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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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Chapter One
Introduction

1.1 Background

Globalization of economic activity is the most well known development in recent years (Norregaard & Khan, 2007, p.4). International markets have become increasingly integrated providing the global market with the gradual elimination of barriers to capital movements. This phenomenon, recognised as capital flight, along with the enhancement of transportation and technology gives the impetus for countries to trade goods and services at increased levels and rapidity (Araya, 2003, p. 2).

Nonetheless, globalisation may have undesirable effects. A direct consequence is the emergence of tax competition between tax jurisdictions. This stems from a widespread concern that, as governments adopt more open and market friendly policy regimes, this has stimulated competition among governments to more actively seek to attract foreign direct investment (Moriset & Pirnia, 2001, p. 72). In terms of policy instruments, this is typically taking the form of government decisions to lower tax rates which presumably enhance the attractiveness of investments within their jurisdictions and will increase the economic performance of the country (Holzinger, 2005, p. 476).

The implication of intensifying competition to attract a mobile capital base by declining corporate tax rates (Devereux, Lockwood & Redoano, 2008, p. 1211) may lead to a 'race to the bottom' of tax rates (Holzinger, p. 2005, p. 476). Furthermore, the accelerating process of globalisation of trade and investment has become the impetus for the movement of goods, services, capital and jobs across national borders. Hence, it may become difficult for tax authorities to subject these to national taxes (Dehejia & Genschel, 1999, p. 403).

Traditionally, policy makers have been choosing and issuing tax policy mainly focused on the need of their domestic economic and principally domestic effects (OECD, 1998, p. 13). Now, in an era of globalisation, economic integration and an accompanying increase in capital mobility, tax policy and administration must respond to these developments, to restructure, realign and reform their organization and practices (Adhikari, 2002, p. 46). The fear of a race to the bottom and the expectation of removing the incentive for movement of capital due to differences in tax rates are used to make a case to promote tax harmonization (Peters, 2002, p. 178).

1.2 Study Objective

The Southeast Asian region is another example of globalization, with a common market that has removed multiple barriers to trade (Lloyd & Smith, 2004, p. viii). Policymakers in Southeast Asian countries, as well as elsewhere, are struggling with the consequences of globalisation - in particular relating to the issues of tax competition and tax harmonization. This study attempts to examine the tax policy in Southeast Asian countries and identify issues regarding tax competition and harmonisation.

1.3 Scope of the Study

This study examines the experience of Southeast Asian countries relating to issues of tax competition and tax harmonization. Countries included in the Southeast Asian region have been historically classified by Clocanis and Doshi (2000, p. 52). The Southeast Asian region is usually comprised of ten countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam (Asher & Rajan, 2001, p. 135). To narrow the focus of this study, data over the time period of 1996-2006 will be used.

1.4 Importance of the study

There has been extensive academic research on the effects of globalization among governments, especially on the implications of tax competition and tax harmonisation. Some empirical efforts have also been made recently. Nevertheless, as far as the researcher is concerned the empirical study regarding the effect of tax competition and harmonisation in Southeast Asian region has been limited. Hence, the significance of the study derives from its potential to address a comprehensive conclusion about these issues.

1.5 Structure

Chapter One will cover the background, study objectives, scope of the study, importance of the study and format of this thesis report. Chapter Two will look into the theoretical background laying out conceptual issues and the working hypotheses that guide the study. Chapter Three will discuss the research methodology used for this study including methods of data collection. Chapter Four will discuss the empirical evidence related to theory of tax competition. Chapters Five and Six will deal with the main issue of whether there is tax competition or tax harmonization in the region by reviewing recent trends and analysing the development of tax policies in the last decade. Finally, Chapter Seven will summarize the conclusions.

Chapter Two
Literature Review

Before turning to a specific discussion of tax competition and tax harmonization in Southeast Asia, it is useful to first discuss several conceptual issues.

2.1 Defining Tax Competition

A considerable amount of literature has been published on tax competition. The term has been used in a wide variety of ways and can refer to many different processes. Most scholars emphasize the existence of "fiscal externalties". This view, for example, is adopted by Winner (2005, p. 669) who describes tax competition as "a situation where the fiscal activities in one jurisdiction induce fiscal externalities in other jurisdictions". The focal point of this argument lies in the idea that a country's tax policy creates externalities that have an effect on other countries. When tax competition exists, a higher tax burden in one country will compel the government to shift that burden to other countries. Corresponding countries will react to counter the effect of tax burden inflow. The end result is a tax burden on mobile factors that is too low in all jurisdictions. Consequently, there will be an underprovision of public goods everywhere (Wilson, 1986, p. 297; Zodrow & Mieszkeoski, 1986, p. 356).

Wilson and Wildasin (2001, p. 3) define tax competition as "any form of non-cooperative tax setting by independent governments under which each government's policy choices influence the allocation of a mobile tax base among "regions" represented by these governments". This definition limits itself to competition between the same level of government (horizontal competition), not competition occuring between different levels of government (e.g., federal, state and local).

The theoretical literature on tax competition generally distinguishes between mobile and immobile factors, namely capital and labour (Quere, Fontagne & Revil, 2000, p. 7). Asher and Rajan (2001, p. 120) argue that capital is generally more mobile than labour. To attract a mobile capital base, governments may compete with each other by declining statutory corporate taxation rates (Devereux et al., 2008, p. 1212). Hence, Richard Teather (2005, p. 25) has simply defined of tax competition as "the use by governments of low effective tax rates to attract capital and business activity to their country".

Nevertheless, there are also other explanations to describe the phenomena of declining corporate tax rate. First, as offered by Devereux et al. (2008, p. 1213), the decline in corporate taxation has been driven by a common intellectual trend which persuades governments to reform the nature of capital taxation. It is also possible that countries follow each other in setting tax policy because of yardstick competition whereby voters in a tax jurisdiction use the taxes set by their government relative to those in neighbouring jurisdictions to evaluate the performance of their representative. In order to avoid being out of office, policy makers tend to follow each other in tax-setting (Besley & Case, 1995, p. 26; Besley and Smart, 2007, p. 766). However, it is concluded that tax competition is the best explanation, a finding which is supported by Mitchell (2004b, p. 32), who argues that tax competition has played a key role in this global shift to lower tax rates.

2.2 Consequences of Tax Competition

The theoretical literature on this issue suggests that, in the presence of tax competition, two consequences were predicted :

a. Decline In Total Tax Revenue

The decline in statutory company tax rates raises concerns that competition between countries would decrease the total tax revenue (Genschell, 2002, p. 247), largely due to the fact that in order to attract inward capital, governments have to reduce the tax burden they place on companies operating in their jurisdictions otherwise the tax base may be moved overseas by such means as corporate relocation (Simmons, 2006, p. 19). In other words, another indicator is the falling of revenues from corporate taxation.

b. Shifting of Tax Burden

With low tax rates, governments can attract capital from high-tax countries but on the other hand will decrease tax revenue (Simmons, 2006, p. 19). Budget deficits occur as governments are unable to cover the cost of providing public goods with tax revenues. In order to make up the short fall in revenues and to maintain the level of public expenditure, the government has to shift the tax burden from mobile to immobile tax bases which are easier to tax, such as labour (Genschell, 2002, p. 247). In the view of the OECD (2007, p. 1) to counter act losses in tax revenue due to tax competition, the tax burden is shifted to less mobile sources such as Goods and Services Tax (GST) or Value Added Tax (VAT).

In order to assess whether there is a form of tax competition in the Southeast Asian region, some basic questions should be asked:

- Has there been a decline in tax rate?
- Has there been a decline in tax burden across countries?
- Has there been a shift of tax burden from mobile tax base to immobile tax base?

2.3 Harmful Tax Competition

In 1996 the G-7 Ministers of Finance decided to launch an initiative against harmful tax competition to "develop measures to counter the distorting effects of harmful tax competition on investment and financing decisions and the consequences for national tax bases, and report back in 1998" (OCED, 1998, p. 3). The OECD came up with several suggestions published in a report entitled "Harmful Tax Competition: An Emerging Global Issue" (OECD, 1998).

The OECD differentiates between two types of harmful tax practices. First, a tax haven, defined as tax jurisdiction that offers the non-domicile tax payer the means to evade or avoid taxation in their home country. There are two important characteristics for tax haven countries. First, they offer tax shelter without requiring any substantial economic activity to take place in the country and second, they are unwilling to exchange information with the home country (OECD, 1998, p. 21). The OCED provided a series of reports in 1998, 2000, and 2000 that establish objective criteria to identify tax havens. They can be summarized as follows: i) No or nominal taxation on the relevant income; ii) Lack of effective exchange of information; iii) Lack of transparency of the tax or regulatory regime and iv) Lack of a requirement that activities be substantial (OECD, p. 23).

Another type of harmful tax practice is a preferential tax regime. This is the incentives given to foreign investors which are not available to domestic investors (OECD, 1998, p. 25). Indeed, some argue this is positive discrimination on behalf of foreign investors because they are treated more favourably than domestic taxpayers. This system provides a way to protect high tax countries against the negative revenue implications of general tax rate cuts which at the same time, try to compete against tax havens for foreign capital. According to the OECD this approach is unfair to other countries.

2.4 Tax Harmonization Theory

The undesirable effects of tax competition have put increasing pressure on governments to offset the consequences by harmonizing their tax policies (Morisset & Pirnia, 2001, p. 72). Knowing the importance of tax harmonization, the literature on tax policy has devoted surprisingly little attention on defining this phenomenon. As Velayos, Barreix and Villela put it, “there is no concensus on the technical definition of tax harmonization” (2007, p. 2). In some cases tax harmonization seems to be defined very broadly. For instance, Krugman and Baldwin (2002, p. 22) relate the concept to the adoption of a common tax rate. This view is also supported by Mitchell (2004a, p. 3) who argues that “that harmonization exists when the taxpayer faces similar tax rates”. This definition is very narrow, since harmonization can occur not only in the tax rate, but also the rule which encompasses a wider range of measures.

Albeit, supporting the view of similar tax rates, Mitchell (2004a, p. 3) distinguishes the form of tax harmonization in two ways: first, explicit tax harmonization which takes place when countries have an agreement to set a minimum tax rate or to have the same rate. The second is called implicit tax harmonization. This indirect form of tax harmonization exists when tax jurisdictions require their people to pay tax on income earned from other countries. It involves the exchange of tax information between tax jurisdictions regarding non resident investors. This policy is known as “worldwide taxation” in tax literature.

Several studies also recognize different patterns of harmonization. Peters offers (2002, p. 180) two types of tax harmonization. First, he refers to similarity of tax rates or the standardization of methodology, definitions and administrative practices, including rules and procedures. Second, he refers to tax structures, mostly related to statistical data, for example the similarity of the share of direct to indirect taxes in the countries under consideration.

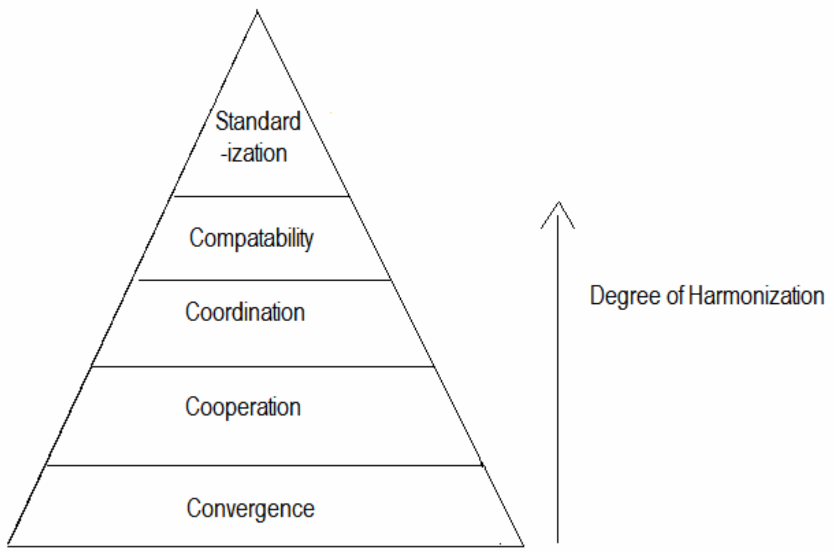
Patterson and Serrano (2000, p. xvi) argue that harmonization can be obtained fully by developing identical tax bases or rates; or in partial harmonization which embraces a minimum or maximum tax rate or elimination of double taxation. It is not easy to accomplish full harmonization. Not only will it require coordination between countries in the region where the higher taxing countries in the group reduce their taxes while those lower taxing countries increase their taxes, but also taxpayers in lower taxing countries will be reluctant to increase their taxes (Farrow & Jogarajan, 2006, p. 27).

2.5 Tax harmonization Scale

Efforts to break down the classification of 'harmonization' into sub groups which better explain the situation, include the work of James (2000, p. 265) who establishes a scale from 'no harmonization' to complete 'standardization'. His views are based on the idea that to achieve a comprehensive form of harmonization the first step to take is to define a common set of taxes. Complete standardization requires countries to have the same taxes, the same tax bases and the same rates.

Velayos et al. (2007, p. 7) piece together the various theories and classifications of tax harmonization to establish a scale of harmonization based on the degree of political commitment. The dimensions are displayed in the diagram below.

Diagram 1: Levels of Tax Harmonization



Hence, the process of tax harmonization can be achieved through the following measures:

Standardization: the uppermost form of harmonization requiring each country to have the same tax so that, with the same conditions, this will generate equal tax burden.

Compatibility: amending the tax structure in order to offset the distortion on the tax burden as a process of integration.

Coordination: Much has been written about the concept of tax coordination. Velayos et al. (2007, p. 8) define coordination as any harmonizing mechanism which may not correspond to any of the four other phases of tax harmonization.

Cooperation: Requires a form of mutual assistance. The purpose can be two-fold: the reciprocal approach - involve sharing of tax information between the countries or a common interest which involves agreement to cooperate on double taxation. Cooperation emphasizes practical issues rather than policy. The well known example of cooperation is the double taxation agreement.

Convergence: Defined as a spontaneous movement in the same type of taxation policy direction as a result of pressures from globalization and competition.

2.6 Previous Study

The economics literature on this matter can be traced back to a study in 1956 by Charles Tiebout that examined the provision of public goods by local governments (Edwards & Rugy, 2002, p. 19). Since then, the issue of tax competition across countries or regions has led to many studies to assess the extent of international tax competition.

Much of the literature on tax competition supports the view that jurisdiction faces incentives to compete for mobile capital by reducing their tax rates (Marceau, Mongrain & Wilson, 2007, p. 1). Several prior studies have sought evidence for the existence of corporate tax competition. These studies have also tended to utilize trends in corporate tax rates and tax revenues in their analysis, as indicators of the effect of tax competition. Two studies in recent years were undertaken by the Bossons (1988), Devereux, Griffith and Klemm (2002) and Devereuex et al. (2008) to name just a few.

Bossons (1988, p. 354) found that movement from the United States reduction in tax rates has put some pressure on Canada and some OECD countries to lower their corporate tax rate. A study by Devereux et al. (2002, p. 487) using data from EU and G7 countries found that corporate income tax revenue has remained stable as a proportion of GDP since 1965, while on the other hand, corporate tax revenues as a percentage of total tax revenues declined during that period. A recent study by Devereux et al. (2008, p. 1210) using data on the corporation tax regimes of 21 OECD countries over the period 1982 to 1999 reveals that tax competition between countries over corporate tax rates does exist.

However, a number of studies that have assessed the extent of international tax competition show the overall results as inconclusive. Radaelli (1999, p. 671) argues that empirically, the studies conducted so far have come to no definite conclusions. He states the difficulty in obtaining any reliable data from governments as a major reason. Study by Stewart and Webb (2006) present an empirical analysis using alternative measures to assess the evolution of company tax burdens across OECD countries since the 1950's, the variation across countries and also the trend of convergence. They reported that there is little support for the expected decline in these revenues, in fact some countries show the opposite trend. Stewart and Webb (2006, p. 156) point to measurement problems and methodological choices made by different researchers as a main contributor to the inconclusive nature of findings.

An example of study on tax competition and tax harmonization can be found in Zodrow (2003) who examines the tax competition and tax coordination in the European Union. His study reveals that the need to harmonized corporate tax rate to deal with the consequences of tax competition is not yet compelling. However, the effort to harmonize the corporate tax rate should be commenced by reducing the distortions between tax systems (Zodrow, 2003, p. 665). Kanbur and Keen (1991, p. 26) found that differences in country size increase the inefficiency of tax competition. Harmonization of tax rates will bring harm to a smaller country but would benefit both smaller and larger countries if they are imposing a minimum tax. A different approach was conducted by Fourcans and Warin (2001, p. 17) who studied tax harmonization and tax competition in Europe from game theoretical point of view. Their evaluation on the pros and cons of tax harmonization versus tax competition concluded that if countries maintain sound public finance, tax competition would not lead to a "race to the bottom".

2.7 Measurement

It has been suggested that study to evaluate hypotheses about international tax competition has to deal with serious measurement problems (Stewart & Webb, 2003, p. 4). Numerous studies have attempted to develop and introduce methods to measure tax competition. Devereux, et al. (2008, p. 1212) have recently remarked that, with respect to international competition, "Part of the reason for the lack of empirical evidence to date is the difficulty in developing appropriate measures of taxation".

2.7.1 Measuring Tax Rate

One of the many manifestations of tax competition, intensified to attract mobile capital base (corporations and business), is a trend towards declining tax rates (Marceau et al., 2007, p. 1). Measuring tax rates is not an easy task. In order to see whether there is tax competition between jurisdictions, statutory corporate income tax rates have been widely used (Devereux, et. Al., 2002, p. 456). Also, statutory corporate tax rates are also a highly visible way to measure the intent of policy makers (Stewart & Webb, 2003, p. 4) and are readily available (Quere, et. al., 2003, p. 11).

There is often the discussion of how this is different from effective taxation, which is the amount of tax an individual or firm pays when all other government tax offsets or payments are applied, divided by the tax base. Effective tax rates however are not readily observable and unfortunately have significant methodological and data problems (Kelly & Graziani, 2004, p. 29). This view is supported by Azemar and Delios (2008, p. 86) who write that for the developing country "the only available measure of taxation is the top statutory tax rate which may not correspond to the effective tax rate paid". Therefore statutory rate is the key measure discussed in this study.

2.7.2 Measuring Tax Revenue

This research addresses the question of the likelihood of a tax competition in the region. Stewart and Webb (2003, p. 4) argued that in order to measure whether tax policy makers are compelled to cut corporate tax burdens in response to competitive pressures from neighbouring countries, one should be able to make a comparison of national tax levels across countries and over time. Simmons (2006, p. 19) added that if tax competition occurs, there must be evidence that it has led to lower overall tax revenue - in particular from corporate tax. This study will review the consequence of tax competition on tax burden looking at the trend of total tax revenue as a percentage of GDP and corporate tax revenue as a percentage of GDP and total tax.

2.7.3 Shifting of Tax Burden

Part of the conventional view of tax competition argues that it will not lead to a lower tax level but only to a shift of the tax burden from mobile factors to less mobile factors which are easier to tax, such as labour and VAT/GST (Genschell, 2002, p. 247). Hence, to measure the shifting of tax burden from mobile to immobile bases, tax revenue from Personal Income Tax (PIT) and GST/VAT will be reviewed using the ratios of PIT and VAT/GST collected as a percentage of GDP and total tax revenue.

Chapter Three
Methodology Research

This chapter discusses how the framework of the research is designed and implemented in investigating the subject of this research. It then moves on to the data collection and data analysis.

3.1 Methodology

Newman (2006, p. 4) argues that methodology is the foundation that forms the philosophical assumptions underlying a particular study and governs the whole research process. Methodology will guide the method the researcher uses in the study (Wisker, 2007, p. 67). The two major methodologies used in research are quantitative and qualitative. A table from Newman (p. 13) shows these two methodologies or approaches are fundamentally different, in particular with regard to the way data is analysed.

Table 3.1
Quantitative Versus Qualitative Approaches

Quantitative Approach	Qualitative Approach
Measure objective facts	Construct social reality, cultural meaning
Focus on variables	Focus on interactive processes, events
Reliability is the key	Authenticity is the key
Value free	Values are present and explicit
Theory and data are separable	Theory and data are fused
Independent of context	Situationally constrained
Many cases, subjects	Few cases, subjects
Statistical analysis	Thematic analysis
Researcher is detached	Researcher is involved

The research questions for this study, as outlined in Chapter Two, are best suited to a quantitative research approach. Hence, this study will use the quantitative approach, where research is “designed to provide objective descriptions of phenomena and demonstrate how phenomena can be be studied by dividing the variables into parts, examining and analyzing selected variables and determining the relationships among them” (Taylor and Turnbull, 2005b, p. 235-236). The term quantitative refers to “a research paradigm designed to address questions that hypothesize relationships among variables measured frequently in numerical and objective ways” (Newman, Ridenour, Newman & Demarco, 2003, p. 170). Quantitative analysis uses numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena those observations reflect (Babbie, 2008, p. 443). In quantitative research, data are arranged to yield numerical content which can be statistically treated (Taylor & Turnbull, 2005a, p. 222).

Despite quantitative-research sometimes being depicted as impersonal and dull, the method is appropriate in producing factual and descriptive information (De Vaus, 2002, p. 5). The major purpose of quantitave research is to create valid and objective descriptions of phenomena and employ methods of data collection and analysis that are non quantitative (Taylor, 2005, p. 91).

The phenomenon being studied is a feature of tax competition consisting of trends in corporate tax rates, tax burdens and the shift from mobile to immobile tax bases. Data used in this study are top statutory corporate tax rates, total tax income, income revenue from corporate tax, personal tax and VAT/GST. Corporate tax revenues, as a percentage of GDP and as a percentage of total tax revenues from all sources, are used to investigate trends in tax burden. In order to uncover whether shifts in the tax burden have taken place, trends in tax revenues from personal income and VAT/GST, as a percentage of GDP and as a percentage of total tax revenues, are analyzed.

3.2 Method

In a broader sense, Wisker (2007, p. 67) defines the method as “sets of specific techniques for selecting cases, measuring and observing aspects of social life, gathering and refining data, analyzing the data and reporting the results”. Put simply, a research method is a technique for collecting data (Bryman, 2004, p. 27).

Two main methods of data collection were used - namely: primary and secondary data. Primary data in this thesis is defined as the written records of actual participants or witnesses (Rubinson & Neutens, 1987, p. 197). These sources are the most authoritative and include any firsthand data such as national documents, official minutes or records, periodicals, contracts, and the like (Taylor, 2005, p. 93).

Secondary data analysis is a method of data collection that involves further analysis of an existing data-set to come up with interpretations, conclusions or knowledge that is additional or different to that presented in the primary data. This includes second-hand information such as quotations from other researchers, newspapers or reference books, to name a few (Taylor, 2005, p. 93).

The use of different methods in this research was preferred in order to obtain a range of information on the subject and to allow the strength of each method of data collection to overcome the deficiencies of the other methods (Sarantakos, 1998, p. 168). The study relies on both primary and secondary sources of literature. The major sources of primary and secondary data for this research were Massey University library collection, websites of government departments and other websites with up-to-date statistical data and information related to tax policy of the countries being studied.

3.3 Collecting the Data

Data was collected from hard copy in the library, such as government reports, books, academic journals and magazines that might contain related information on the subject of tax competition and tax harmonization. Internet searching was also carried out. Key words and phrases have been generated to guide the search of publications and websites.

The corporate taxation rates data were collected from KPMG's publicly available database and these figures, where available, have been crossed checked with taxation information from big international audit and taxation service firms such as Price Waterhouse Coopers (PWC) and Deloitte Touche Tohmatsu.

Data on national tax revenue has been extracted from the most direct source where possible and in this study it came from the website of the Ministry of Finance or the Tax Department of each country. Two problems emerged. First, not all the countries being studied have official websites as seen in Table 3.2.

Secondly, not all official websites provide the necessary data. For example, Brunei provides a report on annual fiscal and monetary reviews from 2003 to 2005 only. As well, information regarding tax revenue from major tax is also limited. An almost similar case emerges for Myanmar. The difference is that the necessary data were provided, although only from the period from 2003. Facing those problems, the researcher acquired data from the electronic database of the International Monetary Fund website, which was available in standard country reports. Other sources were also considered, such as from the Asean Secretariate website, Asian Development Bank, etc.

Table 3.2
Government Website

Country	Ministry of Finance	Tax Administration
Brunei	www.mof.gov.bn/	www.finance.gov.bn/bahagian/3.htm
Cambodia	Not Available	Not Available
Lao PDR	Not Available	Not Available
Indonesia	www.depkeu.go.id/Ind/	www.pajak.go.id
Malaysia	www.treasury.gov.my/index.php?/lang=eng	www.treasury.gov.my/index.php?ch=15&lang=eng
Myanmar	www.myanmar.com/Ministry/finance/	www.myanmar.com/Ministry/finance/int_rev_page.htm
Philippines	www.dof.gov.ph/	www.bir.gov.ph/
Singapore	App.mof.gov.sg/index.asp	www.iras.gov.sg/irashome/default.aspx
Thailand	www.mof.go.th/	www.rd.go.th/publish/5998.0.html
Vietnam	Not Available	Not Available

Considerable effort has been made to standardize the data. One particular problem is to categorize tax on an immobile base. This study used revenue from personal income tax and VAT/GST as the immobile tax base. Most countries have classified their revenue from taxes into those two category, except for Indonesia. It appears as far as the researcher is concerned, all the publicly available data on revenue from taxes of Indonesia do not have data on personal income tax. The researcher had to send a formal letter of request to the Directorate General of Taxes of Indonesia for this particular data.

Data coverage was not complete and this might affect the reporting and analysis of data. Brunei does not have data on total tax revenue for 1999, the Philippines also does not have data on total tax revenue for 1996 and 2006. Cambodia and Myanmar do not have data on personal tax income revenue for 2006.

Preliminary analysis was carried out during the data collection in order to identify any trends and this helped in deciding which areas should be examined in more detail. More detailed analysis was then made after all the data had been collected.

Throughout the data collection process, the researchers maintained a research journal, which is a very useful way of writing down the data collection process including the changing decisions involved in carrying out research (Wisker, 2007, p. 221). It can help to summarize reactions to the ideas the researcher reads in the primary and secondary material (Rubinson & Neutens, 1987, p. 141). All these activities formed critical components of the data analysis and interpretation process, as the ideas generated through this process result in producing the whole report. The researcher recorded useful information in handwritten notes or, as noted, keyed into computer files.

Chapter Four
Empirical Evidence

This section reviews the evidence of tax competition in Southeast Asia beginning by reviewing the evidence concerning statutory corporate tax rates there. It continues with analysis of the data regarding tax revenue from corporate tax followed by the revenue from immobile based.

4.1 Tax Rates

During the last decades, reforms of corporate tax rates have taken place. This table shows the tax rate for each country for which data are available from 1996 to 2006.

Table 4.1
Southeast Asia Corporate Tax Rates

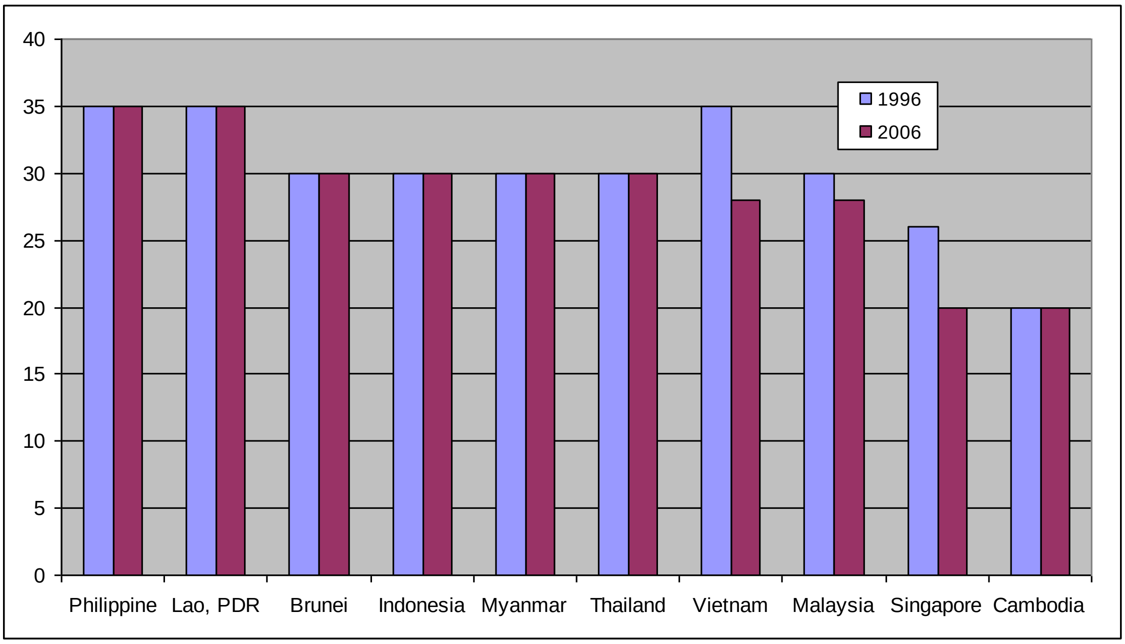
Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Change
Brunei	N.A	N.A	30	30	30	30	30	30	30	30	30	0
Cambodia	20	20	20	20	20	20	20	20	20	20	20	0
Indonesia	30	30	30	30	30	30	30	30	30	30	30	0
Lao PDR	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Malaysia	30	30	28	28	28	28	28	28	28	28	28	-2
Myanmar	N.A	N.A	30	30	30	30	30	30	30	30	30	0
Philippine	35	35	34	33	32	32	32	32	32	32	35	0
Singapore	26	26	26	26	26	25.5	24.5	22	22	20	20	-6
Thailand	30	30	30	30	30	30	30	30	30	30	30	0
Vietnam	35	35	35	35	32.5	32	32	32	28	28	28	-7

Data refer to the top Corporate tax rate
Source:
KPMG'S Corporate and Indirect Tax Rate Survey 2007,
http://www.bus.umich.edu/otpr/otpr/Excel_OTPRdataV3.asp

Two countries, the Philippines and Vietnam, had a nominal corporate tax rate above 30% in 1996. Vietnam cut its company tax rate in 2000 and 2004 resulting in a rate of 28% in 2006. The Philippines, after experiencing a gradual reduction for the period of 1998-2000, remained stable until 2005. Then in later years, the Philippines increased the statutory corporate tax rate back to the 35% level. Brunei, Cambodia, Indonesia, Myanmar and Thailand maintained their taxation rate over this period. The case of Cambodia is particularly interesting as its rate in 1996 was the lowest in the region and this status was maintained until 2006.

There is indeed some evidence that countries set their tax lower during the period. Three countries decreased their corporate taxation rates over the 1996-2006 timeframe. The most dramatic tax cut was implemented by Vietnam from 35% in 1996 to 28% in 2006. Singapore lowered the tax rates by 6 percent, while Malaysia decreased the tax rate by 2 percent.

Figure 4.1 Statutory Tax Rate In the Southeast Asia



Discussion

A considerable amount of study found that countries have increasingly competed with each other to reduce their corporate income taxes (Devereux et al., 2008, p. 1211) to attract the real activities of firms (Griffith & Klemm, 2004, p. 4).

At the regional level, Singapore seems to be leading the way making constant reduction to its taxation rate. Hong (2004, p. 233) showed that tax rate reduction in Singapore was aimed at increasing the competitiveness of Singapore's economy, helping to attract more investment. After reaching the level of 20% for 2007, the Singapore government made an announcement to make a 2% decrease for the 2008 fiscal year (Price Waterhouse Coopers, 2007a, p. 55). This movement has made Singapore's tax rate one of the lowest in the world (Hong, 2008, p. 192).

The same efforts seem to have been followed by Malaysia. In 2006, the corporate tax rate in Malaysia is 28% - higher than that of Singapore and Cambodia. In the conclusion of his study, Ang (2008, p. 188) suggests that Malaysia needs to lower its corporate rate in order to boost international competitiveness. For the fiscal year 2007, Malaysia, reduced its corporate taxation rates to the level of 27% and continues to reduce by 1% for the year 2008, eventually bringing it to 26%. The force for change behind the corporate tax reduction in Malaysia came from repeated calls from the business community which compared this rate with their close neighbours in Singapore in order to maintain its competitiveness as a choice of FDI location (Price Waterhouse Coopers, 2007a, p. 43). For the year of assessment 2009, the corporate tax rate in Malaysia will be reduced from 26% to 25% (KPMG, 2008b, p. 13).

In the case of Vietnam, the key reason for reducing the corporate tax rate mostly comes from the effort to maintain current investors. Vietnam's major problems in attracting foreign investors are because of the massive scale of corruption and the lack of infrastructure. Attempts to tackle these problems would need time and resources. The simple way to minimize complaints from investors is to cut the corporate tax (Hayes, 2008, p. 23). Furthermore, Vietnam claims that their corporate tax rate is still one of the lowest in the region and maintains its corporate tax rate at the level 28%, relying more on many investment incentives to compete for inward foreign investments (Meyer, Tran & Nguyen, 2006, p. 275).

The case of the Philippines is different. The corporate income tax rate in the Philippines is higher than in neighbouring countries. The Philippines increased the standard CIT rate, as part of the tax reform, to 35% in November 2005 and plan to reduce the rate to 30% by 2009 (IMF, 2008a, p. 10). The latter reform would make the rate identical to the ones in Brunei, Indonesia, Myanmar and Thailand

4.2 Tax Burden

Theoretically, if tax competition does exist, the first consequences would indeed be that total tax revenues and tax revenue from corporate tax would fall.

4.2.1 Total Tax Revenue

The following table presents total tax revenues as a percentage of Gross Domestic Product (GDP). Tax ratios vary considerably between countries. In 1996, tax ratios ranged from 3.65% in Myanmar to 18.90% in Brunei implying a range of 15.25 percentage points. In 2006, the range had broadened by almost 26 percentage points. Brunei Darussalam had the highest tax ratio, around 30%, while Myanmar still had the lowest tax ratio at 4.05%.

Table 4.2

Total Tax Revenue as a Share of GDP (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Brunei	18.90	20.46	23.19	N.a	32.55	30.82	30.48	31.50	39.56	33.11	30.02
Cambodia	5.81	5.90	5.80	7.09	7.29	7.21	7.41	6.57	7.66	7.56	7.94
Indonesia	9.74	10.23	9.70	10.36	8.34	11.27	11.53	12.02	12.22	12.46	12.26
Lao PDR	11.01	13.18	17.57	13.24	11.92	11.94	10.48	10.34	10.56	11.86	11.82
Malaysia	18.63	19.03	16.01	15.08	13.74	18.39	18.47	16.42	16.01	16.27	15.86
Myanmar	3.65	4.10	3.29	2.40	2.65	2.02	1.86	2.10	2.92	3.65	4.05
Philippine	16.94	16.99	15.63	14.50	13.71	13.59	12.81	12.75	12.41	12.96	14.25
Singapore	17.78	16.17	15.63	16.16	16.03	15.78	13.64	13.36	13.11	12.97	13.68
Thailand	17.82	17.10	15.26	14.40	14.49	14.89	15.54	16.86	17.42	18.13	18.54
Vietnam	18.49	15.85	15.43	15.08	14.51	15.77	16.84	19.32	19.32	19.80	21.60
Average	13.88	13.90	13.75	12.03	13.52	14.17	13.90	14.12	15.12	14.88	15.00

Source: Author's compilation from table of country's tax revenue (see appendices)

In Brunei the ratio fluctuated during the period but witnessed one important shift upwards, by 8.06 percentage points in 2004. Thailand witnessed a reduction in the period 1996-1999 and then the ratio increase over the years 2000-2006. A similar case happened with Vietnam which saw the ratio decrease during 1996-2000 and increase for the rest of the period.

For some countries there is a clear decreasing trend of the total tax burden. Singapore witnessed the largest reduction of the tax ratio by about 4.1 percentage points in the period 1996-2006 and in Malaysia it decreased by 2.77 percentage points. In the Philippines the ratio fluctuated. After a year of increase in 1997, from 1998 to 2004 the ratio decreased by 3.22 percentage points and shifted upwards in the last two years of the period. There was a total decrease by 2.69 percentage points during this period.

On the other hand, for some countries there is a clear increase. In Indonesia the ratio fluctuated, resulting in a 2.52 percentage point increase over the entire period. In Cambodia there was an increase by 2.12 percentage points and in Lao PDR and Myanmar, an increase is visible of about 0.81 and 0.40 percentage points respectively for the entire period.

4.2.2 Discussion

There have been many studies to investigate the relationships between declining tax rate and trends in tax burden and it was concluded that a decline in tax burdens reflect tax policy changes in the face of international competitive pressures (Genschell, 2002, p. 247). If tax competition had happened, the total tax burden of the Southeast Asian region as a whole, or maybe just some countries, might have decreased. From the data available so far, there is indeed a decline in tax ratio in three countries. Nevertheless, they rose in seven countries. Averaged across the countries, so far there is no evidence of a decline in tax revenues. In fact, the share of tax revenues in GDP has risen by 1.12 percentage points from 13.88 percent in 1996 to about 15 percent in 2006. This study has uncovered an apparent paradox, showing decreases in corporate tax rates and this appears to have occurred without consequent reductions in total tax burden.

It is difficult to explain this result, nevertheless there are some possible reasons to explain the contradiction between decreasing statutory corporate tax rates and stable or increasing tax burdens.

- Broadening of Tax Base

First, this might be due to the fact that in many countries, the decline in statutory rates has been accompanied by a broadening of tax bases, as identified by Stewart and Webb (2003, p. 5). Their study reported that "most countries that cut corporate tax rates in the 1980s and 1990s simultaneously broadened the tax base".

In Vietnam for example, the government expanded the number of taxpayers by lowering the minimum taxable income, where previously, personal income tax only applied to high-income earners, with a monthly income exceeding 3 million Vietnamese Dong (Tajika & Phap, n.d, p. 7). In Indonesia, the governments introduced various tax policies to boost the income from tax. Those include the introduction of tax on interest incomes from bank deposits and value-added tax on agricultural products (Asian Development Bank, 2002, p.6). Other methods include reducing exemptions, removing zero rating except for exports, abolishing the exemption on government-borne VAT on certain goods and taxing most food products (Ikhsan, Trialdi & Shahrial , 2005, p. 1033).

In Cambodia, corresponding to the effort to enhancing revenue, the government introduced some new tax laws including taxes on interest and dividends and extended coverage of taxes on salaries to government employees, elected officials and employees of NGOs. The tax reform also implemented VAT at a single rate of 10%, higher than the turnover tax collected at a standard rate of 4% (Nhem, 1998, p. 39). In Lao PDR the improvement of government revenue collection was due to the new amendment of the tax law from foreign direct investments in mining and hydro power sectors and tourism (Bank of The Lao PDR, 2006, p. 13).

- **Growth of Corporate Tax Revenue**

Other possible reasons for the broadening of the tax base are offered by Bruchez and Schaltegger (2005, p. 24) who argue that the figures on the tax ratios might be distorted because tax losses caused by corporate tax reforms could have been disguised by improved profits – more precisely, by an increased share of corporate profits in GDP. To support their argument, another indicator is the increase of corporate income tax as percentage of total tax.

Table 4.3

Corporate Tax Revenue as a Share of GDP (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Brunei	16.43	17.47	20.09	N.a	31.11	29.39	28.80	30.05	38.24	32.19	29.34
Cambodia	0.20	0.35	0.36	0.48	0.72	0.72	0.52	0.63	0.55	0.67	0.88
Indonesia	1.49	1.60	1.07	0.95	1.35	1.09	1.23	1.35	1.65	1.85	1.45
Lao PDR	1.33	1.50	1.89	1.81	1.50	1.52	1.22	0.98	1.16	1.49	2.12
Malaysia	5.58	5.92	6.11	5.23	4.05	6.21	6.81	6.07	5.42	5.33	4.85
Myanmar	0.38	0.38	0.27	0.20	0.25	0.24	0.20	0.29	0.49	0.51	0.47
Philippine	N.a	3.40	2.80	2.60	2.60	2.70	2.50	2.60	2.69	2.84	N.a
Singapore	4.87	4.78	4.54	4.69	5.20	5.11	4.33	3.68	3.36	3.66	3.66
Thailand	3.74	3.48	2.08	2.42	3.01	3.05	3.23	3.74	4.30	4.59	5.34
Vietnam	3.71	3.70	3.63	3.63	4.48	5.32	5.47	7.73	7.97	8.54	10.35
Average	4.19	4.26	4.28	2.45	5.43	5.53	5.43	5.71	6.58	6.17	6.49

Source: Author's compilation from table of country's tax revenue (see appendices)

During 1996-2006 the Southeast Asia average corporate tax revenue as share of GDP rose from 4.19 to 6.49%. Brunei reports the largest increase in this ratio (by 12.91 percentage points of GDP), followed by Vietnam (6.64 points). The increase also shows in Thailand with 1.6 points while three countries - Cambodia, Lao PDR and Myanmar experience an increase of less than 1 percentage point. At the other extreme, this ratio dropped in Singapore (by 1.21 points) and in Malaysia (by 0.56 points). Indonesia also witnessed a decline in this ratio but only by 0.04 points.

Table 4.4

Corporate Tax Revenue as a Share of Total Tax (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Brunei	86.93	85.39	86.67	n.a	95.58	95.36	94.51	95.42	96.67	97.24	97.75
Cambodia	3.46	5.86	6.20	6.73	9.83	10.02	7.06	9.66	7.13	8.83	11.06
Indonesia	15.31	15.63	11.06	9.16	16.22	9.68	10.68	11.22	13.52	14.86	11.80
Lao PDR	12.11	11.38	10.74	13.68	12.58	12.75	11.67	9.50	10.95	12.61	17.94
Malaysia	29.97	31.12	38.15	34.72	29.48	33.78	36.86	36.97	33.85	32.73	30.56
Myanmar	10.38	9.15	8.13	8.43	9.38	11.66	10.55	13.95	16.79	14.11	11.60
Philippine	n.a	20.02	17.91	17.93	18.96	19.86	19.52	20.39	21.69	21.94	n.a
Singapore	27.37	29.59	29.03	29.02	32.45	32.36	31.73	27.54	25.66	28.17	26.74
Thailand	20.97	20.35	13.60	16.84	20.76	20.49	20.79	22.17	24.69	25.29	28.80
Vietnam	20.08	23.34	23.52	24.05	30.89	33.73	32.48	40.00	41.24	43.14	47.93
Average	25.17	25.18	24.50	17.84	27.61	27.97	27.59	28.68	29.22	29.89	31.58

Source: Author's compilation from table of country's tax revenue (see appendices)

In 1996, the ratio ranged from 3.46% in Cambodia to 86.93% in Brunei implying a range of more than 83 percentage points. In 2006 the range broadened from 11.06 points to 97.75 points. The share of these contributions increased most in Vietnam (by 27.85 percentage points) and fell most in Indonesia (by 3.5 points). The ratio fell in Singapore from 27.37% to 26.74%. Malaysia and Myanmar experienced an increase of less than 2 percentage points, Brunei, the ratio rose more than 10 points, Lao PDR, approximately 5 points, while Cambodia and Thailand shared almost the same increase of 7-8 points.

Despite the reductions in corporate tax rates, there has not been a similar downward trend in government revenues from corporate income taxes over the same period. Indeed, there was a reduction in some countries in corporate tax revenue as a percentage of GDP or total tax. However, in Southeast Asia as a whole, corporate tax revenue increased during the period of study, as a share of GDP and as a share of total tax.

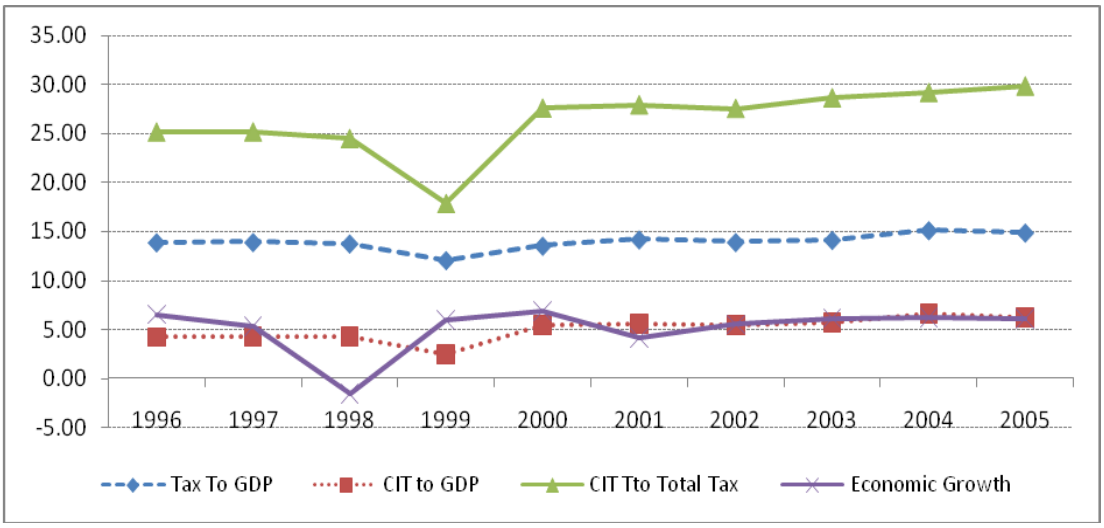
Surprisingly, these percentages rose nearly 2.3% and 6.4% respectively. Thus no evidence is presented here to suggest corporate tax competition is having a deleterious effect on revenues from corporate profits.

- **Strong Economic Growth**

Another possible explanation why the overall tax burden did not show a decrease while cuts in statutory tax rates were being implemented, is that of strong economic growth. The figures in economic growth may have lifted the measured overall tax burden. Strong economic growth may have moved taxpayers into higher nominal income tax brackets in some countries, resulting in higher real tax payments. Also, more companies moved from a loss making to a profit making position, and they had paid more corporate income tax during recent years. The slowdown in the Southeast Asian economic growth in 1998 and 2001 arrested this trend and the tax reductions are visible in the figures for 1999 and 2002. The patterns of variation in 1998 and 2001 are almost identical. In 1999, the effects of the cut in tax rates were probably amplified by diminishing revenues in taxes due to the economic crisis that hit Asia in 1998.

Figure 4.2

Economic Growth, Total Tax and Corporate Tax Income



Source: Economic growth from Asean Secretariat, 2006, p. 19.

4.3 Immobile Tax Burden

Efforts were also made here to determine whether a shift in the tax burden from mobile to immobile factors has occurred, as might be expected under tax competition. The following table displays comparative data for two sources of tax revenue - PIT and VAT/GST for the period 1996–2006. Both sources are considered more immobile than corporate profits. Thus, in the presence of tax competition, revenues from these taxes would be expected to increase.

4.3.1 Personal Income Tax Revenue

As compared to 1996, the PIT-to-GDP ratio in 2006 decreased by less than 1 percentage point in three countries: Malaysia (-0.57 points), the Philippine (-0.35 points) and Thailand (-0.25 points). Six countries saw their overall tax ratios rise by less than -0.5% of GDP: Cambodis (0.17 points), Indonesia (0.07 points), Myanmar (0.77 points), Singapore (0.10 points) and Vietnam (0.02 points).

Table 4.5

Personal Tax Revenues as a Share of GDP (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cambodia	0.03	0.06	0.07	0.08	0.09	0.12	0.12	0.12	0.19	0.20	N.a
Indonesia	0.90	0.92	0.83	1.16	0.92	1.16	1.10	1.11	1.11	1.01	0.97
Lao PDR	0.70	0.86	1.65	1.13	1.06	0.80	0.76	0.79	0.81	0.76	0.70
Malaysia	2.43	2.28	2.44	2.13	2.04	2.82	2.73	2.02	1.99	1.75	1.87
Myanmar	0.78	0.99	1.03	0.78	0.79	0.61	0.64	0.91	1.05	1.18	1.56
Philippine	N.a	2.50	2.50	2.40	2.40	2.20	2.20	2.10	2.07	2.15	N.a
Singapore	2.09	1.89	2.37	2.50	2.52	2.97	2.57	2.40	2.18	2.21	2.19
Thailand	2.28	2.36	2.57	2.18	1.78	1.89	1.89	1.88	1.98	1.95	2.04
Vietnam	0.51	0.48	0.50	0.48	0.41	0.44	0.43	0.49	0.49	0.50	0.53
Average	1.22	1.37	1.55	1.43	1.34	1.44	1.38	1.31	1.32	1.30	1.41

Source: Author’s compilation from table of country’s tax revenue (see appendices)

In 1996, the ratio varied from almost 0.5% in Cambodia to 21.45% in Myanmar. In five Southeast Asian countries, the share of personal income taxes in total taxation was lower in 2006 than in 1996. Thailand witnessed the largest reduction by about 1.82 percentage points. In Lao PDR it decreased by 0.42 percentage points. In Malaysia and Indonesia the ratio fluctuated during the period, which resulted in a 1.3 percentage point decrease. Vietnam had slight fluctuations with only a 0.3 percentage point decrease.

Table 4.6

Personal Tax Revenues as a Share of Total Tax (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cambodia	0.51	0.95	1.25	1.12	1.29	1.68	1.56	1.83	2.47	2.59	N.a
Indonesia	9.22	9.01	8.59	11.22	11.08	10.30	9.52	9.21	9.06	8.08	7.93
Lao PDR	6.32	6.55	9.40	8.56	8.90	6.67	7.26	7.66	7.67	6.43	5.90
Malaysia	13.06	11.99	15.22	14.16	14.87	15.35	14.79	12.30	12.46	10.73	11.77
Myanmar	21.45	24.18	31.38	32.65	29.94	29.96	34.42	43.20	36.09	32.24	38.43
Philippine	N.a	14.72	15.99	16.55	17.50	16.19	17.18	16.47	16.69	16.62	N.a
Singapore	11.73	11.67	15.20	15.50	15.72	18.81	18.83	17.96	16.62	17.06	16.02
Thailand	12.81	13.78	16.84	15.16	12.26	12.69	12.18	11.16	11.38	10.77	11.00
Vietnam	2.78	3.02	3.23	3.15	2.81	2.77	2.55	2.53	2.53	2.53	2.47
Average	9.74	10.65	13.01	13.12	12.71	12.71	13.14	13.59	12.78	11.89	13.36

Source: Author's compilation from table of country's tax revenue (see appendices)

On the other hand, for some countries there is a clear increase. Myanmar had the biggest increase of 16.98 percentage points. In Cambodia and the Philippines there was an increase by almost 2 and 1.9 percentage points respectively in the period of 1996-2005. In Singapore, the ratio fluctuated during the period, resulting over the entire period, in almost 4.3 percentage points increase.

4.3.2 VAT/GST

In 1996, VAT/GST taxes on average constituted approximately 2.30 % of the GDP in the Southeast Asian region. The variation in the share of the VAT/GST between countries is considerable. It ranged from a low 0.77% in Cambodia, to 4.08% in Vietnam (see Table 4.7). Cambodia reports the largest increase in this ratio (by 2.03 percentage points of GDP), followed by Vietnam (1.55 points). The increase also shows in Philippine with 1.02 points and Thailand with 1 percentage point. Three countries Indonesia, Lao PDR and Myanmar experienced an increase less than 1 percentage point. At the other extreme, the ratio dropped in Malaysia by 0.96 point.

Table 4.7
VAT/GST Revenues as a Share of GDP (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cambodia	0.77	0.74	0.77	2.35	2.64	2.58	2.55	2.21	2.70	2.63	2.80
Indonesia	3.46	3.63	2.63	2.72	2.54	3.40	3.58	3.83	4.47	3.64	3.69
Lao PDR	2.32	2.86	3.77	2.81	2.33	2.39	2.53	2.63	2.54	2.89	2.52
Malaysia	2.64	2.71	1.87	1.98	2.23	2.78	3.16	2.53	2.04	2.08	1.69
Myanmar	1.20	1.62	1.41	1.12	1.30	0.92	0.84	0.76	1.24	1.84	1.91
Philippine	1.88	1.90	1.80	1.90	1.60	1.60	1.70	1.90	2.90	2.90	
Singapore	1.34	1.35	1.20	1.42	1.33	1.39	1.37	1.84	1.91	1.96	1.89
Thailand	3.01	3.44	2.86	2.98	3.44	3.38	3.23	3.48	3.62	4.00	4.00
Vietnam	4.08	3.76	3.27	4.30	3.87	4.01	4.83	5.40	5.42	5.45	5.63
Average	2.30	2.45	2.18	2.40	2.36	2.49	2.64	2.73	2.98	3.04	3.01

Source: Author's compilation from table of country's tax revenue (see appendices)

Table 4.8 displays the development of the share of VAT/GST in total tax revenues. In seven Southeast Asian countries the 2006 share of VAT/GST in total tax revenues exceeded the share in 1996. Cambodia and Myanmar showed major changes in the share of VAT/GST, with more than 21 and 14 percentage points of increase respectively. Singapore, Thailand and Vietnam saw the ratio increase in the range of 4-7 percentage points, while Lao PDR and the Philippines had only a slight increase of less than 1 percentage point. On the other hand, In Indonesia and Malaysia, the share of VAT/GST in total taxation was somewhat lower in 2006 than in 1996.

Table 4.8

VAT/GST Revenues as a Share of Total Tax (Percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cambodia	13.18	12.59	13.26	33.23	36.22	35.73	34.46	33.63	35.20	34.75	35.24
Indonesia	35.49	35.52	27.15	26.27	30.39	30.16	31.01	31.85	36.56	29.19	30.07
Lao PDR	21.05	21.72	21.48	21.21	19.52	20.00	24.17	25.42	24.01	24.36	21.34
Malaysia	14.18	14.25	11.67	13.11	16.26	15.09	17.13	15.41	12.72	12.77	10.64
Myanmar	32.87	39.43	42.91	46.82	49.17	45.55	44.87	36.47	42.54	50.56	47.17
Philippine	11.12	11.19	11.51	13.10	11.67	11.77	13.27	14.90	13.27	12.40	N.a
Singapore	7.52	8.37	7.69	8.82	8.28	8.83	10.07	13.75	14.58	15.14	13.79
Thailand	16.91	20.10	18.72	20.66	23.76	22.73	20.76	20.61	20.75	22.03	21.60
Vietnam	22.07	23.74	21.18	28.52	26.68	25.43	28.71	27.93	28.08	27.50	26.06
Average	19.38	20.77	19.51	23.53	24.66	23.92	24.94	24.44	25.30	25.41	25.74

Source: Author's compilation from table of country's tax revenue (see appendices)

4.3.3. Discussion

As Boss (2005, p. 11) argued, “tax competition leads to a shift from corporate income taxes to personal income taxes”, the development regarding the share of personal income taxes of total taxation shows mixed picture. Indeed, the ratio of total tax increased by 3.6 % and also increased as a percentage of GDP, although it was much smaller, at approximately 0.2 %. On the other hand, in four countries the share of personal income taxes was lower at the end of the data period. The conventional wisdom that the tax burden is shifted towards personal income as an immobile factor of production does not seem to be justified.

As VAT/GST is comparatively immobile, a rising trend in revenues from these taxes, as a percentage of revenues from total taxation, might be expected in the face of tax competition. Indeed, the mean percentages for Southeast Asian countries rose by approximately 6% as the share of total tax. The increase was also recorded as a percentage of GDP by 0.7 percentage point. Only Malaysia consistently showed a reduction for this ratio.

As for the inquiry into shifting tax burden to an immobile tax base, empirical data from the table does show a strong trend towards a rising share of taxes on PIT and VAT/GST. An analysis of revenues from personal income and from VAT/GST provides an indication of a shift in their direction. It is important to note, however, that for each of the above sources of tax revenue, individual countries exhibited a wide variety of experiences, with some recording an increase in the percentages and some a decrease.

Chapter Five
Elements of Tax Competition

Elements of tax competition involve the intention to create an attractive tax system so as to motivate the greatest possible number of taxpayers to voluntarily become subject to this system.

5.1 Taxation for Companies

Many countries apply different rates of corporate income tax to companies which might fall under the perspective of tax competition. This tax regime provides a specific tax rate for specific companies, which is not, in itself, preferential since it is applied both to foreign and/or domestic taxpayers.

- Regional Reductions of the Tax Rate

In Lao PDR for a special region (depending on the accessibility) the implemented rate varies between 0% and 20%, compared to the 35% standard rate. The Lao Government specifies 3 promotion zones based on geographical location and socio-economic conditions (KPMG, 2008a, p. 21). Thailand gives 50% reduction for 5 years in Zone III provided that capital investment is at least 10 million baht. Vietnam reduced corporate tax rate (depending on the sector/area) by 10% (for 15 yrs), 15% (for 12 yrs) and 20% (for 10 yrs) (IMF, 2006a, p. 18). In Malaysia, location in promoted areas can have 100% of statutory income exempted from income taxation (KPMG, 2008b, p. 17).

- Sectoral Preferential Tax Rates

In Cambodia there is 5% of gross premiums for insurance companies (IMF, 2007a, p. 36). In Indonesia, the income tax burden on domestic shipping companies is a flat rate of 1.2 % of gross revenue. The rate for domestic airlines is 1.8% and the rate for foreign shipping companies and airlines is 2.64% (Deloitte Touche Tohmatsu, 2007a, p.5). In Lao, companies in certain industries (e.g. mining) are taxed at different rates depending on their agreement with the Government of the Lao PDR (KPMG, 2008a, p. 34).

In the Philippines, different income tax rates apply to specific types of businesses, such as international carriers (2.5% on gross Philippine billings) and offshore banking units (Deloitte Touche Tohmatsu, 2007b, p. 7). In Vietnam, the preferential income tax rates of 20%, 15%, and 10% are allowed on the basis of different sectors and different criteria (usually 25%) (Khine, 2008, p. 70).

5.2 Taxation for Individuals

Labor migration has played an important role in the process of globalization and the integration in Southeast Asia (TFESPO & Migrant Forum, 2007, p. 1). This mobility factor is crucial for the Southeast Asian region because data from 2005 revealed that the approximately 5.4 million people living in Southeast Asia are working in one or another Southeast Asian country. This number is almost 40% of the total migrant workers in Southeast Asia. For example, of 1.6 million migrant workers from Myanmar, 90% are in Southeast Asia. Most of them work in Thailand along with workers from Lao PDR and Cambodia. 59% of the 2.3 million of Indonesia's total work force abroad mainly work for other Southeast Asian countries (Abella, 2007, p. 1).

In the Southeast Asia region, foreign labour has become a significant part of the labour force. For example, in Singapore, it is one third of the total labour force, while in Malaysia the number of registered foreign workers increased to more than double in five years from 532,000 in 1993 to 1.1 million in 1998 (Abella, 2007, p. 1). Singapore and Malaysia have implemented policy to limit the proportion of foreigners in their labour force by employing a foreign worker levy or a tax to discourage employers from employing non-nationals. The policy was ineffective since companies seek to shift the burden of the tax on to the workers (Abella, p. 5).

In Southeast Asia, it is common practise for policy makers to implement such favourable tax treatment to foreign "experts", "researchers", "managers" and so. Foreign personnel working within the Lao PDR pay personal income tax at a flat rate of 10% of their income while Lao nationals pay progressive rates of up to 25% (KPMG, 2008a, p. 28). In Malaysia, special tax concessions are also available for foreign nationals working in Labuan, where the tax rate is 0-28% for resident individuals and a flat 28% for non-resident individuals. Expatriates employed in a managerial or professional capacity in Labuan by offshore companies will have a 50% tax reduction, so the effective tax rate is 14% instead of 28% (EIC, 2007, p. 80).

The government of Vietnam adopted a special tax treatment for “expatriate” executives and employees. For example, expatriates are subject to a personal income tax rate up to a maximum 50% rate, only on income in excess of VND 120 million per month (about US $8,000) while local residents are subject to the top rate on income exceeding VND 8 million per month (OECD, 2003, p. 52). The government of Singapore in 2000, proposed tax changes designed to attract suitably talented individuals from overseas. Foreigners can reduce their tax burden by participating in a new Supplementary Retirement Scheme (SRS) helping individuals plan their retirement (Hong, 2000, p. 234).

When it comes to the taxation of individuals, the economic theory of tax competition tells us that labour is typically less mobile than that of capital (Asher & Rajan, 2001, p. 120) due to the factors of cost, special permits for working or cultural barriers such as language and family (Bruchez and Schaltegger, 2005, p. 17). Nevertheless, it is important to note that several empirical studies demonstrate that, at some point, some individuals are more mobile than others (Elschner, Lammersen, Overesch & Schwager, 2006, p. 3) particularly for certain types of professional and technical human resources (Asher & Rajan, p. 120). For example, the moving of Erickson’s headquarters from Sweden to London in 1998 was largely due to the income tax incentives granted by the United Kingdom tax law to highly qualified labour (Steichen, 2002, p. 17).

Singapore is the only country that constantly reduces personal tax rates - mainly in keeping with the promise to maintain Singapore as one of the most competitive individual income tax regimes, not only regionally but also globally (Hong, 2005, p. 191). Budget 2004 announced tax policy to cut the top rate for individuals by two percentage points from 22% income derived in 2005 to 20% in 2006 (Hong, p. 195). The government recognises the reductions of tax rate will benefit not only individual taxpayers, but also multinational companies, in reducing the additional tax costs of relocating their employees to Singapore (PWC, 2002, p. 19).

The major reason behind the constant reduction of the tax rate in Singapore is a demographic factor. Singapore is a country with a very low fertility rate and a high ratio of retired ageing population (Asher & Rajan, 2001, p. 121) which prefers to move to countries where taxes are lower (Bruchez & Schaltegger, 2005, p. 17). Data from The Asian Demographics reveals Singapore will experience a slower growth rate in the size of the labour force due to an ageing population. For Singapore, in the year 2000, 9.8 working persons supported one elderly person. This will decrease to 3.5 working persons per elderly person in the year 2030 (Vasoo, Ngiam & Cheung, 2000, p. 177). In an effort to prevent their young and skilled labour emigrating to other jurisdictions, Singapore has to keep their personal income tax competitive compared to neighbouring countries.

Other policy from the Singapore government to maintain the competitiveness of individual tax is the implementation of tax on a territorial basis. This policy has been part of their taxation law since the fiscal year 2005. Territorial basis means that for all foreign sourced income received in Singapore, individuals will be exempt from tax. In other words, only income derived from Singapore is subject to tax (Price Waterhouse Coopers, 2004, p. 51). Singapore residents for example, can reduce their tax liability by declaring part of their income overseas or they can transfer any excess funds they have into investments/savings offshore and accumulate income tax free for as long as they like. For non-resident workers, not only do they not have to pay taxes on foreign income received in Singapore but are also exempt from income tax if they work in Singapore for 60 days or less in a calendar year (Fong, 2006, p. 161).

5.3 Tax Haven

Tax havens are locations with very low tax rates and other tax attributes designed to appeal to foreign investors (Hines, 2004, p. 65). Dharmapala and Hines (2006, p. 1) identify tax havens as small countries, commonly below one million in population and generally more affluent than other countries.

In the case of SEA countries, Singapore is the only country known as a Tax Haven. The classification of Singapore as a tax haven can be traced back to 1994 when Hines and Rice (1994, p. 151) identified Singapore as one of seven big tax havens. Singapore still exists on Desai, Foley and Hines's (2006, p.514) listing of tax haven countries based on the coexistence of low-tax rates in the jurisdiction.

However, Singapore did not come up in the list of countries and territories classified as tax havens under the OECD definition and criteria (OECD, 2000, p. 17). Recent remarks by the Singapore Foreign Minister admitted that indeed Singapore is a low tax country, but he denied the allegation that Singapore is a tax haven. Furthermore he added that "The situation which arose in Liechtenstein cannot happen here" (Reuters, 2008). Nevertheless, if Singapore continues to reduce its corporate tax rate, this movement will put Singapore in the same category as tax haven countries (Hong, 2004, p. 233).

5.4 Preferential Tax Regime

In their report, the Organization for Economic Cooperation and Development (OECD, 1998, p. 27) introduced what was then known as its Harmful Preferential Tax Regime. According to OECD, tax competition is harmful if the following conditions exist: no imposition or very low taxes on some bases; a lack of transparency; absence of effective information exchange with other countries; and having some preferential features in the tax system that allow part of a given base to escape taxation. For the last feature, the preferential tax regimes often operate in the foreign-owned portion of a tax base being taxed at a lower rate than the domestic-owned portion (Haupt & Peters, 2005, p. 494).

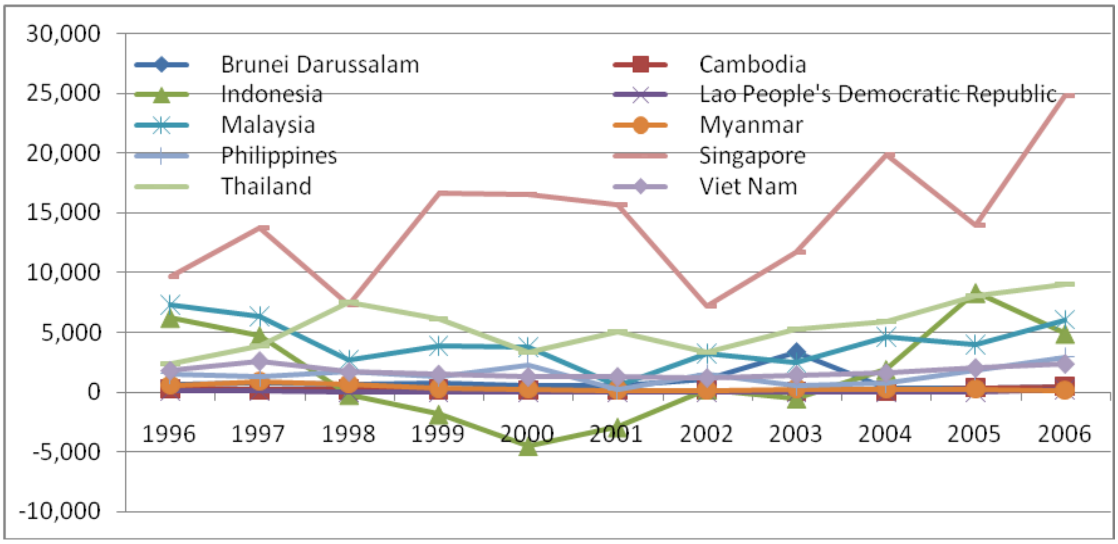
These discriminatory tax measures come in two forms. The first one applies different tax rates to residents and non-residents and ring-fences national tax bases. Second, is the preferential tax regime based on industry, or by class of asset (Bucovetsky & Haufler, 2007, p. 789). An example of implementation of more favourable tax regimes has been discussed in the section on taxation for individuals where some Southeast Asian countries discriminate between foreigners and local taxpayers.

5.5 Tax Incentives Competition

There is a growing tendency to recognize the importance of investment from foreign direct investment (FDI) for economic growth (Rajan, 2003, p. 237). Countries have traditionally competed with each other to attract foreign capital by offering a number of incentives (Rajan & Rongala, 2008, p. 132; Adhikari, 2002, p. 50). This situation is largely due to the compelling need from host countries to match the fiscal incentives offered by others to foreign investors (Freeman, 2002, p. 19).

It is generally believed that the FDI has played an important role in the economic development of Southeast Asia, particularly for countries like Singapore, largely dependent on FDI for its economic development due to the shortage of natural resources. Neighbouring countries such as Indonesia, Malaysia, the Philippines and Thailand have also put more reliance on FDI, realizing the significant contributions of FDI in the economic development of Singapore (Daquila, 2007, p. 148). The table below shows the development of FDI in the Southeast Asian region.

Figure 5.1
FDI inflows to Southeast Asian countries 1996-2006 (US$ million)



Source: International finance statistics (from International Monetary Fund).
http://stats.unctad.org/FDI/TableViewer/tableView.aspx

It is important to note that most studies showed that the effectiveness of the foreign investment regime in attracting FDI is critically linked to the general investment climate. Factors such as commercial, regulatory, labor-market institutions, intermediate-supply availability, final-market proximity, quality of labour and infrastructure, transport links, availability of suppliers, market size, political risk, culture, language and geographical location are also key factors that must be considered (Steichen, 2002, p. 69; Blomström & Kokko, 2003, p. 4).

This is the case for foreign investors in Cambodia, Laos, and Vietnam when they refer to

> "excessive regulation and red tape, inadequate legal infrastructure and weak enforceability, poor physical infrastructure, weak banking and financial markets, privileges still enjoyed by state-owned firms, inadequate service providers, poor and/or expensive communications, high land costs, corruption, high tax rates (although not in Cambodia), inadequate property right protection, currency controls "

as main obstacles when conducting FDI (Freeman, 2002, p. 22).

International experiences indicate that tax incentives have mixed results in attracting investment. It shoud be noted that evidence to support the utility of incentives in attracting FDI inflows is less than convincing. Bergsman (1999, p. 1) argues that despite their popularity, FDI incentives

> "are simply not effective. They attract very little additional investment and they have a cost: they are a drain on the treasuries of the countries that grant them; they are sometimes counterproductive because they make investment procedures too complex and they sometimes lead to significantly greater corruption".

In the Southeast Asian region, the empirical evidence seems to indicate that tax incentives have little effect on FDI flows. In Indonesia, Wells and Allen (2001, ix) found that tax incentives in Indonesia have done little to spur incentives. In Malaysia, Boadway, Chua and Flatters (1995) found that tax holidays in Malaysia were of little value in attracting the FDI (as cited in IMF, 2008a, p. 12). In Cambodia, the effectiveness of tax incentives policy is questionable, due to the fact that even though recent study by the IMF found Cambodia's tax incentives appeared broadly as generous as those provided by other countries in the region, the revenue collection is disappointing (IMF, 2006a, p. 3).

Empirical evidence in Vietnam supports the view of ineffectiveness of tax incentives. Using data from a survey conducted on more than 4,000 foreign companies, the cost of corporate income tax incentives was estimated to be US$76 million in 2001 almost 0,7% of Vietnam's GDP. This number could be higher, taking into account that not all firms report in the survey (Fletcher, 2002, p. 12).

Other literature on the effectiveness of incentives suggests that related incentives are relevant only if the general investment climate is conducive to profit making. In other words, incentives may matter only if the overall political, financial and macroeconomic environment is conducive to investment. For example, in the first seven months after the the reintroduction of fiscal incentives in Indonesia, the FDI fell from US$6.2 bn in 2000 to US$5.5 bn in 2001. This is largely due to the political chaos and domestic violence (Choon, 2001, p. 10).

The experience of the Philippines also indicates the same conclusion. A complex investment incentive system and a poor investment climate become the major impediments in attracting FDI. The presence conducive economic environment and political climate are fundamental to the effectiveness of tax incentives (Aldaba, 2006, p. 29).

Bergsman (1999, p. 6) on the other hand, agrees that tax incentives are useful for some public relations effects, particularly if a host country is trying to change the image of the country from unfriendly or unwelcoming to investors, to one that is welcoming. In countries such as Cambodia, Lao PDR and Vietnam, tax incentives play a key role in "image building" efforts to regain an image that is welcoming to FDI (Asian Development Bank, 2006, p. 13).

Nevertheless, on the assumption that all other factors are identical, tax incentives would be a key role in the final location decisions of foreign companies when the options are reduced to countries with similar characteristics. Hence, tax incentives will increase the competitiveness of a country in attracting FDI (Kadir, 2005, p. 47). This view has been studied by the OECD (2001) suggesting that "tax incentives can have effects on the location of investment, especially between locations that are similar in other respects" (as cited in Bernardi, Fumagalli & Gandullia., 2005, p. 20).

5.5.1 What is a Tax Incentives?

Tax incentives can be defined as policies designed primarily with a view to lower the tax burden on a firm (Rajan & Rongala, 2008, p. 132). Tax incentives are any tax provision given to a qualified investment project that differs to the one that given to investment projects in general (Fletcher, 2002, p.4). Put simply, they are exceptions to the general tax regime and apply only to certain projects.

5.5.2 The Case of Southeast Asia

One of the most frequently cited examples of tax incentive competition in Southeast Asia is the competition to attract the FDI of the General Motors (GM) automotive plant in the mid 1990s. The two countries competing were Thailand and the Philippines. The Philippines offered many project-specific incentives. Thailand offered more by not only matching the Philippine package but also by offering a 100% refund on raw materials for car exports and a USD 15 million grant towards setting up a GM training institute. Another example provided by Charlton (2003) is the intense competition between the Philippines and Vietnam for the investment of Canon Inc. The Philippines Department of Trade and Industry offered incentives of a 5% gross corporate income tax and a tax holiday for up to 12 years. Vietnam apparently went further as the final decision was to move the investment of Canon Inc. to Vietnam (Thomsen, 2004, p. 97).

With the exception of Brunei Darussalam, all Southeast Asian countries have had an active and large range of tax incentives to attract FDI and boost economic growth with a variety of tax exemptions and allowances offered to foreign investors (Rajan, 2003, p. 238).

Study by Asher and Rajan (2001, p. 126) indicates that the Southeast Asian tax incentive competition occurred mostly to follow the tax incentives provided by the leading country in the region - Singapore. This stems from the belief that, in the region, Singapore appears to be the most successful territory in attracting FDI. For example, In September 1999, the Philippines' government introduced a 12 year tax holiday for projects that will produce raw materials for the electronics industry. This policy was proposed to match the Philippines' incentives with those of Singapore (Easson, 2001, 269).

Table 5.1 Tax Incentives in Southeast Asian Countries

Tax Incentives	Cambodia	Lao PDR	Indonesia	Malaysia
Tax Holidays	• Holiday not limited by *commencement of operations* • Either: 6 to 9 years starting in first year of *sales* • Or: 3-6 years from the last day of the tax year immediately preceding the tax year in which *profits* are first derived	3 to 7-years from the *commencement of operations*: 7 years in region 1: inaccessible areas; 5 years in region 2: partly accessible; 2 years in region 3: accessible areas;	3-8 years for new enterprises in 22 sectors	5 years on 70-100% of statutory income & 10 years for companies of national strategic interest
Reduced Corporate Income Tax Rate	After tax holiday: • 9% (QIP's) for five years (starting from the tax year occurring after 2003 LoI promulgation) and 20% thereafter Instead of tax holiday: • 40% special depreciation for QIP's not using tax holiday period	• 10% (region 1) • 7.5% for 3 years and then 15% (region 2); • 10% for 2 years and then 20%: (region 3) • 0% if profit is reinvested	Investment tax allowance: • 6 years maximum, 30 percent reduction in taxable income. • Accelerated depreciation and amortization; • 10% income tax on dividend payments (or lower if tax treaty exists) to nonresidents. • 50 percent reduction in land and building tax in certain regions and sectors.	3% for offshore companies in Labuan & 10% for foreign fund management companies
Import duty & VAT exemptions	• 100% duty and VAT exemption on inputs for qualified sectors under II. 1; • Exempt from 1% turnover tax for QIPs; • VAT exemption on both inputs and sales of supporting industries (their contractors receive only VAT exemption on sales) to export-oriented garment and footwear sectors	Duty and taxes on import of: • Tools, spare parts, vehicles directly used for production; • Raw materials unavailable or insufficient locally; • Semi-processing products for export; • Export (at least 70% of the total production	Exemptions & reduced import duty & VAT rates on inputs in certain sectors especially exporters	Exemptions & reduced import duty & VAT rates on inputs in certain sectors especially exporters
Investment allowances & credits			Reduction of taxable income by up to 30% of investment in priority sectors	Investment allowance of 60-100% of qualifying capital expenditure
Accelerated depreciation	Immediate expensing of plant and equipment investment financed from reinvested profit		Doubling of depreciation rates in favored zones & sectors	Accelerated depreciation of computer technology & environmental protection investments

Table 5.1 Tax Incentives in Southeast Asian Countries (Continue)

Tax Incentives	Myanmar	Philippine	Singapore	Thailand	Vietnam
Tax Holidays	3- year holiday, may be extended if in state interest	3-8 years	five years, and a period up to a maximum of 10 years may in some cases be negotiated.	3-8 years	Up to 8 years
Reduced Corporate Income Tax Rate		for zone enterprises, exemption from national & local taxes & instead a special 5% tax rate on gross income		50% reduction for 5 years for enterprises in investment promotion zones	25% foreign investors & 10, 15, & 20% for 10+ years when certain criteria are met
Import duty & VAT exemptions	Exemption or relief on machinery; 3 year exemption or relief or raw materials	Tax & duty free importation of capital equipment & raw materials for zone enterprises; tax credit on raw materials & supplies for BOIregistered firms		Exemptions & reduced import duty & VAT rates on inputs in certain sectors especially exporters	Exemptions & reduced import duty & VAT rates on inputs in certain sectors
Investment allowances & credits		Tax credits for purchases of domestic breeding stocks & genetic material as well as for incremental revenu	The actual rate of the investment allowance is subject to negotiation, and the capital expenditure must be incurred within five years following the issue of an investment allowance certificate by the EDB.	Allowance of 25% for investment in infrastructure	If profits reinvested for 3 consecutive years, a portion or all of corporate income tax maybe refunded
Accelerated depreciation		Immediate expensing of major infrastructure investments by export enterprises in less developed areas			

Source: Aldaba, 2006, p. 28; IMF, 2008a, p. 27; Fletcher, 2002, p. 10; Khine, 2008, p. 57; UNCTAD, 2000, p. 103; PWC, 2007, c, p. 19.

5.5.3 Tax Holiday

Tax holiday can be defined as tax exemptions that are limited to a certain period of time (Beyer, 2002, p. 194). In developing countries, the most common means of favouring foreign investors are tax holidays (Mintz, 2004, p. 6). The Indonesian government, in January 1999, reintroduced tax holidays for up to eight years in duration, for approved new investments. This action was largely due to the decline of foreign investment and the awareness that most of the neighbouring countries offer generous tax incentives (Easson, 2001, p. 268).

In September 1999, the Philippines' government announced a 12-year holiday for an electronic industry project: this policy was targeted specifically at wafer fabrication projects (Easson, 2001, 269). Malaysia and Thailand also implemented tax holiday policy with a feature where additional benefits are limited to foreign enterprises (D'amuri & Marenzi, 2005, p. 18). In terms of duration of the tax holiday, investment incentives in Cambodia appear to be broadly as generous as those provided in neighbouring countries of Laos, Vietnam and Thailand (IMF, 2006a, p. 10).

5.5.4 Competition for Headquarters

In recent years there is growing tendency for developing countries to introduce new tax policies for multinationals to establish headquarters of financial and trading operations in their jurisdictions (Mintz, 2004, p. 1). This tax competition to attract the management operations of multinational companies (MNC) has increased - particularly due to the fact such operations are highly mobile and can be located almost anywhere (Easson, 2001, p. 268).

Easson (2001, p. 268) argued that this competition is equally strong in Southeast Asia, with Malaysia, the Philippines and Thailand making an effort to follow the lead of Singapore as a home for the operational headquarters of MNC. In Singapore, a holding company can also operate as regional headquarters by taking advantage of the Regional Headquarters which will be provided with a concessionary tax rate of 15 per cent or as the International Headquarters with an attractive tax rate of between zero and 10 per cent on income arising from headquarters activities and operations carried out either in or from Singapore (EDB Singapore, 2005, p. 8)

Malaysia offers a tax rate much lower than the standard CIT rate to companies that set up operational headquarters in the country (10% for five years with the possibility of renewal for a further five years). In Thailand, new tax incentive packages to attract foreign Regional Operating Headquarters were introduced in 2002, providing services, including management, technical support, research and development and training to subsidiary companies or branches in the host country (D'amuri & Meranzi, 2005, p. 24).

5.5.5 Competition For High Technology

There is a growing tendency for policy makers to offer certain types of tax incentives to specifically targeting technologically advanced industries (OECD, 2003, p. 71). This idea mostly stems from expectations that FDI from the high technology sector will stimulate the economic growth of developing countries by providing employment, boosting exports and modernizing the economy.

Malaysia, in 1996, initiated its multimedia supercorridor (MSC) project, by offering a tax holiday for a 100% reduction in standard CIT for a period of 10 years (D'amuri & Marenzi, 2005, p. 22). A year later, Indonesia followed this lead by introducing tax concessions for microchip manufacturers. In 1999, the Philippines' government introduced a 12 year holiday for projects producing raw materials for the electronics industry. It was intensified in 2000 when Thailand's Board of Investment announced a new policy to attract electronics manufacturers and later in the middle of that year, Singapore announced incentives for e-commerce and start-ups of Internet (Easson, 2001, 269).

Chapter Six
Tax Harmonisation in Southeast Asia

Examining the experience of Southeast Asian countries within the area of harmonization not only considers analyzing the tax rate but also requires study of the development of rules, procedures and practises of the tax systems. For the purpose of practicallity, the discussion of tax harmonization in Southeast Asia will focus on the tax harmonization form by Mitchell (2004a) and tax harmonization scale by Velayos et al. (2007).

6.1 Explicit and Implicit Tax Harmonization

- Explicit Tax Harmonization

As mentioned in Chapter Two, explicit tax harmonization occurs when countries have an agreement to have a minimum tax rate or to have the same rate. The best example of explicit tax harmonization can be found in The European Union when, in 1992, The Commission proposed to have a minimum standard rate of 15% on VAT which was to be reviewed every two years (European Parliament, 2000, para. 13).

In the case of Southeast Asia, the effort toward a minimum tax rate can be found in the area of harmonizing investment incentives. In the 1998 summit of ASEAN, member countries agreed to offer a minimum 30% corporate investment tax allowance to investors from inside or outside the region. The agreement was known as the Hanoi Plan of Action (OECD, 1999, p. 32). However, not all the signing countries put the agreement into action: only Indonesia, when in 2000, it was announced the 30% investment allowance would be a substitute the 1996 tax holiday (Wells & Allen, 2001, p. 63).

As in the case of the same rate, this type of harmonization can be found in the development of the VAT rate. From nine countries implementing consumption tax, only two countries do not have the standard rate of 10% (Lao PDR 5%, Singapore 5%, see the table below).

Singapore apparently moves closer to the same rate of 10%. In Singapore, the rate for GST was 3% the first time it was introduced. This rate remained stable for nine years. With the purpose of putting more reliance on indirect tax, the tax rate was then increased to 5% in 2003 (PWC, 2002, p. 25). The next rise was in July 2007, to 7% in order to adjust the fall in revenue from the cut of corporate and personal income tax rates (KPMG, 2007, p. 40). As the reduction of corporate tax rates and personal income rates will be likely to continue in the future, there is reason to believe, in order to compensate for the reduction in tax revenue, the government of Singapore will raise the GST rate to 10%.

In Thailand, the move to raise the VAT rate was first suggested by the IMF as part of a letter of intent. It required that Thailand increase their VAT rate from 7 to 10%. This could be achieved by the one short increase or by 1% rises over a 3 year period. At that time the scheme was rejected by the Government (Sangsubhan & Varuwangso, 2007, p. 10) but on the first of October 2007, the standard rate of value added tax was increased to 10% (KPMG, 2007, p. 41).

- Implicit Tax Harmonization

The principle of worldwide income requires tax payers to pay taxes on income derived both from the tax payer domicile jurisdiction and from the overseas jurisdiction. In Southeast Asia, most countries adopted this rule except for Singapore. The Singapore tax system is territorial (Owens, 2007, p. 8). Income tax is levied on the net income of companies from sources within Singapore and on foreign source income only, if it is remitted into Singapore (PWC, 2004, p. 51).

6.2 Velayos Scale of Tax Harmonization

We begin our analysis from the bottom of the pyramid, where convergence moves up through cooperation, coordination, compatibility and finally to standardization, the highest form of harmonization.

6.2.1 Convergence

According to Messere (2000, p. 21), the word convergence has been used loosely but they suggested that convergence is the situation when something (a) is coming closer together or (b) exhibiting common trends. Messere defines convergence as "the occurrence of deviation from average data which is less in the second year compared to deviation in the initial year". On the other hand, divergence occurs when the deviation shows in the opposite direction.

- **Tax Revenue**

Table. 6.1

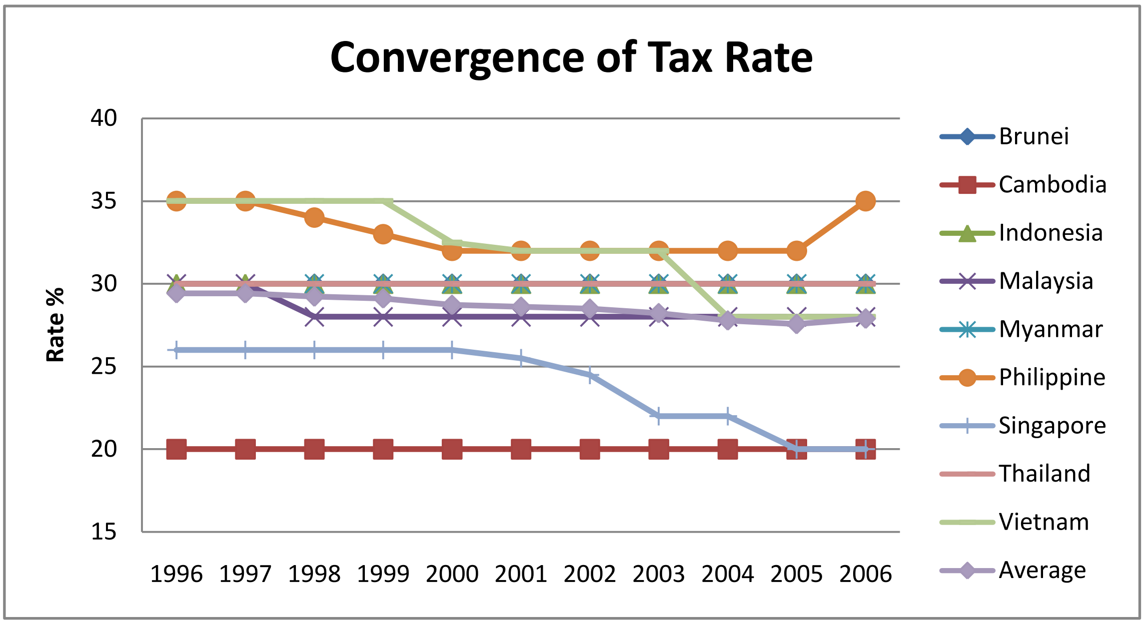
Convergence/Divergence of Tax Revenue

	1996		**2006**		**1996 to 2006**
	TTR	**Deviation from average**	**TTR**	**Deviation from average**	
Brunei	18.90	5.02	30.02	15.02	D
Cambodia	5.81	8.06	7.94	7.06	C
Indonesia	9.74	4.13	12.26	2.74	C
Laos PDR	11.01	2.87	11.82	3.18	D
Malaysia	18.63	4.75	15.86	0.86	C
Myanmar	3.65	10.23	4.05	10.95	D
Philippine	16.94	3.06	14.25	0.75	C
Singapore	17.78	3.90	13.68	1.32	C
Thailand	17.82	3.95	18.54	3.54	C
Vietnam	18.49	4.61	21.60	6.60	D
Average	13.88		15.00		
C	Tax levels have converged between 1996 and 2006 (i.e. departure from average is less than later year)				
D	Tax levels have diverged between 1996 and 2006 (i.e. departure from average is greater than later year)				

The table above suggests there has been a tendency towards convergence of total tax revenue. Much of the convergence in tax levels comes from the more developed and well established tax systems in the region, except for Cambodia.

- **Tax Rate**

Figure 6.1



Cambodia has still maintained the same rate for the period and has remained constantly below the average. Singapore has become closer to Cambodia's low rate since 2001. Brunei, Indonesia, Myanmar and Thailand have maintained the same rate and still remain above the average. Malaysia has remained very close to the average. The Philippines was well above average in 1996 and again in 2006. The big mover was Vietnam which was above average in 1996 and moved to only slightly different to the average in 2006. Large fluctuations from the regional average rates, in fact show weak evidence of becoming more similar. It is not easy to evaluate the development during such a short period, hence it might be the case that there is not much movement, because ten years is not a long enough time horizon.

- Transfer pricing policy

Velayos tax harmonization scales (2007, p. 9) give the policy of transfer pricing as an example of convergence. Transfer pricing rules are aimed at preventing tax avoidance by related companies through non-arm's length transactions. Related companies may utilize transfer prices to reduce the tax liability of the group as a whole by capitalizing on tax deductions in high-tax jurisdictions (Farrow & Jogarajan, 2006, p. 9). Hence, the intention of the transfer pricing rule is to prevent international companies from shifting taxable profits into low tax jurisdictions (Bond, Chennells, Devereux, Gammie & Troup, 2000, p. ix).

A study by Farrrow and Jogarajan (2006, p. 10) reveals that there is a relatively uniform tendency towards the regulation of transfer pricing. In the Southeast Asian region most countries have implemented this regulation. Only Lao, PDR and Myanmar have not adopted these rules. Malaysia issued transfer pricing guidelines on July 2003 when they used five testing methods to determine if an intercompany transaction was priced at "arm's length" (Deloitte Touche Tohmatsu, 2005, p. 17). Vietnam's Ministry of Finance released comprehensive transfer pricing regulations in 2005 as guidelines for determining market prices of related party transactions subject to tax in Vietnam (Burke & Vinh, 2006, p. 1). Singapore, in 2006, issued the transfer pricing guidelines to provide guidance to Singapore taxpayers on applying the arm's length principle (Leow & Tan, 2006, p. 1).

The implementation of transfer pricing rules generally puts the obligation on taxpayers to prove that the transactions are conducted on the same basis as would have been conducted to non related companies (Farrow & Jogarajan, 2006, p. 9). A recent report by Price Waterhouse Coopers (2007b, p. 59) shows that in major countries of the Southeast Asian region, the burden of proof of transfer pricing transactions has been put to the taxpayer, except for the Philippines where the burden of proof are put both on the taxpayer and tax auditor.

Table 6.2

Transfer Pricing Policy in Southeast Asia

Country	Transfer Pricing		
	Legislation	**Burden of Proof**	**Penalties**
Brunei	Yes	N.a	N.a
Cambodia	Value may be adjusted by tax authorities	N.a	N.a
Indonesia	Yes	Taxpayer	Up to 48% of additional tax
Lao, PDR	No	N.a	N.a
Malaysia	Yes	Taxpayer	15-100% additional tax
Myanmar	No	N.a	N.a
Philippines	Yes	Both	25% general penalty, 20 % interest rate
Singapore	Yes, there are guidelines for tax payers and value can be adjusted by tax authorities	Taxpayer	General penalty rates apply
Thailand	Yes	Taxpayer	Up to 100% added tax plus 18% interest
Vietnam	Implemented 2005 Value may be adjusted	N.a	N.a

Source: Farrow & Jogarajan, 2006, p. 10; PWC, 2007b, p. 59.

6.2.2. Cooperation

The most distinctive example of this kind of harmonization is the need for exchange of information between tax jurisdictions (Velayos et al., 2007, p. 23). Keen and Ligthart (2006, p.164) emphasize however, that, as a consequence of competition for FDI, countries are reluctant to engage in information exchange. The accessibility of information will cause home authorities no difficulties in levying further tax which, from the investor's point of view, makes those countries less attractive. Therefore, some countries require "a domestic tax interest" to get and supply information in response to a specific request from other tax jurisdictions, particularly in countries with a territorial tax system such as Singapore. This is in the hope that it will minimize the information that can be exchanged since there is a small probability the requesting and requested countries will both have the same interest in information about the taxpayer (Owens, 2007, p. 8). In Southeast Asia, other countries that require a domestic tax interest in order to obtain and respond to a request from a country partner are Malaysia and the Philippines (Owens, p. 7).

Exchange of information can be done by way of bilateral agreement as well as by multilateral forum. Indeed, there is no specific forum in the Southeast Asian region. However, in the Asia Pacific region the most well known is Study Group on Asian Tax Administration and Research (SGATAR) of which most of the countries in Southeast Asia are members, except for Cambodia, Laos, Myanmar and Vietnam. The annual meeting focuses on exchange of information on tax policy and discusses issues related to tax administration (Araya, 2002, p. 22).

Cooperation can also occur in the establishment of common rules on the treatment of 'thin capitalisation' to avoid tax evasion. It has been generally accepted that dividend payments are not deductible whereas interest payments may be tax deductible for tax purposes (Farrow & Jogarajan, 2006, p. 9). This difference has encouraged companies to incur greater levels of debt, both domestic and foreign. Management of the companies will opt to finance their business using debt rather than equity (Bond et al., 2000, p. 10). For example, in the Philippines, banks used this tax advantage by taking deposits (interest expenses deducted at 35%) and purchased government papers (final withholding on interest receipts at 20%) (Choon, 2001, p. 7).

Looking at the table provided by Farrow and Jogarajan (2006, p. 10), thin capitalisation rules have not been universally adopted by countries in the Southeast Asian region. Only Indonesia has comprehensive tax law for the thin capitalisation rule. The Philippines and Vietnam have informal regulations while this rule in Cambodia has been limited.

6.2.3 Coordination

Velayos et al. (2007, p. 18) uses the Central American States-Dominican Republic Model Treaty on Double Taxation Andean Community Double Tax Treaty Model as examples of coordination. Coordination can be realized through bilateral tax treaties or at a multilateral level (Farrow & Jogarajan, 2006, p. 10). The harmonization of bilateral treaties is necessary in order to eliminate discrimination and double taxation for the benefit of individuals and businesses, while simultaneously helping to combat tax evasion. The table below shows the extent of coverage of double taxation treaties and the year they were signed.

Table 6.3 Double Tax Treaty Agreement

Country	Brunei	Indonesia	Lao PDR	Malaysia	Myanmar	Philippine	Singapore	Thailand	Vietnam.
Brunei		2000	S	S		Nego	2005	S	Nego
Indonesia	2000			1991	2003 (N/E)	1993	1990	2001	1997
Lao PDR								1997	1996 (N/E)
Malaysia		1991			1998 (N/E)	1982	2004	1982	1995
Myanmar		2003 (N/E)		1998 (N/E)			1999	2002 (N/E)	
Philippine		1993		1982			1997	1982	2001
Singapore	2005	1990		2004	1999	1997		1975	1994
Thailand		2001	1997	1982	2002 (N/E)	1982	1975		1992
Vietnam.		1997/ 1999	1996	1995/ 1996	2000/ 2003	2001/ 2002	1994	1992	

Source:

Note: S = Signed; N/E indicates DTAs singned, but not effective/not in force

UNCTAD, 2000, p. 71-72; Farrow & Jogarajan, 2006, p. 2; Brunei: http://www.lowtax.net/lowtax/html/brunei/jbu2tax.html#2tax

Cambodia has no existing treaty network while Lao PDR and Myanmar each have only one tax treaty in force with other Southeast Asian countries. In 2006, Singapore and Vietnam topped the list of Southeast Asian countries, having concluded seven Double Tax Treaties with other Southeast Asian countries, followed by Indonesia with the same number of Double Tax Treaties, including the agreement with Myanmar which is not in force yet. Singapore and Thailand have the longest standing agreements with their fellow Southeast Asian countries.

Farrow and Jogarajan (2006, p. 21) also suggest more coordination in double tax treaty agreements between countries across the region. More specifically, they propose to adopt a multilateral tax treaty, similar to the EU where each country does not have to make separate bilateral agreements. Furthermore, not only would it eliminate the inconsistencies in each double tax treaty, but the often difficult, lengthy and complex separate treaty negotiation processes can also be avoided.

6.2.4 Compatibility

Compatibility is related to more advanced integration objectives to identify tax distortions by tax regulations with the principle of "global reciprocity" (Velayos et al., 2007, p. 7). An example of this compatibility is the double taxation agreement between Singapore and Malaysia. They replaced the treaty between them originally signed in 1968, with the new treaty which came into force in 2006. The current treaty exposes the developments in both countries and increases the range of tax exemptions as well as implementing the formation used in the OECD Model Tax Convention (It is important to note that both countries are not the members of the OECD) (Teck & Poh, 2007, 31). Some key changes in the new Tax Treaty towards complex corporate transactions operating across borders not only eliminate the important drawback but also emphasize the move to a greater compatibility (Hayes, 2008, p. 26).

6.2.5 Standardization

According to Velayos et al. (2007, p. 7) standardization is the highest degree of harmonization requiring participating countries to have the same tax burden from the same tax. If we refer this definition to classification of harmonization from Patterson and Serrano (2000) who use the term of full harmonization, as mentioned in Chapter Two, it can be concluded that it involves the implementation of a minimum tax rate. The case in Southeast Asia can be seen as a tendency toward having the same 10 % rate for VAT. This has been mentioned in the discussion of explicit tax harmonization.

6.3 Development of VAT

As discussed in the literature review, tax competition between countries to attract FDI usually involved the lowering of corporate tax rates and as a result, the reduction in this tax requires an increase in other sources of tax revenue for government budgets to be maintained. Generally, the best choice for policy makers is to increase consumption tax. Trends towards a reliance on consumption taxes is illustrated by the Deputy Prime Minister of Singapore, Lee Hsien Loong in his speech (2002, para. 28):

> "What matters to businesses is after tax returns. We have to reduce the burden of direct taxes on businesses and individuals to the minimum possible, to encourage investment and wealth creation across the board. Hence, we are cutting the top rates of corporate and personal taxes from about 25% to 20% over 3 years, while raising indirect taxes to make up the revenues. "

Generally, the tendency of shifting from direct taxation to indirect taxation has resulted in the implementation of VAT as one major source of tax revenue. There are several rationales for implementing VAT rather than trade taxes and other consumption taxes. Heady (2002, p. 4) argues that VAT broadens the tax base by taxing not only goods but also services. It also eliminates the distortion effect involved in turnover taxes and some manufacturers' sales tax systems. Bernardi et al. (2005, p. 13) added that since the tax base is wider, tax jurisdictions can employ lower tax rates. Not only that, the self-enforcing mechanism will lead to a higher level of compliance.

Nevertheless, this system also has some weaknesses. A major impediment is the administration difficulties both to the taxpayer and the tax authorities. Furthermore, for a developing country, the structure of taxpayers which mostly come from the informal and agricultural sector has made it easy for them to avoid VAT (Bernardi, et al., 2005, p. 14). However, regardless of those negative aspects, the VAT is still the best option of general consumption tax for developing countries (Kayaga, 2007, p. 96).

Currently, the majority of Southeast Asian countries apply a VAT system. The VAT landed first in Indonesia in 1985 (Cnossen, 1998, p. 418). Since then, one trend that has been fundamental in the tax systems of Southeast Asian countries is the introduction of the value-added tax (VAT). Without a doubt, this development has been the most important change in Southeast Asia.

The Philippines introduced VAT in 1988. Four years later Thailand followed suit to implement VAT as a consumption tax to replace a business tax. Then VAT was introduced in Singapore April 1, 1994 due to the need to change the tax mix from taxation of income and profits to that of consumption (Asher, 1999, p. 11). Vietnam introduced a VAT in January 1999, at rates varying between 0-20% (Choon, 2001, p. 3).

Cambodia has been gradually replacing taxes on turnover and consumption with a value-added tax (VAT). The first step is the introduction of VAT for the 600 largest taxpayers from 1 January 1998. This policy is revenue enhancing since the single rate of 10% is more than double compared to turnover tax which uses the standard rate of 4% (Nhem, 1998, p. 39).

Table 6.4 Indirect Taxes in Southeast Asia 2004

Country	System	Rate	
		Standard	Multi
Brunei	None	None	
Cambodia	VAT	10	Lower for water & Electricity; Hingher for tobacco, alcohol, gold.
Indonesia	VAT	10	5-10
Lao, PDR	Turnover Tax	5	3-10
Malaysia	Sales	10	3, 5, 15
Myanmar	Sales/Limited VAT	10	9 different rates
Philippine	VAT	10	None
Singapore	GST	5	None
Thailand	VAT	7	None
Vietnam	VAT	10	5-20

Source : adapted from Cnossen, 2005, p. 506.

Note :
The standard rate of VAT in Philippine is 12 percent as of 1 February 2006 (KPMG, 2007, p. 39)
The standard rate of VAT in Thailand is 10 percent as from 1 October 2007. (KPMG, 2007, p. 41)

Brunei Darussalam is the only country without any type of consumption tax. Four Southeast Asian countries have not yet converted to VAT. Myanmar has no plan to comprehensively implement VAT. At present Myanmar imposes VAT on a limited number of services, primarily on hotels in the capital region (Araya, 2002, p. 6). Malaysia still implements sales tax and has been gradually broadening its manufacturing level sales tax and a tax on services as steps towards the eventual introduction of a VAT (KPMG, 2007, p. 37). The government announced in the 2005 Budget that VAT will be implemented in Malaysia from 1 January 2007, to replace the existing sales tax and service tax (Deloitte Touche Tohmatsu, 2005, p. 12). However, the Ministry of Finance announced in February 2006 that it had postponed the introduction of the GST and not expected before 2008 (EIC, 2007, p. 70). Lao PDR national Assembly has passed the VAT law on December 2006 to replace existing business turnover tax (BTT) gradually in 2008, with further implementing regulations still needing to be drafted (PWC, 2007a, p. 40).

6.4 The Role of ASEAN

Regional economic integration would not only bring benefit to the member countries but will also encourage member states to compete to attract or retain mobile tax bases which sometimes eventually lead to pursuing harmful tax competition. Regional organization such as Association of South East Asian Nations (ASEAN) offers an ideal forum to discuss and resolve this issue (Chalk, 2001, p. 22).

According to Wattanapruttipaisan (2006, p. 6), there has been no harmonization on taxes. Nevertheless, some achievements in the field of taxation are important to notice. First, there was the signing of Ministerial Understanding (MU) on Finance Co-operation and the Asean Agreement on Customs in 1997 which provides a frame work for enhancing co-operation on some issues including taxation matters (Kreinin & Plummer, 2002, p. 108). Second, was the Hanoi Plan of Action which was intended to enhance the investment climate in member countries. This agreement included fiscal incentives :

> "a minimum three-year tax exemption or a minimum 30 percent corporate income tax allowance and exemption of duty on imported capital goods. Restrictions on the employment of foreign personnel are also relaxed. Foreign firms that inject equity into existing companies during the same period are also entitled to the same benefits except corporate tax incentives and land use privileges" (OECD, 1999, p. 32).

The table from Llyod (2005, p. 257) shows some development in double taxation treaties is evident. This is perhaps largely due to the role of ASEAN which requires its members to complete the network of bilateral agreements on avoidance of double taxation among all Member Countries by 2010, to the fullest extent possible (Asean Secretariat, n.d, p. 29).

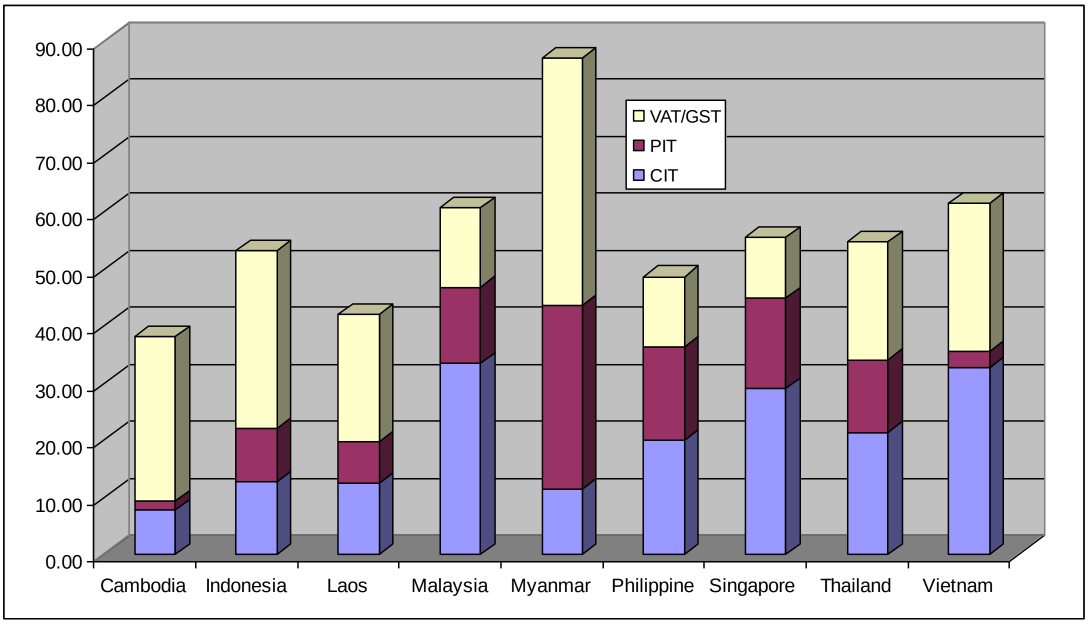
6.5 Factors Affecting Harmonisation

There are a number of reasons of why tax harmonization has been limited.

1. Difference in Tax Structure

As a region with variety in tax structure it is only natural that those differences become major problems in the effort to harmonize tax (Peters, 2002, p. 180).

Table 6.5 Countries's Tax Revenue 1996-2006



From the table above some countries such as Malaysia, Singapore and Vietnam depend on their revenue mostly coming from corporate tax, while, on the other hand, Cambodia, Indonesia and Myanmar heavily rely on VAT as major source of revenue. Hence, an attempt to harmonize tax rates in VAT would be objected to by perhaps Cambodia or Indonesia.

2. Different of Tax Purposes

The other impediment to Southeast Asia's tax harmonization is the lack of common tax purposes. The purposes of taxation systems are manifold. Different countries may exhibit different sets of values regarding the appropriate purposes of taxation. Traditionally, taxation policy has been designed to be a method of revenue raising and a redistribution mechanism. Now, taxation policy is also an instrument for governments to pursue their goals. This factor, in turn, shapes the choice of taxation policy (Desai, nd, p. 15). For example, countries like Singapore designed their tax policy using various incentives, with the view to establishing Singapore as a business hub and financial centre in the region (Hong, 2004, p. 233). Singapore is unlikely to provide tax incentives for sectors which are not desired in its economy such as agro-products. Hence, it would be difficult to harmonize tax with other countries in the region given that the economy of most countries in Southeast Asia depends on the agricultural sector.

3. Disparity in Level of Economy

Another factor lying behind this lack of progress towards tax harmonization is the differences in the level of economics. In the Southeast Asian region, most of the countries are classified as developing countries. Only Singapore is a developed country. The administration systems in developing countries are not as well developed as those of developed countries. Tax harmonization requires extensive control for implementation. Therefore, it seems difficult to achieve tax harmonization considering that most of countries in Southeast Asia are still developing.

4. Limited Role of ASEAN

With such a variety of differences in member countries, it is difficult for ASEAN to agree on certain taxation issues. This is largely due to the interest of the members in the benefits for them on such decision. Furthermore, for issues where ASEAN has had no previous experience, the discussion of this matter will be a cautious and lengthy process (ASEAN Secretariat, 1997, p. 199). The structure of ASEAN has also played an important role in decision making processes. The decentralized and overlapping bureaucratic structure generated some obstacles such as delays, and/or many suggestions never being considered or realized.

Chapter Seven
CONCLUSION

7.1 Tax Competition in Southeast Asia

This study seeks evidence for the existence of tax competition by analyzing recent trends in corporate tax rate, tax revenue from corporate income tax, personal income tax and VAT/GST.

From the data available so far, the picture appears mixed. As regards the tax rate, the above analysis provides evidence of the decline in statutory corporate tax rates in recent years, which suggests the existence of competitive pressures. Nevertheless, Southeast Asian countries do not appear to be engaging in tax competition as the statutory tax rates have shown a relatively small decline over the period studied. This finding however is not without exceptions. Singapore is the only member to pursue a consistent strategy to reduce corporate taxation to attract FDI. Malaysia may be following this path as they have made consistent decreases following the strategy of Singapore. Whether this will affect the greater Southeast region is yet to be seen.

We then ask whether tax burdens have systematically fallen in recent decades; our conclusion is that, judging on the basis of available measures, they have not. If tax competition in Southeast Asia occurs, there is no evidence that it has led to lower overall tax burdens, nor to corporate tax income that one might have expected under competitive conditions. In fact, these revenues have either remained stable or have increased in most countries in recent years - a notable achievement given the reductions in statutory tax rates.

As mentioned in the theoretical literature, tax competition will not lead to a lower tax level, but only to a shift of the tax burden from mobile factors to less mobile factors. The strengthening of revenues from PIT and VAT in total for the region has meant the expected shift in the tax burden away from corporate profits onto less mobile factors has materialized. It is important to note however, the trends in tax revenues from personal income and VAT for individual countries analyzed here offer little evidence, in line with the literature review that the shift in the tax burden from corporate profits onto less mobile factors, predicted by the existence of tax competition, has taken place. For each of the above sources of tax revenue, individual countries exhibited a wide variety of experiences, with some recording an increase in the percentages and some a decrease. To conclude, the evidence from empirical data are rather inconclusive on the effects and the extent of tax competition in the Southeast Asian region.

In the assessment of tax policy for each country in the region there are some elements of tax competition. The obvious components are competition for individual taxation, a preferential tax policy regime and the most obvious, tax incentives competition. Many Southeast Asian economies have been particularly aggressive in using preferential tax treatments and various tax incentives to attract FDI. The similarity of the type of incentives offered and the level of generosity of the incentives demonstrate competition for investment. Yet there is also a degree of differentiation of tax incentives as countries attempt to make themselves look slightly more attractive than their competitors.

7.2 Tax Harmonization in Southeast Asia

It is difficult to see how a region with wide variance in tax structures could progress with any harmonization efforts without first resolving the diversity of tax systems. Examining the experience of Southeast Asia using Velayos et al.'s (2007) harmonization scale, standardization for Southeast Asia seems a long way away. Full tax harmonization is neither desirable nor feasible in Southeast Asia.

In the field of double tax treaty, bilateral double taxation treaties vary in approach and generosity between countries. The non-existence of a comprehensive double tax agreement network within Southeast Asia means the issues of double taxation and tax avoidance continue to unresolved. This is one of the areas needing to be harmonized to allow for greater integration and to eliminate the risk of tax avoidance.

However, although there are differences among tax systems, there are a numbers of areas where tax systems which may have started in quite different places have converged. The most obvious is the adoption of a common Value Added Tax (VAT) system. The trend of convergence in VAT systems between the nations provides some room for a relatively more synchronised policy regime in the coming years.

7.3 Suggestion

The impact of globalization, no matter how small or large and in whatever way, is affecting Southeast Asian countries. Along with that, Southeast Asia as a whole, constitutes an integrated economy which competes with other economic entities such as the USA or Europe. In order to stay competitive and to pursue their national development objectives, Southeast Asian countries have to be fully equipped to address these challenges adequately. While it may appear that tax policy in Southeast Asia should be more harmonized to benefit all countries, there is still the question as to how this could be done in practice. There are essential components that become the framework to tackle these issues:

First, lack of knowledge or concensus about tax competition.

Despite the fact that tax competition has been around, little is known about it in Southeast Asia. There has been minimal research on the competitive effect of tax policy in Southeast Asian countries. More research exploring such relevant issues is likely to assist policy makers in their decision concerning tax competition.

Second, lack of a basic agreement or classification of many taxation elements.

The move to adopt a more international framework is a significant step towards harmonization of taxation to ensure that international standards of classification, concept, definition, measurement and methodology and detail of tax receipts for Southeast Asia be adopted or harmonized so that comparability can occur. There should be a review of tax policy currently adopted by other countries and measures developed to harmonize them according to the international standards, with the domestic tax policy.

Third, the creation of a tax policy forum.

A forum for tax policy composed of the representatives of each country should be set up to discuss, coordinate and monitor the initiative with respect to tackling tax competition. This forum should be able to reassure member countries that there are no attempts to centralise taxation in one particular country and seek to eliminate discrimination and double taxation for the benefit of individual countries, while simultaneously helping to combat tax evasion. Each country should officially support this group and take the same stance to ensure that national tax systems comply with community interest and interact coherently with each other.

Fourth, a comprehensive approach.

The Southeast Asian countries should consider tax policy that supports regional broader policy objectives since the regional approach may provide a better solution, albeit a partial one, for tax harmonization efforts. A pro-active regional approach, in identifying tax-related problems and policies regarding moving towards a more harmonized approach, would be advantageous.

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Appendix A

Brunei Darussalam Tax Revenue 1996-2006(Millions of $Brunei)

		1996	1997	1998	1999	2000	2001
1	GDP at current prices	7,409	7,628	6,534	7,145	7441.1	7481.9
2	Total Tax	1,400	1,561	1,515	N.a	2,422.1	2,306.0
3	Corporate Income Tax	1,217	1,333	1,313	N.a	2,315.0	2,199.0
4	Trade tax	183	224	199	N.a	92.0	92.0
5	Other	0.0	4.0	3.0	N.A	15.1	15.0
6	Taxes as % of GDP (2:1)	18.90	20.46	23.19	N.a	32.55	30.82
7	CIT as % of GDP (4:1)	16.43	17.47	20.09	N.a	31.11	29.39
8	CIT as % of Total Tax (4:2)	86.93	85.39	86.67	N.a	95.58	95.36
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP at current prices		7,651.7	8,254.9	9,266.8	15,864.0	18,370.0
2	Total Tax		2,332.0	2,600.0	3,666.0	5,252.0	5,514.0
3	Corporate Income Tax		2,204.0	2,481.0	3,544.0	5,107.0	5,390.0
4	Trade tax		111.0	103.0	106.0	125.0	102.0
5	Other		17.0	16.0	16.0	20.0	22.0
6	Taxes as % of GDP (2:1)		30.48	31.50	39.56	33.11	30.02
7	CIT as % of GDP (4:1)		28.80	30.05	38.24	32.19	29.34
8	CIT as % of Total Tax (4:2)		94.51	95.42	96.67	97.24	97.75

Sources:

1	GDP	1996-2000	Ministry of Finance of Brunei, 2004, p. 33
		2001-2004	Ministry of Finance of Brunei, 2005, p. 18
		2005-2006	IMF, 2007d
2	Total Tax	1996-1997	IMF, 1999a, p. 60
		1998 (Budget)	IMF, 1999a, p. 60
		1999	Not Available
		2000-2002	Ministry of Finance of Brunei, 2004, p. 35
		2003	Ministry of Finance of Brunei, 2005, p. 20
		2004-2005	IMF, 2008b, p. 22
		2006 (provisional)	IMF, 2008b, p. 22
3	Corporate Income Tax	1996-1997	IMF, 1999a, p. 61
	Trade Tax	1998 (Budget)	IMF, 1999a, p. 61
		1999	Not Available
		2000	IMF, 2005, p. 10
		2001-2005	IMF, 2008b, p. 22
		2006 (provisional)	IMF, 2008b, p. 22
4	From 2004, Brunei's fiscal year changed from a calendar year to April–March.		

Appendix B

Cambodia Tax Revenue 1996-2006 (Billions of Riels)

		1996	1997	1998	1999	2000	2001
1	GDP	9,190.7	10,129.5	11,718.8	13,376.1	14,082.6	15,642.2
2	Total Tax	534.3	597.4	679.4	947.7	1,026.0	1,128.0
3	PIT (Wage Tax)	2.7	5.7	8.5	10.6	13.2	19.0
4	CIT (Profit Tax)	18.5	35.0	42.1	63.8	100.9	113.0
5	VAT	70.4	75.2	90.1	314.9	371.6	403.0
6	Excise taxes	56.6	74.1	76.1	91.8	112.6	155.0
7	Trade Taxes	344.2	347.3	376.3	433.4	390.4	376.0
8	Other	41.9	60.1	86.3	33.2	37.3	22.0
9	Taxes as % of GDP (2:1)	5.8	5.9	5.8	7.1	7.3	7.2
10	PIT as % of GDP (3:1)	0.0	0.1	0.1	0.1	0.1	0.1
11	CIT as % of GDP (4:1)	0.2	0.3	0.4	0.5	0.7	0.7
12	VAT as % of GDP (5:1)	0.8	0.7	0.8	2.4	2.6	2.6
13	PIT as % of Taxes (3:2)	0.5	1.0	1.3	1.1	1.3	1.7
14	CIT as % of Tax (4:2)	3.5	5.9	6.2	6.7	9.8	10.0
15	VAT as % of Tax (5:2)	13.2	12.6	13.3	33.2	36.2	35.7
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP		16,799.7	18,556.4	21,462.9	25,783.8	29,882.9
2	Total Tax		1,245.0	1,219.0	1,645.0	1,948.0	2,372.0
3	PIT (Wage Tax)		19.4	22.3	40.6	50.4	N.A
4	CIT (Profit Tax)		87.9	117.8	117.3	172.0	262.3
5	VAT		429.0	410.0	579.0	677.0	836.0
6	Excise taxes		210.0	198.0	304.0	380.0	418.0
7	Trade Taxes		424.0	395.0	513.0	573.0	644.0
8	Other		39.7	36.9	12.1	17.6	143.0
9	Taxes as % of GDP (2:1)		7.4	6.6	7.7	7.6	7.9
10	PIT as % of GDP (3:1)		0.1	0.1	0.2	0.2	N.A
11	CIT as % of GDP (4:1)		0.5	0.6	0.5	0.7	0.9
12	VAT as % of GDP (5:1)		2.6	2.2	2.7	2.6	2.8
13	PIT as % of Taxes (3:2)		1.6	1.8	2.5	2.6	N.a
14	CIT as % of Tax (4:2)		7.1	9.7	7.1	8.8	11.1
15	VAT as % of Tax (5:2)		34.5	33.6	35.2	34.8	35.2

Sources:

1	GDP	1996-2006	IMF, 2007d
2	Total Taxes	1996-2000	IMF, 2002a, p. 14
		2001-2006	IMF, 2007a, p. 51
3	Personal Income Tax	1996-2000	IMF, 2002a, p. 14
		2001-2003	IMF, 2004, p. 14
		2004-2005	Government Finance Statistics Yearbook 2006
		2006	Not Available
4	Corporate Income Tax	1996-2000	IMF, 2002a, p. 14
		2001-2003	IMF, 2004, p. 14
		2004-2005	Government Finance Statistics Yearbook 2006
		2006	Ballard et. al., 2008, p. 72
5	Value Added Tax	1996-1998	IMF, 2002a, p. 14 (Consumption Tax)
		1999-2000	IMF, 2002a, p. 14
		2001-2006	IMF, 2007a, p. 51

Appendix C

Indonesia Tax Revenue 1996-2006 (Billions of Rupiah)

		1996	1997	1998	1999	2000	2001
1	GDP	588,501	693,619	1,056,132	1,215,231	1,389,770	1,646,322
2	Total Tax	57,340	70,934	102,394	125,951	115,913	185,541
3	Personal Income Tax	5,288	6,394	8,800	14,128	12,844	19,114
4	Corporate Income Tax	8,777	11,085	11,327	11,532	18,800	17,963
5	Oil, Gas and Other Income	12,997	16,909	35,817	47,069	25,429	57,499
5	Value Added Tax	20,351	25,199	27,803	33,087	35,231	55,957
6	Excise Tax	4,263	5,101	7,733	10,381	11,287	17,394
7	Trade Tax	2,660	3,127	6,936	5,036	7,028	9,567
7	Property Tax	2,413	2,641	3,565	4,107	4,456	6,663
8	Other	591	478	413	611	837	1,384
9	Taxes as % of GDP (2:1)	9.74	10.23	9.70	10.36	8.34	11.27
10	PIT as % of GDP (3:1)	0.90	0.92	0.83	1.16	0.92	1.16
11	CIT as % of GDP (4:1	1.49	1.60	1.07	0.95	1.35	1.09
12	VAT as % of GDP (5:1)	3.46	3.63	2.63	2.72	2.54	3.40
13	PIT as % of Taxes (3:2)	9.22	9.01	8.59	11.22	11.08	10.30
14	CIT as % of Tax (4:2)	15.31	15.63	11.06	9.16	16.22	9.68
15	VAT as % of Tax (5:2)	35.49	35.52	27.15	26.27	30.39	30.16
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP		1,821,833	2,013,675	2,295,826	2,784,960	3,338,196
2	Total Tax		210,088	242,048	280,559	347,031	409,203
3	Personal Income Tax		20,003	22,300	25,423	28,057	32,448
4	Corporate Income Tax		22,436	27,148	37,927	51,559	48,305
5	Oil, Gas and Other Income Tax		59,435	65,568	56,165	95,925	128,080
5	Value Added Tax		65,153	77,082	102,573	101,296	123,036
6	Excise Tax		23,189	26,277	29,173	33,256	37,772
7	Trade Tax		10,575	11,114	12,742	15,239	13,232
7	Property Tax		7,828	10,905	14,685	19,649	24,043
8	Other		1,470	1,654	1,872	2,050	2,287
9	Taxes as % of GDP (2:1)		11.53	12.02	12.22	12.46	12.26
10	PIT as % of GDP (3:1)		1.10	1.11	1.11	1.01	0.97
11	CIT as % of GDP (4:1)		1.23	1.35	1.65	1.85	1.45
12	VAT as % of GDP (5:1)		3.58	3.83	4.47	3.64	3.69
13	PIT as % of Taxes (3:2)		9.52	9.21	9.06	8.08	7.93
14	CIT as % of Tax (4:2)		10.68	11.22	13.52	14.86	11.80
15	VAT as % of Tax (5:2)		31.01	31.85	36.56	29.19	30.07

Sources:

1	GDP	IMF, 2007d
2	Taxes	Internal Data of Directorate General of Taxes of Indonesia Ministry of Finance of Indonesia, 2008, p. 3

Appendix D

Lao PDR Tax Revenue 1996-2006 (Billions of Kip)

		1996	1997	1998	1999	2000	2001
1	GDP at current prices	1,726	2,201	4,240	10,329	13,669	15,702
2	Total Tax	190	290	745	1,367	1,629	1,875
3	Personal Income Tax	12	19	70	117	145	125
4	Corporate Income Tax	23	33	80	187	205	239
5	VAT	40	63	160	290	318	375
6	Excise Tax	18	51	157	226	371	286
7	Trade Tax	53	58	123	176	179	240
8	Other	44	66	155	371	411	610
9	Taxes as % of GDP (2:1)	11.01	13.18	17.57	13.24	11.92	11.94
10	PIT as % of GDP (3:1)	0.70	0.86	1.65	1.13	1.06	0.80
11	CIT as % of GDP (4:1)	1.33	1.50	1.89	1.81	1.50	1.52
12	VAT as % of GDP (5:1)	2.32	2.86	3.77	2.81	2.33	2.39
13	PIT as % of Taxes (3:2)	6.32	6.55	9.40	8.56	8.90	6.67
14	CIT as % of Tax (4:2)	12.11	11.38	10.74	13.68	12.58	12.75
15	VAT as % of Tax (5:2)	21.05	21.72	21.48	21.21	19.52	20.00
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP at current prices		18,401	22,597	26,539	30,705	34,581
2	Total Tax		1,928	2,337	2,803	3,641	4,086
3	Personal Income Tax		140	179	215	234	241
4	Corporate Income Tax		225	222	307	459	733
5	VAT		466	594	673	887	872
6	Excise Tax		293	483	523	800	870
7	Trade Tax		316	351	429	515	518
8	Other		488	508	656	746	852
9	Taxes as % of GDP (2:1)		10.48	10.34	10.56	11.86	11.82
10	PIT as % of GDP (3:1)		0.76	0.79	0.81	0.76	0.70
11	CIT as % of GDP (4:1)		1.22	0.98	1.16	1.49	2.12
12	VAT as % of GDP (5:1)		2.53	2.63	2.54	2.89	2.52
13	PIT as % of Taxes (3:2)		7.26	7.66	7.67	6.43	5.90
14	CIT as % of Tax (4:2)		11.67	9.50	10.95	12.61	17.94
15	VAT as % of Tax (5:2)		24.17	25.42	24.01	24.36	21.34

Sources:

1	GDP	1996-2006	IMF, 2007d
2	Taxes	1996-1998	IMF, 2002b, p, 39
		1999	IMF, 2002c, p. 10
		2000-2006	IMF, 2007b, p. 39
3	VAT is turnover tax		
	PIT is income tax		
	CIT is profit tax		
	Trade tax are import duties and export duties		
	2006 is budget		

Appendix E

Malaysia Tax Revenue 1996-2006 (Millions of Ringgit)

		1996	1997	1998	1999	2000	2001
1	GDP	253,733	281,795	283,243	300,764	343,216	334,403
2	Total Tax	47,272	53,627	45,336	45,346	47,173	61,491
3	Personal Income Tax	6,172	6,429	6,900	6,419	7,015	9,436
4	Corporate Income Tax	14,166	16,688	17,294	15,742	13,905	20,771
5	Goods And Services Tax	6,704	7,642	5,292	5,947	7,669	9,282
6	Excise Tax	5,790	6,053	3,586	4,723	3,803	4,129
7	Trade Tax	7,173	7,578	4,491	5,390	4,631	4,060
8	Other	7,267	9,237	7,773	7,125	10,150	13,813
9	Taxes as % of GDP (2:1)	18.63	19.03	16.01	15.08	13.74	18.39
10	PIT as % of GDP (3:1)	2.43	2.28	2.44	2.13	2.04	2.82
11	CIT as % of GDP (4:1)	5.58	5.92	6.11	5.23	4.05	6.21
12	VAT as % of GDP (5:1)	2.64	2.71	1.87	1.98	2.23	2.78
13	PIT as % of Taxes (3:2)	13.06	11.99	15.22	14.16	14.87	15.35
14	CIT as % of Tax (4:2)	29.97	31.12	38.15	34.72	29.48	33.78
15	VAT as % of Tax (5:2)	14.18	14.25	11.67	13.11	16.26	15.09
			2002	2003	2004	2005	2006
1	GDP		362,012	395,171	450,152	495,240	546,342
2	Total Tax		66,861	64,892	72,050	80,594	86,630
3	Personal Income Tax		9,889	7,984	8,977	8,649	10,196
4	Corporate Income Tax		24,643	23,990	24,388	26,381	26,477
5	Goods And Services Tax		11,456	10,003	9,166	10,291	9,217
6	Excise Tax		4,745	5,031	6,828	9,321	8,576
7	Trade Tax		4,473	5,075	5,473	5,471	5,040
8	Other		11,655	12,809	17,218	20,481	27,124
9	Taxes as % of GDP (2:1)		18.47	16.42	16.01	16.27	15.86
10	PIT as % of GDP (3:1)		2.73	2.02	1.99	1.75	1.87
11	CIT as % of GDP (4:1)		6.81	6.07	5.42	5.33	4.85
12	VAT as % of GDP (5:1)		3.16	2.53	2.04	2.08	1.69
13	PIT as % of Taxes (3:2)		14.79	12.30	12.46	10.73	11.77
14	CIT as % of Tax (4:2)		36.86	36.97	33.85	32.73	30.56
15	VAT as % of Tax (5:2)		17.13	15.41	12.72	12.77	10.64

Sources :

1	GDP	1996-2006	IMF, 2007d
2	Tax Revenues	1996-2006	Ministry of Finance of Malaysia, 2007
3	GST is Sales & service tax; Trade Tax is are export and import duties		

Appendix F

Myanmar Tax Revenue 1996-2006 (Billions of Kyat)

		1996	1997	1998	1999	2000	2001
1	GDP	791.9	1119.4	1609.8	2190.3	2552.7	3548.5
2	Total Tax	28.9	45.9	52.9	52.5	67.5	71.8
3	Personal Income Tax	6.2	11.1	16.6	17.1	20.2	21.5
4	Corporate Income Tax	3.0	4.2	4.3	4.4	6.3	8.4
5	Value Added Tax	9.5	18.1	22.7	24.6	33.2	32.7
6	State Lottery	2.2	3.7	4.2	5.3	6.4	6.9
7	Stamp duties	0.9	1.3	0.8	1.0	1.9	2.3
8	Other	7.1	7.5	4.3	1.0	0.0	0.0
9	Taxes as % of GDP (2:1)	3.65	4.10	3.29	2.40	2.65	2.02
10	PIT as % of GDP (3:1)	0.78	0.99	1.03	0.78	0.79	0.61
11	CIT as % of GDP (4:1)	0.38	0.38	0.27	0.20	0.25	0.24
12	VAT as % of GDP (5:1)	1.20	1.62	1.41	1.12	1.30	0.92
13	PIT as % of Taxes (3:2)	21.45	24.18	31.38	32.65	29.94	29.96
14	CIT as % of Tax (4:2)	10.38	9.15	8.13	8.43	9.38	11.66
15	VAT as % of Tax (5:2)	32.87	39.43	42.91	46.82	49.17	45.55
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP		5625.3	7716.6	9078.9	12287.0	16716.0
2	Total Tax		104.8	161.8	265.2	448.0	676.7
3	Personal Income Tax		36.1	69.9	95.7	144.4	260.1
4	Corporate Income Tax		11.1	22.6	44.5	63.2	78.5
5	Value Added Tax		47.0	59.0	112.8	226.5	319.2
6	State Lottery		7.3	7.5	7.6	8.8	12.8
7	Stamp duties		3.4	2.8	4.6	5.1	6.1
8	Other		0.0	0.0	0.0	0.0	0.0
9	Taxes as % of GDP (2:1)		1.86	2.10	2.92	3.65	4.05
10	PIT as % of GDP (3:1)		0.64	0.91	1.05	1.18	1.56
11	CIT as % of GDP (4:1)		0.20	0.29	0.49	0.51	0.47
12	VAT as % of GDP (5:1)		0.84	0.76	1.24	1.84	1.91
13	PIT as % of Taxes (3:2)		34.42	43.20	36.09	32.24	38.43
14	CIT as % of Tax (4:2)		10.55	13.95	16.79	14.11	11.60
15	VAT as % of Tax (5:2)		44.87	36.47	42.54	50.56	47.17

Sources:

1	GDP	1996-2006	IMF, 2007d
2	Tax Revenue	1996-1998	IMF, 2001, p. 22
		1999-2003	Htoo & Ngwe, 2004, p. 5
		2004-2006	Central Statistical Organization, n.d

Appendix G

The Philippines Tax Revenue 1996-2006 (Billions of Peso)

		1996	1997	1998	1999	2000	2001
1	GDP at current prices	2,171.9	2,426.7	2,665.1	2,976.9	3,354.7	3,631.5
2	Total Tax	367.9	412.2	416.6	431.7	460.0	493.6
3	Personal Income Tax	N.A	60.7	66.6	71.4	80.5	79.9
4	Corporate Income Tax	N.A	82.5	74.6	77.4	87.2	98.1
5	Value Added Tax	40.9	46.1	48.0	56.6	53.7	58.1
6	Excises Tax	48.4	63.0	60.9	61.8	61.7	58.7
7	Trade Tax	104.9	95.2	76.4	86.5	95.0	100.0
8	Other	37.3	64.7	90.1	78.0	81.9	98.9
9	Taxes as % of GDP (2:1)	16.94	16.99	15.63	14.50	13.71	13.59
10	PIT as % of GDP	N.A	2.50	2.50	2.40	2.40	2.20
11	CIT as % of GDP	N.A	3.40	2.80	2.60	2.60	2.70
12	VAT as % of GDP	1.88	1.90	1.80	1.90	1.60	1.60
13	PIT as % of Taxes (3:2)	N.A	14.72	15.99	16.55	17.50	16.19
14	CIT as % of Tax (4:2)	N.A	20.02	17.91	17.93	18.96	19.86
15	VAT as % of Tax (5:2)	11.12	11.19	11.51	13.10	11.67	11.77
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP at current prices		3,963.9	4,316.4	4,871.6	5,444.0	6,032.80
2	Total Tax		507.6	550.5	604.7	705.6	859.9
3	Personal Income Tax		87.2	90.6	100.9	117.3	N.A
4	Corporate Income Tax		99.1	112.2	131.2	154.8	N.A
5	Value Added Tax		67.4	82.0	80.2	87.5	N.A
6	Excises Tax		57.0	56.9	59.5	61.8	58.3
7	Trade Tax		99.3	117.2	127.3	154.6	198.2
8	Other		97.6	91.5	105.6	129.7	47.6
9	Taxes as % of GDP (2:1)		12.81	12.75	12.41	12.96	14.25
10	PIT as % of GDP		2.20	2.10	2.07	2.15	N.A
11	CIT as % of GDP		2.50	2.60	2.69	2.84	N.A
12	VAT as % of GDP		1.70	1.90	2.90	2.90	N.A
13	PIT as % of Taxes (3:2)		17.18	16.47	16.69	16.62	N.A
14	CIT as % of Tax (4:2)		19.52	20.39	21.69	21.94	N.A
15	VAT as % of Tax (5:2)		13.27	14.90	13.27	12.40	N.A

Sources:

1	GDP	1996-2006	IMF, 2007d
2	Total Tax	1996-1998	IMF, 1999b, p. 16
		1999-2006	Bureau of The Treasury of Philippine, 2008
3	Personal Income Tax	1996	Not Available
		1997-2003	Own Calculation; ((1) X (7)/100)
		2004-2005	IMF Statistical Year Book
		2006	Not Available
4	Corporate Income Tax	1996	Not Available
		1997-2003	Own Calculation; ((1) X (8)/100)
		2004-2005	IMF Statistical Year Book
		2006	Not Available
5	Value Added Tax	1996	IMF, 1999b, p. 16
		1997-2003	Own Calculation; ((1) X (9)/100)
		2004-2005	IMF Statistical Year Book
		2006	Not Available
6	CIT, PIT and VAT as % of GDP	1997-2003	Fletcher, 2005, p. 4

Appendix H

Singapore Tax Revenue 1996-2006 (Billions of $Sing)

		1996	1997	1998	1999	2000	2001
1	GDP	130,502	142,341	137,902	140,022	159,840	153,165
2	Total Tax	23,205	23,011	21,551	22,623	25,628	24,172
3	Personal Income Tax	2,722	2,685	3,275	3,507	4,030	4,547
4	Corporate Income Tax	6,351	6,809	6,256	6,565	8,316	7,821
5	Goods And Services Tax	1,746	1,927	1,657	1,995	2,121	2,134
6	Customs and Excises Tax	1,667	1,633	1,566	1,574	1,847	1,803
7	Statutory Boards Contibution	1,877	702	1,800	1,676	1,192	862
8	Assets Taxes	1,823	2,335	1,529	1,314	1,606	1,517
9	Motor vehicle tax	1,998	1,743	1,205	1,719	2,506	1,972
10	Betting taxes	1,161	1,296	1,272	1,373	1,494	1,575
11	Other	3,860	3,881	2,991	2,900	2,516	1,941
12	Taxes as % of GDP (2:1)	17.78	16.17	15.63	16.16	16.03	15.78
13	PIT as % of GDP (3:1)	2.09	1.89	2.37	2.50	2.52	2.97
14	CIT as % of GDP (4:1)	4.87	4.78	4.54	4.69	5.20	5.11
15	VAT as % of GDP (5:1)	1.34	1.35	1.20	1.42	1.33	1.39
16	PIT as % of Taxes (3:2)	11.73	11.67	15.20	15.50	15.72	18.81
17	CIT as % of Total Tax (4:2)	27.37	29.59	29.03	29.02	32.45	32.36
18	VAT as % of Total Tax (5:2)	7.52	8.37	7.69	8.82	8.28	8.83
			2002	2003	2004	2005	2006
1	GDP		157,694	160,890	181,540	194,242	209,991
2	Total Tax		21,502	21,501	23,799	25,201	28,718
3	Personal Income Tax		4,049	3,862	3,956	4,300	4,600
4	Corporate Income Tax		6,822	5,921	6,107	7,100	7,678
5	Goods And Services Tax		2,165	2,957	3,470	3,815	3,960
6	Customs and Excises Tax		1,730	1,901	1,924	2,022	2,010
7	Statutory Boards Contibution		625	488	1,405	1,246	1,178
8	Assets Taxes		1,308	1,512	2,058	1,864	1,885
9	Motor vehicle tax		1,446	1,486	1,392	1,475	1,775
10	Betting taxes		1,550	1,524	1,534	1,494	1,499
11	Other		1,807	1,850	1,953	1,885	4,133
12	Taxes as % of GDP (2:1)		13.64	13.36	13.11	12.97	13.68
13	PIT as % of GDP (3:1)		2.57	2.40	2.18	2.21	2.19
14	CIT as % of GDP (4:1)		4.33	3.68	3.36	3.66	3.66
15	VAT as % of GDP (5:1)		1.37	1.84	1.91	1.96	1.89
16	PIT as % of Taxes (3:2)		18.83	17.96	16.62	17.06	16.02
17	CIT as % of Total Tax (4:2)		31.73	27.54	25.66	28.17	26.74
18	VAT as % of Total Tax (5:2)		10.07	13.75	14.58	15.14	13.79

Sources:

1	GDP	1996-2006	IMF, 2007d
2	Taxes	1996	IMF, 2000, p. 15
		1997-2004	Ministry of Finance of Singapore, 2008, p. 25
		2005-2006	Department of Statistics, 2008, p. 214
3	PIT, CIT, VAT	1996	IMF, 1998, p. 20
		1997-2006	Ministry of Finance, 2008, p. 26

Note: 2005 (Revised); 2006 (Budgeted)

Appendix I

Thailand Tax Revenue 1996-2006 (Millions of Bath)

		1996	1997	1998	1999	2000	2001
1	GDP	4,611,041	4,732,610	4,626,447	4,637,079	4,922,731	5,133,502
2	Total Tax	821,909	809,293	705,826	667,807	713,074	764,234
3	Personal Income Tax	105,324	111,555	118,871	101,234	87,420	97,010
4	Corporate Income Tax	172,347	164,683	96,021	112,439	148,001	156,556
5	Value Added Tax	139,000	162,700	132,100	138,000	169,425	173,711
6	Excise Tax	168,192	181,097	157,437	166,537	180,884	203,711
7	Trade Tax	127,693	105,216	67,757	68,100	87,231	92,887
8	Other	109,353	84,042	133,640	81,497	40,112	40,360
9	Taxes as % of GDP (2:1)	17.8	17.1	15.3	14.4	14.5	14.9
10	PIT as % of GDP (3:1)	2.3	2.4	2.6	2.2	1.8	1.9
11	CIT as % of GDP (4:1)	3.7	3.5	2.1	2.4	3.0	3.0
12	VAT as % of GDP (5:1)	3.0	3.4	2.9	3.0	3.4	3.4
13	PIT as % of Taxes (3:2)	12.8	13.8	16.8	15.2	12.3	12.7
14	CIT as % of Total Tax (4:2)	21.0	20.3	13.6	16.8	20.8	20.5
15	VAT as % of Total Tax (5:2)	16.9	20.1	18.7	20.7	23.8	22.7
			2002	**2003**	**2004**	**2005**	**2006**
1	GDP		5,450,643	5,917,368	6,489,847	7,087,660	7,816,474
2	Total Tax		847,033	997,829	1,130,686	1,285,126	1,449,170
3	Personal Income Tax		103,194	111,368	128,713	138,382	159,347
4	Corporate Income Tax		176,132	221,235	279,159	325,060	417,321
5	Value Added Tax		175,803	205,653	234,620	283,168	312,966
6	Excise Tax		234,533	271,733	290,191	277,216	324,441
7	Trade Tax		97,487	112,697	107,121	108,155	97,845
8	Other		59,884	75,142	90,884	153,145	137,251
9	Taxes as % of GDP (2:1)		15.5	16.9	17.4	18.1	18.5
10	PIT as % of GDP (3:1)		1.9	1.9	2.0	2.0	2.0
11	CIT as % of GDP (4:1)		3.2	3.7	4.3	4.6	5.3
12	VAT as % of GDP (5:1)		3.2	3.5	3.6	4.0	4.0
13	PIT as % of Taxes (3:2)		12.2	11.2	11.4	10.8	11.0
14	CIT as % of Total Tax (4:2)		20.8	22.2	24.7	25.3	28.8
15	VAT as % of Total Tax (5:2)		20.8	20.6	20.8	22.0	21.6

Sources :

1	GDP	1996-2000	IMF, 2007d
2	Tax Revenues	1996-2000	Ministry of Finance of Thailand, 2008
3	VAT	1996-1999	IMF, 2002d, p. 11

Appendix J

Vietnam Tax Revenue 1996-2006 (Trillions of Dong)

		1996	1997	1998	1999	2000	2001
1	GDP	272.0	313.6	361.0	399.9	441.6	481.3
2	Total Tax	50.3	49.7	55.7	60.3	64.1	75.9
3	Personal Income Tax	1.4	1.5	1.8	1.9	1.8	2.1
4	Corporate Income Tax	10.1	11.6	13.1	14.5	19.8	25.6
5	Value Added Tax	11.1	11.8	11.8	17.2	17.1	19.3
6	Excise Tax	4.5	4.6	5.6	4.5	5.3	6.2
7	Trade Tax	15.1	13.5	14.9	14.4	13.5	17.5
8	Other	8.1	6.7	8.5	7.8	6.6	5.2
9	Taxes as % of GDP (2:1)	18.49	15.85	15.43	15.08	14.51	15.77
10	PIT as % of GDP (3:1)	0.51	0.48	0.50	0.48	0.41	0.44
11	CIT as % of GDP (4:1)	3.71	3.70	3.63	3.63	4.48	5.32
12	VAT as % of GDP (5:1)	4.08	3.76	3.27	4.30	3.87	4.01
13	PIT as % of Taxes (3:2)	2.78	3.02	3.23	3.15	2.81	2.77
14	CIT as % of Tax (4:2)	20.08	23.34	23.52	24.05	30.89	33.73
15	VAT as % of Tax (5:2)	22.07	23.74	21.18	28.52	26.68	25.43
			2002	2003	2004	2005	2006
1	GDP		535.8	613.4	715.3	839.2	973.8
2	Total Tax		90.2	118.5	138.2	166.2	210.3
3	Personal Income Tax		2.3	3.0	3.5	4.2	5.2
4	Corporate Income Tax		29.3	47.4	57.0	71.7	100.8
5	Value Added Tax		25.9	33.1	38.8	45.7	54.8
6	Excise Tax		7.3	8.9	12.8	15.7	17.1
7	Trade Tax		21.9	22.4	21.6	23.6	26.3
8	Other		3.5	3.7	4.5	5.3	6.1
9	Taxes as % of GDP (2:1)		16.84	19.32	19.32	19.80	21.60
10	PIT as % of GDP (3:1)		0.43	0.49	0.49	0.50	0.53
11	CIT as % of GDP (4:1)		5.47	7.73	7.97	8.54	10.35
12	VAT as % of GDP (5:1)		4.83	5.40	5.42	5.45	5.63
13	PIT as % of Taxes (3:2)		2.55	2.53	2.53	2.53	2.47
14	CIT as % of Tax (4:2)		32.48	40.00	41.24	43.14	47.93
15	VAT as % of Tax (5:2)		28.71	27.93	28.08	27.50	26.06

Source:

1	GDP	1996-2006	IMF, 2007d
2	Tax Revenues	1996-2000	IMF, 2002e, p. 68
		2001-2003	IMF, 2006b, p. 17
		2004-2006	IMF, 2007c, p. 17