tax justice network — Africa

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Tax competition in the EAC is draining member's revenue for essential public services

Kenya, Uganda, Tanzania and Rwanda are sacrificing $2.8 billion each year through their use of tax incentives such as tax holidays for foreign businesses. Such tax incentives are promoting harmful tax competition in the region, and are anyway not needed to attract investments. Members of the EAC should cooperate to eliminate excessive tax incentives, ensure greater transparency for any that remain, and promote coordination within the East African Community (EAC) to prevent harmful tax competition.

> *How much is being lost?*
> **Tanzania** lost as much as TShs 1.8 trillion (US$ 1.23 billion) in 2008 – amounting to 6% of GDP.
> **Kenya** loses as much as KShs 100 billion (US$ 1.1 billion) a year. This amounts to around 3.1% of GDP.
> **Uganda** loses as much as 2% of GDP per year, amounting to around UShs 690 billion (US$ 272 million) in 2009/10.
> **Rwanda** lost Rwf 94 billion (US$ 156 million) in 2008 and Rwf 141 billion (US$ 234 million) in 2009. These were the equivalent of 3.6% of GDP in 2008 and 4.7% of GDP in 2009.

A new report from Tax Justice Network-Africa and ActionAid International shows that **$2.8 billion is lost each year** due to tax incentives in the four East Africa Community (EAC) members Kenya, Uganda, Tanzania and Rwanda. At the same time, all EAC member countries are struggling to deliver the public services that their citizens demand. **Removing excessive tax incentives could raise more revenue for desperately needed public services such as health, education and infrastructure**.

Much of the lost revenue from tax incentives is due to generous tax incentives to businesses that EAC members give to attract Foreign Direct Investment (FDI). **The primary beneficiaries of these tax incentives are large domestic firms and foreign multinational companies**. The poor bear the burden of the incentives as they reduce the revenue available to fund essential public services.

What is worse, there is ample research documenting that **tax incentives are not needed to attract FDI** in the East African countries. The IMF, World Bank, OECD, UN, and African Development Bank are among the institutions that endorse this conclusion.

The provision of tax incentives is part of the **tax competition** among countries in the region. Countries are being tempted to increase tax incentives in the belief that it will attract FDI, creating a **'race to the bottom'**.

> *'Increased competition over FDI and growing pressure to provide tax holidays and other investment incentives to attract investors could result in a "race-to-the-bottom" that would eventually hurt ... EAC members.'*
> - IMF

Urgent action is needed to address the problem of excessive tax incentives and harmful tax competition. The EAC member countries should:

- Remove tax incentives granted to attract foreign direct investment
- Promote transparency in the granting of tax incentives by:
    - Undertaking a review, to be made public, of all tax incentives
    - During the annual budget process, provide a tax expenditure analysis with annual figures on the cost to the government of tax incentives and information on the beneficiaries of such tax expenditure. This information should be made freely available.
- Promote coordination in the EAC to address harmful tax competition.

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