

Practical Guide to Investment Tax Incentives: **At a glance**

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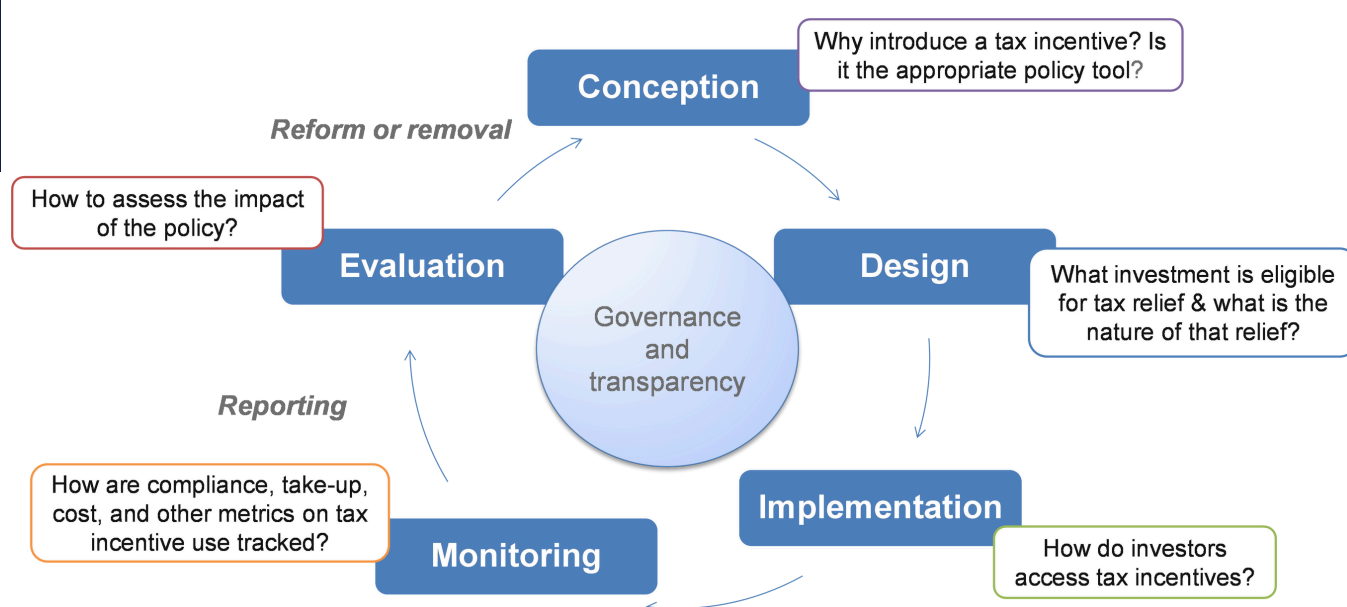
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The Practical Guide to Investment Tax Incentives^[1] supports policymakers and practitioners, particularly in developing and emerging economies, in designing and implementing effective tax incentives. Tax incentives are used widely by governments, but they do not always achieve policy goals and can come with high costs and distortions. The Guide looks at how to improve policy outcomes at each stage of the tax incentive policy lifecycle, from conception to design, implementation, monitoring, and evaluation (Figure 1). It helps policymakers assess trade-offs across different policy choices by offering practical options and drawing on lessons from country experiences worldwide. Throughout the lifecycle, the Guide also explores ways to enhance governance and inter-agency cooperation to promote more coherent and effective policymaking.

Figure 1. Lifecycle of a tax incentive for investment



The Guide complements existing policy guidance on tax incentives by outlining approaches suited to contexts where capacity and resources are constrained. Evidence on the effects of certain features of tax incentive design and implementation is well established, but the impact of other effects remains less clear and needs to be explored. For such cases, the Guide aims to help policymakers make informed decisions that are consistent with their policy and institutional context.

[1] This brochure provides a preliminary overview of key themes and structure of the upcoming Practical Guide to Investment Tax Incentives, which will be reviewed and approved by the relevant OECD bodies in the coming months. The final version will reflect revisions and inputs from OECD committees prior to publication.

Priority recommendations for policymakers include:

Conception

- Determine the need for policy intervention and ask whether a tax incentive is appropriate and cost-effective in achieving intended policy goals.
- Assess costs and benefits of proposed tax incentives and any alternatives, including direct and indirect effects to the extent possible, even through simple assessments where resources are constrained.
- Set governance procedures to support policy quality and ensure coherence with national priorities and other policy measures, including other incentives.

Design

- Select instrument type, targeting, generosity and other design features with the goal of stimulating investment that would not have otherwise occurred, while limiting costs and distortions.
- Weigh trade-offs across design choices, given policy goals, government capacity, and country context.
- Design incentives so that they can be monitored and evaluated, including through eligibility criteria that are specific and measurable.

Implementation

- Ensure that processes for receiving incentives are simple, transparent, and predictable to reduce compliance costs and uncertainty for investors, and administrative costs for governments.
- Prioritise self-assessments by enabling eligible taxpayers, if eligible, to self-declare benefits in their tax returns, and reduce opportunities for excessive discretion by authorities in selecting beneficiaries.
- Determine responsibility of authorities involved in granting processes and strengthen inter-agency cooperation to support verifications and support data sharing.

Monitoring

- Collect data on key metrics, including on beneficiaries, take-up and the value of the tax benefits, to inform policy evaluation and verify compliance.
- Build capacity to track how incentives are used in practice, including improving data infrastructure and data sharing across government agencies.

Evaluation

- Regularly examine direct and indirect outcomes of incentives to inform policy effectiveness and efficiency.
- Tailor evaluations to available resources and data, starting with descriptive analysis and building up capacity over time in resource constrained contexts.
- Use impartial evaluations to build a case for how to reform or remove incentives that are not delivering value for money.

Key steps and recommended actions

These tables build on the priority steps outlined above with more detailed recommendations at each stage.

Key Steps	Recommended Actions
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Conception

1. Determine the need for policy intervention	Identify the rationale justifying government intervention and consider available policy options
2. Assess potential costs and benefits, and define clear policy objectives	Set ex-ante evaluation frameworks and requirements Conduct ex-ante policy assessments to compare policy alternatives and maximise value for money Consider direct and indirect effects, including fiscal and financing implications, broader economic and development outcomes Define clear and measurable policy objectives aligned with national development goals
3. Establish procedures and governance mechanisms	Introduce tax incentives via primary legislation and consolidate them in the tax code Set incentive duration and plan for ex-post evaluation at the outset Anticipate potential reform challenges and risks Set procedures and institutional arrangements for tax incentive governance

Design

1. Support effectiveness and efficiency of tax incentive design	Aim to stimulate additional investment and reduce windfall gains	
	Tailor design choices to policy objective and context	
	Consider diverse investor response	
	Minimise potential for abuse	
2. Design to maximise results while limiting costs	<i>Instrument</i>	Select instrument that will best stimulate an investment response at lowest costs
	<i>Targeting</i>	Target to policy goals and consider relevant trade-offs
	<i>Generosity</i>	Consider if carryover, refundability and related provisions can support investment response
	<i>Limits</i>	Limit excessive generosity and encourage review and evaluation

Implementation

1. Establish clear granting procedures, ideally based on self-assessment	<i>Determine authorities involved</i>	Empower revenue authority as administrator of tax incentives, while other agencies may support application process and verifications
	<i>Establish granting mechanisms</i>	Prioritise self-assessments, reduce discretion for approval-based processes, avoid granting incentives via bilateral or opaque contracts
	<i>Strengthen inter-agency cooperation</i>	Leverage cooperation to facilitate verifications and enhance data sharing
	<i>Enhance compliance</i>	Require that all applicants meet basic compliance and filing obligations
2. Provide simple and predictable process to receive incentives	<i>Streamline registration and compliance costs</i>	Simplify registration and compliance processes If incentives require approval, consider using standardised applications or a one stop shop Consider using digital solutions
3. Enhance transparency of investment incentives	<i>Provide clear, accessible and up-to-date information</i>	Provide comprehensive information on available incentives and requirements through guides or digital platforms that are updated regularly Consider providing additional assistance to further enhance compliance and uptake

Monitoring

1. Determine what to monitor	<i>Compliance</i>	Track compliance with tax incentive conditions, informed by a compliance risk assessment, to minimise abuse, ensure proper use of public funds and more effective policy
	<i>Take-up</i>	Track which firms claim the tax incentive and their characteristics to understand how the policy works in practice
	<i>Cost</i>	Report on itemised cost per incentive for tax expenditure reports (see Evaluation)
	<i>Performance and potential outcomes</i>	Monitor performance of beneficiaries (e.g. employment, local sourcing), and non-beneficiaries, and other outcomes that might be linked to the policy to provide input for evaluations
2. Establish process	<i>How data is collected</i>	Assess if most relevant information is already collected in tax returns or other reporting, and what coverage gaps exist
	<i>Data format</i>	Aim for sufficient disaggregation, standard data formats and digital datasets
	<i>Who collects</i>	Provide tax authorities access to all relevant monitoring data, consider how other agencies (e.g. investment promotion agencies) can support monitoring
	<i>How data is secured and shared</i>	Ensure procedures and infrastructure in place to allow secure data sharing
3. Build capacity	Consider most appropriate means to expand data collection	
	Explore how to draw from other data sources to fill monitoring gaps	

Evaluation

1. Establish aims and governance	<i>Set goals</i>	Determine aims, scope, frequency, and evaluation criteria (e.g., effectiveness, efficiency, distortions, equity, administrability, policy coherence)
	<i>Establish mandate</i>	Require regular evaluations by law
	<i>Designate agency</i>	Designate unit or agencies in charge of evaluation and ensure sufficient staff, technical and financial resources Consider partnerships (across government bodies, with international or regional organisations, development agencies, universities, peer countries)
2. Determine most appropriate and feasible approach	<i>Assess and improve capacity</i>	Assess capacity, data needs and availability for evaluation approach
		Set coordination mechanisms with data-collecting agencies
		Develop plan for improving capacity, data collection, widening evaluation goals
	<i>Select or sequence approach</i>	A. Build inventory of tax incentives
		B. Construct descriptive statistics on tax incentive take-up, firm characteristics, observable outcomes
		C. Estimate direct costs: revenue foregone, administrative compliance costs
		D. Estimate benefits and additional costs: impact, spillovers, distortions
		E. Conduct cost-benefit analysis
3. Report on findings	Determine audience, format and frequency of reports	
	Ensure findings are clear and accessible for audiences	
	Develop recommendations for reform	
4. Consider and prepare for reform	Make a policy and political case for reform	
	Consider including in a package of reforms to mitigate costs	
	Consider best timing, potentially phased or sequenced changes	
	Communicate plans to promote transparency and predictability	

Further reading

- Platform for Collaboration on Tax (2025), Tax Incentives Principles, www.tax-platform.org/sites/default/files/publications/Tax-Incentives-Principles.pdf
- OECD (2025), "OECD Investment Tax Incentives Database 2024 update: Corporate income tax incentives in emerging and developing economies", OECD Business and Finance Policy Papers, No. 79, OECD Publishing, <https://doi.org/10.1787/b0de19dc-en>.
- OECD (2022), FDI Qualities Policy Toolkit, OECD Publishing, Paris, <https://doi.org/10.1787/7ba74100-en>.

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