................... 51
  6.2.5 Standardization ....................................................... 51
  6.3 Development of VAT ................................................. 52
  6.4 The role of ASEAN ...................................................... 54
  6.5 Factors Affecting Tax Harmonization ....................... 55

Chapter Seven Conclusion ............................................. 57
  7.1 Tax Competition in Southeast Asia ............................. 57
  7.2 Tax Harmonization in Southeast Asia ......................... 58
  7.3 Suggestions .............................................................. 59

References ................................................................. 61

Appendices

Appendix A : Brunei Darussalam Tax Revenue 96-2006 (Millions of $ Brunei) 74
Appendix B : Cambodia Tax Revenue 1996-2006 (Billions of Riels) 75
Appendix C : Indonesia Tax Revenue 1996-2006 (Billions of Rupiah) 76
Appendix D : Lao PDR Tax Revenue 1996-2006 (Billions of Kip) 77
Appendix E : Malaysia Tax Revenue 1996-2006 (Millions of Ringgit) 78
Appendix F : Myanmar Tax Revenue 1996-2006 (Billions of Kyat) 79
Appendix G : The Philippines Tax Revenue 1996-2006 (Billions of Peso) 80
Appendix H : Singapore Tax Revenue 1996-2006 (Billions of $ Singapore) 81
Appendix I : Thailand Tax Revenue 1996-2006 (Millions of Bath) 82
Appendix J : Vietnam Tax Revenue 1996-2006 (Trillions of Dong) 83
List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 3.1</td>
<td>Quantitative Versus Qualitative Approaches</td>
<td>13</td>
</tr>
<tr>
<td>Table 3.2</td>
<td>Government Website</td>
<td>16</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Southeast Asia Corporate Tax Rates</td>
<td>18</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Total Tax Revenue as a Share of GDP (Percent)</td>
<td>21</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Corporate Tax Revenue as a Share of GDP (Percent)</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Corporate Tax Revenue as a Share of Total Tax (Percent)</td>
<td>24</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Personal Tax Revenues as a Share of GDP (Percent)</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.6</td>
<td>Personal Tax Revenues as a Share of Total Tax (Percent)</td>
<td>27</td>
</tr>
<tr>
<td>Table 4.7</td>
<td>VAT/GST Revenues as a Share of GDP (Percent)</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.8</td>
<td>VAT/GST Revenues as a Share of Total Tax (Percent)</td>
<td>28</td>
</tr>
<tr>
<td>Table 5.1</td>
<td>Tax Incentives in Southeast Asian Countries</td>
<td>39</td>
</tr>
<tr>
<td>Table 6.1</td>
<td>Convergence/Divergence of Tax Revenue</td>
<td>45</td>
</tr>
<tr>
<td>Table 6.2</td>
<td>Transfer Pricing Policy in Southeast Asia</td>
<td>48</td>
</tr>
<tr>
<td>Table 6.3</td>
<td>Double Tax Treaty Agreement</td>
<td>50</td>
</tr>
<tr>
<td>Table 6.4</td>
<td>Indirect Taxes in Southeast Asia 2004</td>
<td>53</td>
</tr>
<tr>
<td>Table 6.5</td>
<td>Countries’s Tax Revenue 1996-2006</td>
<td>55</td>
</tr>
</tbody>
</table>
List of Figures

Figure 4.1  Statutory Tax Rate in Southeast Asia  ..................... 19
Figure 4.2  Economic Growth, Total Tax and Corporate Tax Income  25
Figure 5.1  FDI inflows to Southeast Asian countries 1996-2006
              (US$ million) .......................................................... 35
Figure 6.1  Convergence of Tax Rate ...................................... 46