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Designing, Negotiating and Implementing Tax Incentives

CASE STUDY 2

Beta Plastics Company

1. Background

Beta Plastics Company is a global producer of plastic pellets and resins, which are sold to other companies (such as automobile manufacturers and companies that produce consumer goods.) Beta purchases oil and refined products and produces a wide variety of plastics.

Beta, headquartered in France, is seeking to build a new factory to expand production. The country of Trinity has publicly committed that it will seek to attract Beta to build the factory in Trinity. The government sees two benefits to the new facility:

The factory will cost approximately \$1 billion, generating significant jobs for construction and the supply of building materials.

The government believes that Beta will be the cornerstone for attracting new investment by other companies. Manufacturing companies that require plastics as raw materials are likely to invest near-by in Trinity, in order to simplify their supply chains.

2. Your Task

We will break into two groups: One group of government officials for the country of Trinity, and one group of tax professionals for Beta Plastics. Each team must develop a strategy for the negotiat byg

3. Objectives

Each group should answer the following questions, which we will then discuss among all participants.

1. What are the objectives of this negotiation? What are realistic goals to achieve at the end of the negotiation?
2. How do you weigh short-term benefits (e.g., a period of exemption from income tax, or benefits on imported equipment) versus longer-term benefits (e.g., a longer period of reduced tax; incentives for future expansion)?
3. What is the relative importance of income tax incentives versus benefits with respect to other types of taxes?
4. What are realistic requirements to be imposed on Beta in order to secure the incentives?

Should geographic restrictions be imposed, so that the incentives are only available for investment in certain zones? What effects (positive and negative) arise from these limitations?
5. What should be the penalty if Beta fails to meet certain requirements?
6. How much time should be required to negotiate the incentives?
7. In connection with the incentive package, should other tax-related issues be considered (e.g., an advance pricing agreement for transfer pricing)?