REPUBLIC OF NAMIBIA

STATEMENT

BY

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MINISTER OF FINANCE

TABLING OF THE INCOME TAX AMENDMENT BILL 2020

19 FEBRUARY 2020

Honourable* Speaker, Honourable *Members

***I submit to the National Assembly* the Income Tax Amendment Bill 2020, for the abolishment of the Export Processing Zone (EPZ) tax incentives and the manufacturer's tax incentives.**

As a policy instrument introduced in 1995, the EPZ regime in Namibia was tailored around the Irish EPZ model. The EPZ regime intended attraction of foreign investment, facilitate import of foreign productive capital and technology, transfer of technical and industrial skills to the local workforce, contribute towards an increased share of Namibia's GDP, enhance diversification of the local economy and create employment. In lieu for these contribution, a complete tax relieve was given as reward under this regime. The complete tax relief for EPZ enterprises applies for an indefinite period or for the life time of the approved project in Namibia

Similarly, the tax incentives for manufacturing of products in Namibia were introduced under the Income Tax Act to promote industrialization, manufacturing, value addition and employment. The corporate tax rate under the manufacturing regime was halved to 18% and most of the deductibles increased to 125%. These manufacturer (exporter) incentives last for a period of 10 years.

A review of the EPZ regime and the manufacturing tax incentives were undertaken. The review of the EPZ regime concluded that the zero tax holiday did not yield the desired outcomes in terms of attracting new investments and creating jobs, and created a loss to government in revenue collection. The manufacturing tax incentive regime also did not achieve the anticipated growth and equally created a revenue loss

Systems that are rife with special tax preferences and complexities can create distortions in local jurisdictions and across the global economy. Harmful tax practices are a particularly aggressive way through which jurisdictions can encourage the erosion of tax bases.

The European Union (the EU) blacklisted Namibia as a non – cooperative jurisdiction for tax purposes (tax haven). To assess our tax system, the EU added additional criteria to the original set criteria which made Namibian EPZ and manufacturing tax regime(referred to as exporter's regime by the EU) to be perceived as harmful tax regimes. The additional criteria set by the EU claims that Namibia under the EPZ and Manufacturing/ exporters regime "accords advantages to non-residents and benefits are ring-fenced from the domestic market." As such these regimes were classified as harmful tax regimes with the request to repeal with possible grandfathering until 2022.

Namibia has since become a member of the Global Forum on transparency and exchange of information for tax purpose, become a member of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and subscribe to the OECD Multilateral Convention on Mutual Administrative Assistance. This resulted in Namibia being greylisted. The manufacturing/ exporters regime and EPZ regime are still classified as a harmful regimes by the EU which will lead to Namibia being blacklisted again.

The listing by the EU was done unilaterally and as such Namibia was classified as a tax haven internationally. This has reputational and financial implications for Namibia. Once a country's tax regime has been classified as harmful by the EU, the country is listed as a non-cooperative jurisdiction for tax purposes or blacklisted, which will result in defensive measures (financial sanctions) imposed on such country. Namibia being blacklisted as a result of the EPZ regime and manufacturing exporter regime classified as harmful regimes also contributes to the phasing out of the regimes, in addition to our review findings.

The EPZ regime will be phased out and replaced by the Special Economic Zone (SEZ) regime, currently being finalized. The policy framework for the SEZ model will set policy provisions that define the governance structure, applicable investment incentives and guide the transition from EPZ and Manufacturing Incentives Regimes to the SEZ incentives. The SEZ regime will strengthen the investment incentive policy function in Namibia. It is important to note here that aspects that were classified as harmful in the EPZ regime, of course cannot be re-introduced in the SEZ incentive package.

The abolishment of the EPZ tax incentive regime and the manufacturer/exporter tax incentive regime will prevent revenue loss to Government and restore international confidence.

Honourable Speaker, Honourable Members
I thank you for your attention and appeal for your support.