Recommendations on Tax Policy Development Supportive of Investment

A proposal by participants of the 3rd meeting of Working Group 3 of the MENA-OECD Investment Programme
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EGYPT

Preamble

The following recommendations encourage participating MENA countries to explore key issues and questions concerning their economy, their institutions, and policy settings, in the development of tax policy to encourage investment. The recommendations do not suggest particular tax systems or rules, which must be country-specific. They instead commit countries to take a comprehensive review of their tax system and undertake various assessments when setting policy to remove tax impediments to investment, while at the same time supporting the funding of infrastructure development and other programmes of critical importance to investors.

The recommendations build on the following best practices recognized during a MENA Ministerial meeting held in February 2006, in Jordan:

- The evaluation of costs and benefits of current and proposed investment incentives; and
- Transparent, stable and equitable tax systems, as important elements of the investment climate.

Tax Recommendations

The development of sound tax policies supportive of investment can benefit significantly from the sharing of information, analyses, and experiences amongst tax policy officials. Facilitating dialogue on tax issues is a central aim of the MENA-OECD tax initiative.

***1.**. MENA countries should participate in regional 'roundtable' discussions on key domestic and international tax issues.*

***2.** In the design of tax policy supportive of investment, policy makers should establish a target tax burden on business income consistent with their economic development strategy, the ability of the tax administration to collect tax on business, and with their overall fiscal policy goals.*

***3.** Countries should systematically assess the (actual) effective tax burden on business income as a means to inform policy decisions, taking into account not only main statutory provisions, but also tax-planning opportunities and business compliance costs.*

***4.** In cases where tax incentives are introduced to compensate for weak host country conditions and characteristics (e.g. limited market size), the limitations of relying on incentives alone to address investment impediments should be adequately assessed.*

***5.** Rules for the determination of taxable business income should be formulated with reference to a benchmark income tax structure, and with regard to provisions generally found in other countries.*

***6.** Where the provision of tax incentives for investment differs according to specific targeting criteria, such as firm size, sector, industry, location, or ownership structure (or some combination of criteria), policy considerations used to support targeted tax relief should be carefully weighed. Intended and unintended tax-planning opportunities should be identified and effects examined, and tax expenditure accounts should be developed to inform and manage the budget process. The framework for authorizing and managing tax expenditures should be transparent, and sunset clauses should be used to encourage tax incentive evaluation.*

***7.** Tax officials should work with counterparts in other countries to develop their tax treaty network to avoid double taxation, secure treaty-reduced non-resident withholding tax rates, provide investors with greater certainty over tax treatment, and enable exchange of information on tax matters to counter tax avoidance and evasion.*