

Table of Contents

List of Tables, Figures and Boxes.....	i
Acknowledgements.....	ii
Executive Summary.....	iii
1. Introduction.....	1
2. Host Country Attractiveness to FDI: An Overview.....	2
3. What are Tax Incentives and Why are they Offered?.....	3
4. What Does the Empirical Evidence Find?.....	5
5. Types of Tax Incentives.....	7
5.1 Tax Incentives and Equity Considerations.....	9
5.2 Tax Holidays.....	9
5.3 Reduced Corporate Tax Rates.....	11
5.4 Accelerated Depreciation of Capital Assets.....	12
5.5 Investment Tax Credits and Allowances.....	12
5.6 Credit for Reinvested Profits.....	13
5.7 Reduction of Withholding Tax Rates on Remittances.....	13
5.8 Deduction Rules for Certain Qualifying Expenses.....	13
5.9 Overall Issues.....	13
6. Tax Incentives and Foreign Direct Investment in Sri Lanka.....	15
6.1 Evolution of Tax Incentives Regime.....	15
6.2 Recent Performance of FDI.....	17
7. Can Costs vs. Benefits of Tax Incentives be Measured?.....	20
8. Designing Tax Incentives - Issues to Consider.....	21
8.1 Overall Considerations.....	21
8.2 Administration.....	22
8.3 Achieving Investment Targets.....	23
8.4 Tightening Qualifying Criteria.....	23
8.5 Better Targeting and Categorization.....	24
8.6 Other Issues.....	24
9. Monitoring and Compliance - Issues to Consider.....	25
9.1 Pre-approval Assessment.....	25
9.2 Tax Registration.....	26
9.3 Compliance Certification.....	27
9.4 Information Sharing.....	27
9.5 Proper Administration.....	27

10. Incentivizing Foreign Investment - A Holistic Approach.....	28
10.1 Role of Non-tax Factors.....	28
10.2 Improving the Investment Climate.....	29
10.2.1 Investment Climate - Trade Policy Regime.....	29
10.2.2 Investment Climate - Labour Market Policy Regime.....	30
10.2.3 Investment Climate - Investment Policy Regime.....	30
10.2.4 Investment Climate - Other Issues.....	31
11. Way Forward.....	32
11.1 Key Medium-term Challenge.....	32
11.2 Accountability of Tax Incentives.....	33
11.3 Fitting FDI into Broader Industrial Strategy.....	33
12. Conclusion.....	34
References.....	35
Annexures.....	37
Appendix.....	44

List of Tables

Table 5.1: Main Types of Fiscal Incentives for FDI	8
Table 6.2: Number of BOI Firms by Category of Activity	19
Table 6.3: Number of Firms in Commercial Operation by Market Orientation	19

List of Figures

Figure 6.1: Cross-country Comparison of FDI Inflows	18
---	----

List of Boxes

Box 6.1: BOI Act	16
------------------	----