



# TAX EXPENDITURE REPORT

LAO PEOPLE'S DEMOCRATIC REPUBLIC

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## BRIEF DESCRIPTION OF THE PUBLICATION

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In 2026, the Government of the Lao People's Democratic Republic, with technical support from the United Nations Development Programme (UNDP), prepared Lao PDR's first Tax Expenditure Report. The report provides a systematic assessment of tax expenditures in Lao PDR, defined as revenue foregone as a result of preferential provisions or deviations from the benchmark tax system. Tax expenditures play a significant role in Lao PDR's fiscal framework. The report covers the period 2019 to 2023 and uses the revenue foregone approach.

This methodology estimates the fiscal cost of tax expenditures by comparing actual revenue collected against what would have been collected under a benchmark tax system, without preferential treatment. The scope of the study includes an analysis of 540 Concession Agreements and government-controlled business projects, approved by the central authority and nine provinces. The report assesses expenditures across major tax categories, including Profit Tax, VAT, Customs Duty, Excise Duty and Non-Tax Revenue. The report serves as an evidence base to inform policy decisions on sustainable revenue mobilization in Lao PDR.

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# EXECUTIVE SUMMARY

Tax expenditures, defined as revenue foregone due to preferential provisions or deviations from a reference tax system, play a prominent role in Lao PDR's fiscal policy framework. In Lao PDR, tax expenditures are provided through legal instruments such as the Law on Investment Promotion, the Income Tax Law, the VAT Law, and the Customs Law, and are granted to encourage investment, support strategic sectors, enhance competitiveness and reduce the cost of essential goods and services. Unlike direct spending, tax expenditures are often less visible in the national budget, yet they have a tangible impact on revenue collection and public resource allocation. As such, their systematic analysis is essential for transparent, accountable, and efficient fiscal management.

The revenue foregone approach is the most widely used method for estimating the fiscal cost of tax expenditures and it is the method used in this Report. It calculates the amount of revenue the government loses by applying preferential tax treatments, such as exemptions or reduced rates, relative to what would have been collected under the benchmark (or reference) tax system. The method estimates this cost without assuming changes in taxpayer behaviour, investment patterns and/or the economic environment. This Report focuses on estimates of revenue foregone from profit tax, value added tax, customs duty, excise duty and non-tax revenue (specifically concession fees). The Report provides an overview of revenue foregone from all tax expenditures, then, for each tax type, provides a description of the benchmark tax system, total estimates of revenue foregone from the tax expenditures and a repository of associated tax expenditure provisions (in the appendix). Key findings from this report include:

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- Lao PDR grants a wide array of tax expenditures across multiple tax instruments,

including profit tax, VAT, customs duties, excise taxes and non-tax (particularly from mineral resources and land concessions), largely to promote investment, support priority sectors, and stimulate regional development. These tax expenditures are administered through various legal frameworks, such as the Tax Laws (Income Tax Law No. 67/NA, VAT Law No. 48/NA, Customs Law No. 81/NA and Excise Tax Law No. 68/NA), Law on Investment Promotion No. 14/NA, Special Economic Zone Decree No. 188/GoL and Presidential Ordinances. This institutional complexity of the tax expenditure system is exacerbated by the fragmented roles of multiple government entities, including the Ministry of Finance (Tax, Customs and State Asset Management Department), Ministry of Planning and Investment, and even provincial authorities. Each has partial authority to approve or implement exemptions, often with limited coordination or central oversight, leading to overlapping mandates, inconsistent application of incentives, and challenges in tracking and reporting the full fiscal cost of tax expenditures.

- Between 2019 and 2023, revenue foregone from tax expenditures in Lao PDR increased consistently in absolute terms each year, peaking twice at LAK395.5 billion in 2020 and LAK876.4 billion in 2023, representing 0.3 percent of GDP and 0.6 percent of GDP in the respective years. The total value of revenue foregone increased from LAK114.9 billion in 2019 to LAK876.4 billion in 2023.
- While revenue foregone followed an upward trend over the five-year period and increased strongly from 2019-2020, the largest increase was observed from 2022 to 2023. This was driven overwhelmingly by

the cumulative addition of new concession agreements, as well as expansions in economic activity (hence larger tax bases) and depreciation effects of the Lao Kip, with 2023 marking the peak year for total foregone revenue.

- VAT tax expenditure accounted for the largest share of revenue foregone at an estimated LAK483.4 billion or 0.32 percent of GDP in 2023, the bulk of which was dominated by import VAT exemptions (up to LAK401.1 billion and 0.26 percent of GDP). The second largest tax expenditure was linked to customs duty, which accounted for an estimated LAK388.2 billion (up to 0.26 percent of GDP) in revenue foregone in 2023. Combined, these two tax types provided the bulk of revenue foregone from tax expenditures, which could be indicative of three things in the Laotian context: (i) the fact that the country depends more on indirect taxes than direct taxes, hence, also has more revenue foregone embedded within indirect tax expenditures; (ii) the government's efforts to attract investment towards its priority sectors (defined in Article 9 of the Law on Investment Promotion No. 14/NA); and (iii) underpinning the above points is the fact that ASYCUDA data has relatively comprehensive records supporting TE estimation for border taxes like customs and import VAT.
- Revenue foregone from profit tax and concession fees, while pale in comparison to indirect tax expenditures, is also high. Revenue foregone across both increased steadily in absolute terms from 2019 to 2022, but dropped significantly in 2023 (the drop in 2023 was linked to a lack of data). The relatively low tax expenditures from profit tax mainly result from missing data rather than from fewer incentives. The associated revenue foregone estimates are based on tax incentives described under Article 11 of the Law on Investment Promotion No. 14/NA, granted to firms operating in Zones 1 and 2 as defined in Article 10 of the same law.
- Estimates provided herein are the lower bound of what would be the true cost of tax expenditures for three reasons. First, while the repository of tax expenditures identified tax expenditure provisions by tax type, the lack of granular data did not permit estimation of revenue foregone at the provision level, which significantly limited the scope of the analysis. Second, the revenue foregone approach is a conservative approach that does not incorporate behavioural responses to tax expenditure changes, changes which may ultimately influence the resulting tax expenditure estimates. Third, foregone revenue arising from those granted to beneficiaries outside of the tax legislation are not estimated. Thus, the estimates provided in this Report should be interpreted as the lower bound of the actual amount of revenue foregone from tax expenditures in Lao PDR.

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# LIST OF ABBREVIATIONS

<b>AHTN</b>	_____	ASEAN Harmonized Tariff Nomenclature
<b>ASEAN</b>	_____	Association of Southeast Asian Nations
<b>ASYCUDA</b>	_____	Automated System for Customs Data
<b>BTS</b>	_____	Benchmark Tax System
<b>CA</b>	_____	Concession Agreement
<b>CET</b>	_____	Common External Tariff
<b>CIF</b>	_____	Customs, Insurance and Freight
<b>CIT</b>	_____	Corporate Income Tax
<b>EFPD</b>	_____	Economic and Fiscal Policy Department
<b>FDI</b>	_____	Foreign Direct Investment
<b>FTA</b>	_____	Free Trade Agreement
<b>FY</b>	_____	Fiscal Year
<b>GDP</b>	_____	Gross Domestic Product
<b>HS</b>	_____	Harmonized System
<b>IMF</b>	_____	International Monetary Fund
<b>IPD</b>	_____	Investment Promotion Department
<b>IPO</b>	_____	Investment Promotion and Management Committee Office
<b>ITL</b>	_____	Income Tax Law
<b>LAK</b>	_____	Lao Kip
<b>LIP</b>	_____	Law on Investment Promotion
<b>MNE</b>	_____	Multinational Enterprise
<b>MOF</b>	_____	Ministry of Finance
<b>MPI</b>	_____	Ministry of Planning and Investment
<b>NSEDP</b>	_____	National Socio-Economic Development Plan
<b>OECD</b>	_____	Organisation for Economic Co-operation and Development
<b>PAYE</b>	_____	Pay As You Earn
<b>PIT</b>	_____	Personal Income Tax
<b>SEZ</b>	_____	Special Economic Zone
<b>TaxRIS</b>	_____	Tax Revenue Information System
<b>TE</b>	_____	Tax Expenditure
<b>TIN</b>	_____	Taxpayer Identification Number
<b>VAT</b>	_____	Value Added Tax

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**INTRODUCTION**

# INTRODUCTION

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## 1.1 Context of Tax Expenditure Reporting in Lao PDR

Tax expenditures represent a critical, yet often underappreciated, dimension of fiscal policy. Tax expenditures are provisions within a country's tax legislation that grant preferential treatment to certain groups of taxpayers or economic activities, thereby reducing the revenue that would otherwise be collected under the standard (i.e., "benchmark or reference") tax system. Tax expenditures are functionally equivalent to direct government spending, in that they aim to achieve policy objectives through tax concessions rather than through direct budgetary outlays. However, unlike direct expenditures that are subject to parliamentary or legislative approval and scrutiny, tax expenditures typically do not undergo the same level of oversight.

In Lao People's Democratic Republic (Lao PDR), tax expenditures are a significant feature of the tax system. They include exemptions from corporate income tax (specifically for strategic sectors defined in the Law on Investment Promotion No. 14/NA and strategic investors operating in defined (special economic) zones), reduced tax rates for prioritised industries and regions, value-added tax (VAT) and customs duties exemptions, as well as excise duty exemptions. These provisions are primarily designed to attract foreign direct investment (FDI) and domestic investment (in specific sectors, locations and regions), foster economic development, and support the government's broader social and economic goals, including poverty reduction and regional development.

The financing strategy developed under the 9th and the 10th National Socio-Economic Development Plans (NSED) emphasises the importance of strengthening domestic revenue mobilization as a cornerstone of socio-economic development. As Lao PDR continues to pursue sustainable and inclusive economic growth,

understanding the fiscal cost and effectiveness of tax expenditures becomes increasingly important within that context. OECD (2024) suggests "reforming those aspects of the tax system that introduce distortions or contribute to low revenues and limited equity of the tax system, and moving from profit-based to expenditure-based investment incentives", World Bank (2023a, 2023b) suggest "revising the law on investment promotion to curb tax incentives and broaden the tax base". Thus, it is important to gather information and report on the amount of foregone revenue due to these tax expenditures, and this can be done in the form of a tax expenditure report.

Table 1 summarises the estimates of revenue foregone by tax type, both in local currency units (Lao Kip billions) and as a percentage of GDP. In 2023, the total revenue foregone from tax expenditures is estimated at LAK876.4 billion (representing 0.6 percent of GDP that year), of which VAT revenue foregone is LAK483.4 billion and customs duty revenue foregone is LAK388.2 billion. The total amount of revenue foregone has fluctuated in absolute terms year-on-year from 2019 to 2023, peaking at both 2020 and 2023, the trend mimicked when analysing revenue foregone as a share of GDP, again peaking at 0.3% in 2020 and 0.6% in 2023. This upward trend underscores the prevalence of tax expenditures and the need for enhanced oversight and policy coordination to ensure incentives are efficient, targeted, and fiscally sustainable.

The bulk of revenue foregone is VAT and customs duty, reflecting Lao government's efforts to attract investment and stimulate specific priority sectors (particularly those identified in Article 9 of the Law on Investment Promotion No. 14/NA), support the purchasing power of citizens and keep to regional integration initiatives (through the ASEAN exemptions and reduced tariff rates linked to other bilateral free trade agreements and economic partnerships to which Lao PDR is a signatory). Underpinning these observations is the fact that ASYCUDA data has relatively comprehensive records supporting TE estimation for border taxes like customs duty and import VAT, making them easily identifiable.

**Table 1** Estimates of revenue foregone by tax type, 2019-2023

	2019	2020	2021	2022	2023
▪ <b>Total TE</b> (Bil. LAK)	114.86	395.45	287.57	518.27	876.42
▪ <b>Total TE</b> (% GDP)	0.088	0.294	0.206	0.356	0.578
▪ <b>Profit Tax</b> (Bil. LAK)	4.97	7.05	37.39	81.42	0.33
▪ <b>Profit Tax</b> (% GDP)	0.004	0.005	0.027	0.056	0.000
▪ <b>VAT</b> (Bil. LAK)	58.45	220.70	135.59	207.76	483.43
▪ <b>VAT</b> (% GDP)	0.045	0.164	0.097	0.143	0.319
▪ <b>Customs Duty</b> (Bil. LAK)	49.89	167.17	94.54	181.91	388.20
▪ <b>Customs Duty</b> (% GDP)	0.038	0.124	0.068	0.125	0.256
▪ <b>Excise Duty</b> (Bil. LAK)	1.56	0.53	1.65	2.18	4.46
▪ <b>Excise Duty</b> (% GDP)	0.001	0.000	0.001	0.001	0.003
▪ <b>Non-Tax</b> (Bil. LAK)			18.40	45.00	
▪ <b>Non-Tax</b> (% GDP)			0.013	0.031	

Source: Calculations using TaxRIS, ASYCUDA and State Asset Management Department Data.

## 1.2 Objectives of the Study

The primary objective of this report is to provide overall estimates of revenue foregone from tax expenditures in Lao PDR, covering the period from 2019 to 2023. Specific objectives of this study include:

- Define the Benchmark Tax System (BTS) for estimating tax expenditures;
- Provide estimates of revenue foregone from total tax expenditures, as well as from the major tax types (i.e., individual income tax, profit tax, VAT, customs duty, excise tax, non-tax revenue);
- Provide actionable policy recommendations on reforming tax expenditure analysis

## 1.3 Scope of the Study

The major tax categories considered for analysis in this study include: (i) Income Taxes, i.e., Individual Income Tax and Profit Tax; (ii) Value-Added Tax (VAT), both Domestic and Import VAT; (iii) Excise Duties; (iv) Customs Duties; and (v) any other government revenues that are important in the Lao PDR context, e.g., non-tax revenue (specifically, Royalty Fees and Rental of State Land).

For each tax type, the report will provide: (i) a description of the Benchmark Tax System; (ii) the tax schedule (for tax heads with tax bands and marginal tax rates, e.g., the individual income tax); (iii) estimates of revenue foregone from tax expenditures; and (iv) a repository of tax expenditure provisions by policy rationale and type of TE, i.e., exemptions, allowances, reduced rates etc (all reported in the appendix).

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**METHODOLOGY**



# METHODOLOGY

## 2.1 Benchmark Tax System

The benchmark (or reference) tax system of a specific tax describes the “general” tax system that encompasses a comprehensive tax base (which does not include preferential tax measures) and statutory tax rates applicable to all taxpayers in the jurisdiction (World Bank, 2024). Under each tax type, the benchmark tax system is defined according to four dimensions, namely:

(i) tax unit – i.e., the entity liable to pay the tax;

(ii) tax base – i.e., the total value of the transaction or income upon which the tax is charged;

(iii) tax rate – i.e., the statutory rate of the tax applied to the tax base;

(iv) tax period – the period of time used as a basis for calculating the amount of tax payable.

Any special provisions existing within the laws of Lao PDR that alter any of the above for a specific group or subset of taxpayers (e.g., individuals, firms and/or economic sectors and locations), represents a deviation from this benchmark regime. Some of the deviations do not represent TE and are considered a part of the benchmark system, whilst other deviations are considered tax expenditures and are identified as such under the respective tax headings (see below).

The benchmark tax system for Lao PDR has been compiled according to (i) the ‘legal’ approach – which involves identifying deviations from a general

tax regime, where the latter is defined based on the prevailing statutory framework for each major tax type; and (ii) the ‘normative’ approach – which considers that a general tax regime is defined in terms of optimal or ideal taxation, i.e.,

one grounded in good policy design, including fairness, simplicity and efficiency (minimal distortion). This benchmark definition provides a consistent reference point for identifying deviations that constitute tax expenditures. In addition, even where the benchmark is defined according to the legal approach, there are elements of normativity in the decision as the country’s tax laws are likely written with normative ideals in mind.

The scope of tax expenditures considered herein is confined to those identifiable within the laws of Lao PDR, i.e., statutory tax expenditures. Any tax relief granted to individuals, firms or activities outside of the tax legislation are not considered (such as those under Article 5 of the Law on Tax Administration No. 66/NA).<sup>1</sup>

The benchmark tax system in this report is based on the latest regulations during 2019–2023 (i.e., from January 2019 up to December 2023).<sup>2</sup> For example, the 2019 benchmark was used to generate the estimates for 2019 (similar for other years). For some taxes, especially CIT, the benchmark tax system does not cover all five years due to multiple regulations, while for royalty, customs duty, and concession fees the BTS stayed the same over the period. In addition, if one wishes to calculate revenue foregone from tax expenditures for prior years (e.g., for 2018), then the laws in place during those years should be reflected in the benchmark and repository.

<sup>1</sup> Article 5 of the Law on Tax Administration No. 66/NA suggests five tax obligations approved for exemption or reduction of taxes in compliance with: (1) Treaties or international agreements that the Lao PDR is a party; (2) Provisions set out in the Law on Investment Promotion No. 14/NA; (3) National Assembly’s Resolutions for necessary needed projects and nationally important projects; (4) National Assembly Standing Committee on the basis of government proposals on special exceptions or reduction in cases of force majeure or natural disasters.

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## 2.2 Data sources and limitations

Estimating tax expenditures through the revenue foregone approach relies on various administrative data sources and simplifying assumptions (see section 2.3 below). While this approach provides a foundational view of the fiscal cost of preferential tax regimes, it is constrained by the availability, structure, and quality of data. The data needed for estimation of revenue foregone linked to the six selected taxes is scattered, with profit tax, domestic VAT and other domestic tax data obtained from TaxRIS. For profit tax, the key variables needed for cross-checking and estimation are income, expenditure (i.e., deductions) and net profits (i.e., the tax base upon which rates apply), profit tax rate and actual profit tax collected. For the VAT, key variables are the exempt sales, allowable deductions and total VAT paid. TaxRIS also provided data on non-tax revenues, particularly from natural resources and concessions. Data on customs duty, excise tax and import VAT were obtained from the ASYCUDA system, which is comprehensive and also tracks import transactions exempted from customs duty, VAT, and excise, permitting estimation of revenue foregone (see Appendix A1).

While not directly linked to tax expenditures, the State Asset Management Department holds data on land rental and concessions, which help assess non-tax incentives, specifically natural resource fees and discounted state land lease rates (i.e., concession fees).<sup>3</sup> The former Investment Promotion Department (IPD) now known as the Investment

Promotion and Management Committee Office (IPO) provides a list of approved investment projects of concession and controlled business activities and incentive certificates granted under the Law on Investment Promotion No. 14/NA, which can be used to identify projects entitled to CIT holidays, customs and VAT exemptions on imported capital goods. IPO also provides data on the location of the projects, such as districts and provinces, which can be used to classify beneficiary taxpayers into the different zones as defined in Article 10 of the Law on Investment Promotion No. 14/NA. However, the data is not entirely digitized or centrally shared; making it difficult to verify tax benefit utilization vs. eligibility.

The estimation of tax expenditures, however, is significantly hindered by data limitations across key tax instruments, administrative systems, and institutional stakeholders. This report covers 540 projects between 2019 and 2023: comprising both Concession Agreement (CA) projects (i.e., identified tax expenditure provisions) and government-controlled business projects, approved by the central authority and nine provinces across three regions.<sup>4</sup> Of the 540 identified projects, 448 (approximately 83%) were successfully matched with valid taxpayer identification numbers (TINs), which allowed access to financial records from TaxRIS, ASYCUDA and other databases. The remaining 92 projects (approximately 17%) could not be matched with a TIN. Out of 448 projects with TINs, only 427 are used in this report (21 projects were excluded due to duplicate entity names linked to the same TIN or a single project linked to more than one TIN). Without TINs, it is impossible to monitor financial records and

<sup>2</sup> The 2019-2023 study period was determined based on data availability and reliability. TaxRIS, which records most domestic tax return data, was introduced in mid-2018. Furthermore, as TE data collection began in 2024-2025 and profit tax reporting is typically reported with a time lag, complete data is only available up to 2023 at the time of the analysis.

<sup>3</sup> For non-tax, the data is scattered. For example, amounts of non-tax revenue (e.g., mineral resource fees and land concession fees collected) are recorded in TaxRIS, but there are no details about the volume of mineral resources, benchmark rates, preferential rates, concession areas, or incentive periods available in the same database. This information is often sought out in the State Asset Management Department's database, but plagued with missing information.

<sup>4</sup> EFPD selected these nine provinces to represent the country's three regions, ensuring regional diversity while also covering projects approved by the central government (in addition to those approved at provincial level), with the goal of including all provinces in future tax expenditure reports.

ensure tax compliance. Most TINs came from centrally-administered projects, while some provinces had many TINs missing (Table A1 in the appendix shows coverage of financial data by tax type and province).

These constraints, as well as those discussed below, significantly impact the comprehensiveness of tax expenditure estimates.

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- Lack of granular taxpayer data is a key challenge across most tax types (see Appendix A1). One major obstacle is the absence of detailed data for certain taxes, especially salary tax. While salary tax represents a small but growing portion of domestic revenue, the government lacks individual-level income and deduction breakdowns, making it difficult to estimate foregone revenue from allowances, exemptions, or special treatments granted to specific categories (e.g., government officials or assembly members) granted through Art. 35 of the ITL No. 67/NA. There is a comprehensive PIT filing form detailing all breakdowns, but in fact, no records of PIT exist except for salary income submitted by companies. Thus, the only available data constituting a deviation from the benchmark tax system is the zero bracket (below which individuals are exempt from tax liability), which is classified as structural relief to enable proper functioning of the salary tax (hence, not TE).

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- No disaggregation of domestic VAT data by type of sector or activity. Recent analysis by international organisations shows that VAT could be a major source of foregone revenue (OECD, 2024; World Bank, 2023a, 2023b). While domestic VAT has a fairly detailed tax filing form detailing all necessary breakdowns, which allows tracking of associated tax expenditures at the aggregate level, the form does not include information about the

sector or activity for which the goods are used. This restricts the ability to identify which sectors or activities benefit most from VAT-related tax expenditures at the provision level (e.g., exemptions for investment projects vs. social sectors). Similar to domestic VAT, profit tax data lacks disaggregation by sector or activity. This is exacerbated by incomplete information from MPI, such as no information on location or sector. Thus, it is impossible to identify the investment zone and type of incentives. As a result, estimating the fiscal cost of sector-specific incentives, such as tax holidays or reduced rates for promoted sectors, is challenging, especially in priority industries identified in Article 9 of the Law on Investment Promotion No. 14/NA (see Section 4.2 and Appendix A1). In addition, Special Economic Zones (SEZs) are not yet identifiable with the existing data, making it impossible to generate revenue foregone estimates for any tax expenditure provisions within the SEZ.

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- Fragmented data across government institutions is also a key problem. Data is dispersed across multiple institutions, including the Tax, Customs, Investment Promotion and State Asset Management Departments, each using different formats, definitions and systems, with limited interoperability. There is no centralized tax expenditure registry, and limited data sharing protocols between the main stakeholders, making it difficult to consolidate exemption records and assess overlaps or duplication. To obtain datasets complete with the necessary information entails merging two or more data sets, significantly compromising the integrity (and possibly, the quality) of the data. The lack of interoperability also limits the tagging of exemptions to specific policy objectives or rationales. For example, in customs and VAT data, the various objectives

for granting exemptions are not consistently linked to legal provisions, limiting the ability to classify them accurately.

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- Beyond the immediate fiscal costs of foregone revenue, tax expenditures often generate significant indirect costs for governments, taxpayers and the wider economy. One major concern is the additional administrative and compliance burden. Tax expenditures are typically complex, requiring tax administrations to monitor eligibility and enforce compliance while obliging taxpayers to meet detailed reporting requirements. These processes increase costs for both parties and divert resources from more productive uses. Another indirect cost arises from the overlap between direct public spending and tax expenditures, since the latter are often not integrated into the annual budget allocation process and can duplicate existing programs. Given the scope of the report, however, no indirect costs will be modelled in the report.

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- The estimates provided in this report are the lower bound of the true cost of tax expenditures for three reasons. First, the revenue foregone approach that does not incorporate behavioural responses to tax expenditure changes, such as substitution effects, which may influence the resulting tax expenditure estimates. Second, foregone revenue arising from tax expenditures granted outside of the tax legislation are not estimated. Third, based on the currently available databases, only a limited number of TEs to CIT and non-tax revenue can be estimated, and there is no available data for PIT TE (as argued above). Thus, the estimates provided in this Report should be interpreted as the lower bound of the actual amount of revenue foregone from tax expenditures in Lao PDR.

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## 2.3 Estimation Methodology

This report employs the revenue foregone approach to evaluate the fiscal cost of tax expenditure provisions, for 540 projects comprising both CA projects and government-controlled business projects approved by the central authority and nine provinces across three regions. The method estimates the amount of tax revenue the government has not collected because of preferential tax treatments, compared to what would have been collected under the benchmark tax system (i.e., if the standard tax rules had been applied). For example, sector-specific exemptions (such as for the priority sectors defined in Article 9 of the Law on Investment Promotion No. 14/NA), geographic exemptions (such as for priority sectors in Zones 1 and 2 defined in the Law on Investment Promotion No. 14/NA, as well as special economic zones) and general exemptions from the tax base (such as domestic and import VAT exemptions in Article 12 of the VAT Law No. 48/NA).

The revenue foregone method is simple, transparent, and relatively easy to implement with available administrative data. However, it may overstate the cost of tax expenditures in some cases, as it does not account for changes in taxpayer behaviour that may result from changes in tax expenditure provisions. Despite this limitation, it remains a practical tool for providing policymakers with a clear, comparable estimate of the fiscal impact of tax incentives.

# 03

## OVERVIEW OF TAX EXPENDITURES

# OVERVIEW OF TAX EXPENDITURES

Current estimates suggest that tax expenditures in Lao PDR are prevalent and significant, though comprehensive and high-quality data remains limited (Table 2). In 2023, Tax Expenditure (TE) amounted to LAK876.4 billion, equivalent to 0.6 percent of GDP for that year.

This represents an increase from LAK518.3 billion in 2022, which can be attributed to a multitude of factors, including the persistence of tax expenditures, an expansion in economic activity linked to economic recovery (including both domestic consumption and imports) and the inflation and currency depreciation effects which elevated the tax base (increasing the local Kip value of most economic transactions). In addition, cumulative addition of newly approved CAs and controlled business projects also contributed to the steady increase in revenue foregone.

**Table 2** Estimated Tax Expenditure (Bil. LAK)

Tax category	2019	2020	2021	2022	2023
▪ Profit Tax	4.97	7.05	37.39	81.42	0.33
▪ VAT	58.45	220.70	135.59	207.76	483.43
▪ Excise Duty	1.56	0.53	1.65	2.18	4.46
▪ Customs Duty	49.89	167.17	94.54	181.91	388.20
▪ Non-Tax			18.40	45.00	
▪ Total TE	114.86	395.45	287.57	518.27	876.42

Source: Calculations using TaxRIS, ASYCUDA and State Asset Management Department

The highest shares of revenue foregone are from VAT TEs and Customs Duty TEs, the former dominated by revenue foregone on import VAT. The revenue foregone from VAT TEs increased from LAK207.8 billion (0.14 percent of GDP) in 2022 to LAK483.4 billion (0.32 percent of GDP) in 2023. This increase reflects the persistence of VAT exemptions on both domestic consumption and

imports (under Article 12 of VAT Law No. 48/NA), increased trade volumes, rising imports of capital goods and inputs for investment projects. Customs duty exemptions also have a huge fiscal impact. In 2023, TEs from customs duty represented LAK388.2 billion or 0.26 percent of GDP, an increase from LAK181.9 billion in 2022. The increases in customs duty exemptions are similar to those that contributed to an increase in revenue foregone from VAT.

**Table 3** Estimated Tax Expenditure (% GDP)

Tax category	2019	2020	2021	2022	2023
▪ Profit Tax	0.004	0.005	0.027	0.056	0.000
▪ VAT	0.045	0.164	0.097	0.143	0.319
▪ Excise Duty	0.001	0.000	0.001	0.001	0.003
▪ Customs Duty	0.038	0.124	0.068	0.125	0.256
▪ Non-Tax			0.013	0.031	
▪ Total TE	0.088	0.294	0.206	0.356	0.578

Source: Calculations using TaxRIS, ASYCUDA and State Asset Management Department.

Between 2019 and 2023, revenue foregone from tax expenditures increased in each year as a percentage of GDP, with notable peaks in both 2020 and 2023, respectively 0.3% of GDP and 0.6% of GDP (see Table 3). This follows a similar trend to changes in revenue foregone in absolute terms, the strong increase in 2020 signalling the surge in pandemic-related tax expenditures for import VAT and customs duty exemptions. The most significant increase in revenue foregone, however, occurred between 2022 and 2023, where revenue foregone spiked sharply relative to GDP. This jump can be attributed to a combination of factors: expanded VAT and customs exemptions linked to large-scale investment projects, inflation and currency depreciation increasing the value (in local currency) of exempted imports, and improved estimation and reporting (i.e., through the cumulative addition of newly approved CAs and controlled business projects and better identification of the border-related CAs and controlled business projects through the ASYCUDA data system).

Overall, the pattern highlights reliance on indirect tax expenditures, particularly VAT and customs duty, as the primary drivers of rising foregone revenue relative to GDP. Between 2019 and 2023, revenue foregone from tax expenditures also increased each year as a share of total tax revenue collected, reinforcing the growing fiscal cost of preferential tax treatments, with the trends largely mimicking the patterns as a percentage of GDP (Table 4). Revenue foregone as a percentage of tax peaked in 2020 and 2023, respectively 2.51% and 2.53%. VAT and customs duty still account for the largest shares throughout, reaching 1.4% and 1.1% of total tax revenue, respectively, in 2023. Profit tax expenditures rose steadily from 2019 to 2022, but dropped to zero in 2023, reflecting a lack of data (rather than a true decline in revenue foregone). The pattern, again, highlights the growing fiscal weight of indirect tax expenditures relative to total tax expenditures.

**Table 4** Estimated Tax Expenditure (% Tax)

Tax category	2019	2020	2021	2022	2023
▪ Profit Tax	0.028	0.045	0.202	0.326	0.000
▪ VAT	0.330	1.400	0.731	0.833	1.395
▪ Excise Duty	0.009	0.003	0.009	0.009	0.013
▪ Customs Duty	0.281	1.060	0.510	0.729	1.120
▪ Non-Tax			0.099	0.180	
▪ Total TE	0.647	2.508	1.551	2.078	2.528

Source: Calculations using TaxRIS, ASYCUDA and State Asset Management Depart-

Table 5 shows that tax expenditures are highly concentrated geographically and have increased substantially over time, rising from LAK114.9 billion in 2019 to LAK876.4 billion in 2023 (again, the sharpest increases occurred in 2020 and 2023). Khammouan stands out as the dominant beneficiary, with large spikes in 2020 and especially 2023 (LAK530.1 billion), indicating concentration in concession agreements. Savannakhet also shows a steady upward trend from 2019 to 2023. In contrast, provinces such as Borikhamxay and the Central Department exhibit volatility rather than consistent growth.<sup>5</sup> Several other provinces (e.g., Champasack, Sekong and Oudomxay) only begin recording significant amounts after 2021, suggesting new projects or improved reporting.

Overall, the pattern reflects increasing concentration of tax expenditures in a few key provinces, alongside expanding revenue foregone over time.

<sup>5</sup> Central Department is the central government or authority at the national level. As argued in Section 2.3, this study focuses on CAs and controlled business projects approved by the central government and nine selected provinces.

**Table 5** Estimated Tax Expenditure by location (Bil. LAK)

Tax category	2019	2020	2021	2022	2023
▪ Borikhamxay	33.742	16.031	45.738	13.531	11.185
▪ Department (Central)	8.038	16.433	41.726	103.733	25.272
▪ Khammouan	44.807	284.537	82.568	226.387	530.055
▪ Luangnamtha	5.276	1.701	2.620	5.160	12.785
▪ Champasack	0	0	0	1.082	41.707
▪ Salavan	0.531	2.166	1.065	0.684	0.924
▪ Bokeo	0	0	0.985	0.428	1.372
▪ Oudomxay	0	0	0.265	7.028	13.602
▪ Savannakhet	22.470	74.581	109.340	132.113	201.199
▪ Sekong	0	0	3.264	28.124	38.316
▪ Total TE	114.863	395.451	287.572	518.270	876.417

Source: Calculations using TaxRIS, ASYCUDA and State Asset Management Depart-

# 04

## TAX EXPENDITURES BY CATEGORY



# TAX EXPENDITURES BY CATEGORY

## 4.1 Tax Expenditure under the Individual Income Tax System

### 1. Benchmark Tax System

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
PIT	Individual	Employment Income less deductions	PIT schedule	Monthly

The tax unit for the individual income tax is the individual. Lao citizens are taxed on their worldwide income, but foreigners are taxed only on income earned from work carried out in Lao PDR. Broadly, three types of personal income are taxable in Laos, specifically: (i) Employment Income; (ii) Financial Income; and (iii) Other Income.

**Employment Income (Art. 34(1)-(2) of the ITL No. 67/NA)** in Lao PDR comprises salaries, wages, overtime, bonuses, allowances of executive directors and boards of directors; cash or in-kind benefits (e.g., housing allowances, vehicle use, telephone or internet top-ups, other services for personal purposes), as well as self-employment income from those who are not registered as a business (e.g., brokers, consultants, construction-repairs etc). **Financial Income (Art. 34(4)-(6) of the ITL No. 67/NA)** in Lao PDR comprises income from dividends or other benefits to shares or shareholders (the Lao version of capital gains), income from the sale or transfer of shares of an individual or legal entity and income from loan interest from outside the banking system, income from guarantee. **Other income (Art. 34(3), (7), (9)-(11) of the**

**ITL No. 67/NA)** in Lao PDR comprises income from online sales, lottery winnings, income from rental (e.g., land, home, building), income from intellectual property (e.g., patents and copyrights), transfer of real estate rights, and inheritance (from horizontal lineage).

**Art. 39 of the ITL No. 67/NA** stipulates the benchmark rate for employment income is progressive up to 25%, the benchmark rates for finance income range from 2% to 10%, and the benchmark rates for other income range from 1% to 10% (see Tables 6-8 below).

**Art. 35 of the ITL No. 67/NA** provides for exemptions from PIT, and while some of these income exemptions represent tax expenditure (see Appendix Table A2 for the list of tax expenditure provisions), others represent structural relief and are, thus, part of the BTS.<sup>6</sup> For employment income, these include salaries of LAK1.3 million or less, salaries of foreign diplomats, and staff and experts of international organisations, staff training and study support, allowances payable from social security (e.g., disability, birth/miscarriage, work injury or retirement). Types of other income which are exempt, but form part of the benchmark tax system include employee and employer

social security contributions, reserves of state social security and enterprise sector, gifts and prizes of LAK1.30 million or less and inheritance (from vertical lineage).

Employers withhold PIT from employees on a monthly basis. Individuals with additional income are required to file PIT returns periodically, according to the guidelines outlined in **Articles 39 – 43** of the Income Tax Law.

**Table 6** Employment Income Schedule

Monthly income (LAK)		Basis of computation (LAK)	Tax Rate	PIT of each threshold (LAK)	Total PIT (LAK)
0	1,300,000	1,300,000	0	0	0
1,300,001	5,000,000	3,700,000	5%	185,000	185,000
5,000,001	15,000,000	10,000,000	10%	1,000,000	1,185,000
15,000,001	25,000,000	10,000,000	15%	1,500,000	2,685,000
25,000,001	65,000,000	40,000,000	20%	8,000,000	10,685,000
65,000,001	+	-	25%	-	-

Source: Article 39 ITL No. 67/NA.

<sup>6</sup> Some provisions that look to fit the definition of tax expenditure are universally accepted to be a part of the benchmark system, whilst others exist to help define the scope of a tax or to enable it to function (sometimes referred to as 'structural relief'). These structural reliefs are treated as basic features of the tax system for various reasons, including administrative efficiency (i.e., when the cost of collection is more than the revenue foregone), redistribution and equity objectives and conformation to international agreements (World Bank, 2024).

**Table 7** Financial Income Schedule

Type	Rate
▪ The sale or transfer of shares of an individual or legal entity	2%
▪ Income from dividends or other benefits to shares or shareholders	10%
▪ Loan interest from outside the banking system, income from guarantee	10%

Source: Article 39 ITL No. 67/NA.

**Table 8** Other Income Schedule

Type	Rate
▪ The sale or transfer of agricultural land tenure for agricultural purposes	1%
▪ Online sales	2%
▪ Lottery winnings	5%
▪ Income from rental	10%
▪ Income from sport and performance activities	10%
▪ Income from non-commercial activities of government and social organizations	10%
▪ Income from intellectual property	5%
▪ Transfer of real estate rights	2%
▪ Inheritance beyond horizontal lineage	2%
▪ Consulting fees	5%
▪ Gift as cash or in kind	5%

Source: Article 39 ITL No. 67/NA.

## 4.2 Tax Expenditure under the Corporate Income Tax System

### 1. Benchmark Tax System

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
CIT	Business enterprise	Net business income - allowable expenses + unallowable expenses	20%	Annual

Lao PDR operates a worldwide system of corporate taxation. The benchmark tax unit for CIT is a business enterprise, including the self-employed (Art. 11 ITL No. 67/NA). Art. 3.10 ITL No. 67/NA defines an enterprise as a business established as an individual or legal entity, according to the law. Art. 12 ITL No. 67/NA outlines that enterprises established by a person who has not settled (i.e., non-residents)<sup>7</sup> and are not established according to the law but do generate taxable income in Lao PDR are also subject to the Profit Tax on their income derived in Lao PDR. Small and medium enterprises with annual turnover of less than LAK400m that do not maintain proper accounting records (and are not registered for VAT) and derive income that is not subject to income tax pursuant to the ITL, can pay the micro-enterprise tax or lump-sum tax, Lao's version of a simplified tax regime (Art. 29 ITL No. 67/NA). The lump-sum tax is paid in place of the profit tax, based on an agreement with the tax office, and is considered part of the benchmark tax regime since it meets the definition of a structural relief.

Art. 14 ITL No. 67/NA defines the tax base for the calculation of Profit Tax as annual business income minus annual deductible expenses, plus unallowable expenses (i.e., expenses that are not allowed as a deduction). Allowable deductible expenses incurred in generating a taxable profit do not constitute tax expenditure as they are considered a normal part of calculating taxable income. Unallowable expenses are outlined in Art. 18 ITL No. 67/NA. The ITL recognizes straight line-, declining balance- and activity-based methods in calculating depreciation, but outlines only the straight-line depreciation rates in Art. 19, which are assumed as the benchmark. Any preferential treatment offered to taxpayers, whereby they may depreciate assets at a rate faster than those described above, may represent TE.

<sup>7</sup>A "person who has not settled" (i.e., non-resident) is defined in Article 3.14 ITL No. 67/NA as a person who does not have a permanent address for living but does make a living and operate business in Lao PDR.

Articles 15 and 16 ITL No. 67/NA stipulate benchmark corporate tax rates in Lao PDR, i.e., 20% for all companies (both domestic and foreign) and 22% for companies that produce, import and supply tobacco products (2% to be contributed to the Tobacco Control Fund). Companies engaged in mining activities are taxed at 35% (removed from FY 2022), which represents a negative tax expenditure, but is considered part of the BTS (following international best practice). Article 29 ITL No. 67/NA provides rates for lump-sum tax which range from 1% to 3%, depending on the amount of income and the type of business activity (Table 9). Micro-enterprises with income up to and including LAK 50 million are exempt from CIT and it forms part of the

benchmark (it is a structural relief, since it aligns with the threshold for tax liability under the lump-sum tax).

Art. 16 ITL No. 67/NA provides a list of exempt incomes from CIT (in the form of sectoral reduced rates and tax holidays), most of which are TE (see Appendix Table A3 for a list of tax expenditure provisions). SEZ Decree No. 188/GoL (Articles 40(2), 42, 43(2)) and Law on Investment Promotion No. 14/NA, dated 17 November 2016 (Articles 10-11) grant a raft of tax exemptions on corporate incomes of qualified firms operating in specific sectors and within the SEZ, all of which are meant to boost investment promotion and all of which constitute TE. Tax losses may be carried forward for up to 5 years. Any provision allowing for a longer carry-forward of losses would represent TE. The period for income tax is one year (January to December).

**Table 9** Micro Enterprise Income Tax

Annual Turnover	Tax Rate (% of turnover)		
	Agriculture, industry, manufacturing	Commerce	Services
≤LAK50m	0%	0%	0%
LAK50m to LAK400m	1%	2%	3%

Source: Article 29 of ITL No. 67/NA.

Article 14.2 of ITL No. 67/NA stipulates that for companies that do not follow accounting standards (or that file an incomplete tax declaration) and for payments to non-residents without established enterprises in Lao PDR, are subject to a compulsory income tax on deemed profits (see Table 10). For businesses that operate multiple activities but cannot separate turnover by business activity, the turnover of the main

business will be used for calculation. The compulsory income tax is considered as a part of the benchmark regime. This is primarily because for many taxpayers the compulsory income tax likely results in a higher tax burden than under the profit tax but by definition this is not measurable, as the compulsory tax only applies in cases where it is not possible to calculate profit tax liability. In addition, the compulsory income tax partly fits the definition of a structural relief. Table 10 prescribes the following rates for profit of the company. After obtaining the estimates of profits using the rates below, the profit tax is calculated based on the estimated profit.

**Table 10** Compulsory Gross Profit Rates

Business type	Compulsory gross profit rate
▪ Agriculture and handicraft	7%
▪ Industry and manufacturing	10%
▪ Commerce and service	15%
▪ Electricity, power and mining	30%

Source: Article 15 of ITL No. 67/NA.

The data for profit tax expenditures are obtained from profit tax returns within TaxRIS. This report's profit tax TE estimation relies on data from 66 observations from a total of 1030 observations, representing 6.4% of the sample. Profit tax expenditures are entirely profit-based incentives that reduce the amount tax paid on profits (e.g., tax holidays and reduced rates under Article 14 of the Law on Investment Promotion No. 14/NA, Article 35

of the Income Tax Law No. 67/NA and Article 40 of the SEZ Decree No. 188/GoL). See Appendix Table A3 for the list of tax expenditure provisions.

**Table 11** Estimated Tax Expenditure under the CIT

	Revenue Foregone Estimates				
	2019	2020	2021	2022	2023
▪ Total (LAK Bn.)	4.97	7.05	37.39	81.42	0.33
▪ CIT Foregone (% GDP)	0.004	0.005	0.027	0.056	0.000
▪ CIT Foregone (% Tax)	0.028	0.045	0.202	0.326	0.000
▪ Total (% CIT Collected)	0.225	0.408	1.368	2.057	0.01

Source: Article 29 of ITL No. 67/NA.

Revenue foregone from the profit tax also increased steadily year-on-year from 2019 to 2022, peaking at LAK 81.4 billion in 2022 (equivalent to 0.06% of GDP in the same year), an increase from LAK 37.4 billion in 2021: representing a more than 100 percent rise. This steady increase in revenue foregone from profit tax CAs can be attributed to an increase in the number of qualifying projects and sectors benefitting from tax holidays under Article 12 of the Law on Investment Promotion No. 14/NA. Broadening the eligibility criteria of many priority sectors has also contributed to the increased revenue foregone, the process exacerbated by the lack of formal sunset clauses in the allocated tax incentives. In addition to the reasons already explained above, the increase is also driven by the cumulative number of samples and the improved availability of data in recent years. For example,

records from 2022–2023 are more complete compared to those from 2019–2020, permitting better estimation of revenue foregone.

Regarding the availability of financial data, the distribution varies across provinces (see Table A1). While import-related activities were easily identified, other financial return data are reported much less frequently. In particular, many projects report net losses, possibly due to high operating costs, overstated expenses, or profit-shifting practices.<sup>8</sup> The data also shows that the reported profit tax base is very small, which results in low tax collection even when firms may generate significant revenues. This discrepancy suggests that although many projects appear operational based on their import activity, their Profit Tax data in TaxRIS is incomplete or inconsistently reported, raising concerns about tax compliance and data integration.

<sup>8</sup> Profit Tax reporting is very low, with only 9.8% of TINs having recorded profit data (see Table A1). In some provinces the reporting rate is extremely low, such as 0% in Borikhamxay Province, 1.9% in Oudomxay Province, and 3.4% in Khammouan Province, even though these areas show substantial import activity. In addition, projects that are under profit tax exemption periods often submit financial reports irregularly (making them impossible to track), and when a parent company operates multiple projects, it is required to submit separate financial reports for each project, but this requirement is often not followed, making it impossible to estimate TE.

## 4.3 Tax Expenditure under the Value Added Tax System

### 1. VAT Benchmark Tax System

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
VAT	Individual, legal entity or organisation that operates a business under the VAT system	<ul style="list-style-type: none"> <li>For imports: <b>CIF + applicable customs and excise duties</b></li> <li>Domestic supplies: <b>value + applicable excise duty</b></li> </ul>	10%	<ul style="list-style-type: none"> <li><b>Point of importation</b></li> <li><b>Monthly</b></li> </ul>

The benchmark tax unit for the VAT is the individual, legal entity or organization that operates a business under the VAT system in Lao PDR (**Art.3.7 of VAT Law No. 48/NA**). The tax base (i.e., taxable supplies) for the purposes of VAT is defined in **Article 11 of VAT Law No. 48/NA** to include importation of goods, supplies of goods and services in Lao PDR by individuals, legal entities or organizations whose enterprises are registered under the VAT system, supplies of services in Lao PDR by non-residents and not-established enterprises according to the laws of Lao PDR, supplies of services outside the SEZs in Lao PDR by enterprises established in SEZs and supplies of goods and services through electronic systems.

**Article 12.1 VAT Law No. 48/NA** of the VAT law lists the imported VAT exempt supplies in Lao PDR. Some of these exemptions form part of the benchmark tax system, specifically those that are part of international conventions (e.g., the importation of aircraft, fuel used

in international transport services, stamps, supplies for the work of embassies and international organisations etc.), whilst other specific, targeted exemptions constitute tax expenditure (see Appendix Table A4 for the list of VAT tax expenditure provisions). **Article 12.2 VAT Law No. 48/NA** lists the domestic VAT exempt supplies, most of which represent TE.

**Articles 12.2 and 12.3 of the Law on Investment Promotion No. 14/NA** provide for VAT exemption on, respectively, (i) the import of raw materials, mineral ore, equipment and parts used in the production for export; and (ii) the use of domestic raw materials which are not natural resources to produce finished and semi-finished products for export. These provisions do not constitute TE as there is a zero-rating on the output (i.e., exports), were the zero-rating on inputs to be removed, firms would be able to claim an input VAT credit. Thus, there is no foregone revenue from these provisions.<sup>9</sup>

<sup>9</sup> The Law on Investment Promotion No. 055/MPI, dated 10 January 2025 updates these provisions in Articles 12.2 and 12.3 respectively. It provides for VAT exemption on, respectively, (i) the import of raw materials, mineral ore, equipment and parts used to serve export production and (ii) the use of domestic raw materials, equipment and parts to serve the manufacturing of import replacements. While the first one does not constitute TE as there is a zero-rating on the output (exports), the second is a clear TE meant to reinforce the import-substitution strategy.

Article 15 VAT Law No. 48/NA stipulates the VAT base for domestic supplies to be the value plus any applicable excise duties. The VAT base for imports is calculated as the cost, insurance and freight (CIF) value plus any applicable customs or excise duties. The benchmark VAT rate in Laos is currently 10% (the rate had been reduced from 10% to 7% from 01 January 2022 in response to the COVID-19 pandemic). Export of goods (including processed natural resources) are charged VAT at 0%, which does not represent TE (Article 17 VAT Law No. 48/NA). Export of unprocessed natural resources is charged at the prevailing statutory rate, and a reduced rate on that would constitute tax expenditure. VAT is payable on a monthly basis.

**Table 12** Estimated Tax Expenditure under the VAT

	Revenue Foregone Estimates				
	2019	2020	2021	2022	2023
▪ Domestic VAT (LAK Bn.)	0.01	0.99	4.86	19.30	82.33
▪ Domestic VAT (% GDP)	0.000	0.001	0.004	0.014	0.057
▪ Domestic VAT (% Tax)	0.000	0.006	0.026	0.077	0.238
▪ Domestic VAT (% VAT Collected)	0.000	0.021	0.085	0.326	0.928
▪ Import VAT (LAK Bn.)	58.44	219.71	130.73	188.46	401.10
▪ Import VAT (% GDP)	0.044	0.163	0.094	0.129	0.264
▪ Import VAT (% Tax)	0.329	1.394	0.705	0.756	1.158
▪ Import VAT (% VAT Collected)	1.079	4.654	2.290	3.185	4.526

Source: Calculations using MOF Data.

This report's domestic VAT TE estimation relies solely on data from 131 observations classified as exempt, which represents 1.8% of the total number of observations and 28.4% of observations with VAT data. The report's import VAT TE estimation, on the other hand, relies on 13,116 observations classified as exempt, representing 34.9% of observations with import VAT greater than zero (i.e., those expected to have paid their VAT). In addition, based on the data provided by the MOF (Tax Department), the estimate of domestic VAT TE is derived from the column "Total sales of VAT exemption," which combines both domestic and export sales. However, exemptions on domestic sales are classified as TE, while exemptions on exports are treated as part of the benchmark. Consequently, the reported figures for domestic VAT TE may be overstated. For future estimations, it will be necessary to disaggregate this column and include only domestic exemptions in the estimation.

VAT tax expenditures are entirely tax exemptions linked to domestic supplies and imports (no zero-rated domestic supplies exist in Lao PDR's tax laws). Revenue foregone from VAT tax expenditures increased in absolute terms from LAK58.45 billion in 2019 to LAK220.7 billion in 2020, then dropping significantly to LAK135.59 billion in 2021. VAT tax expenditure increased thereafter, peaking at LAK483.43 billion in 2023. This exact trend was mimicked when analysing as a percentage of GDP and as a percentage of tax, again, peaking at 0.32 percent of GDP in 2023. The bulk of revenue foregone from VAT tax expenditures was driven by import VAT exemptions, which, themselves, mimicked the trend of overall VAT TE. The surge in 2020 may be associated with the effects of the pandemic whereby most businesses received VAT waivers on their imports (also possibly those importing materials needed to combat the health effects of the pandemic). In addition, part of the rise can be attributed to unchanged VAT exemptions still materialising (there was no substantive review or elimination of VAT exemptions during the sample period, so widespread VAT-exempted goods and services continue to contribute heavily to revenue foregone).

Domestic VAT TE itself increased steadily year-on-year, from LAK0.01 billion in 2019 to LAK82.33 billion in 2023. For domestic VAT TE, the increase in revenue foregone from 2019 to 2020 was very marginal, suggesting that the surge in total VAT TE between 2019-20 was driven overwhelmingly by import VAT exemptions. Likewise, the surge from 2022 to 2023 may have been driven by an expansion in economic activity, the sustained VAT rate reduction and a continuation of broad exempted items (both domestic and foreign). It is also possible that government measures have favoured maintaining exemptions rather than developing an efficient VAT refund system for businesses (World Bank, 2023a).

## 4.4 Tax Expenditure under the Customs Duty

### 1. Benchmark Tax System under Customs Duty

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
Customs Duty	Importer	CIF	AHTN 2017 Common External Tariff	Various

Article 12 of the Customs Law No. 81/NA defines the benchmark unit for customs duty as the importer (i.e., individual, business, legal entity). The Cost, Insurance and Freight (CIF) value of imported goods is the primary basis for determining customs duty liability for imported goods where ad valorem duty rates apply (Art. 16 Customs Law No. 81/NA). Tariff classification and preferential origin are also key elements necessary for establishing duty liability as they incorporate Free Trade Agreements to which Lao PDR is a Party (Art. 18 Customs Law No. 81/NA).

Articles 91-101 Customs Law No. 81/NA grant exemptions and suspension of customs duty on certain products, some of which form the benchmark tax system and others constituting TE. Likewise, certain international agreements incorporate provisions that extend import duty exemptions to various items. Duty exemptions enshrined in each of the Kyoto Convention, Vienna Conventions (reinforced in Art. 91 (Amended) of Customs Law No. 81/NA), Chicago Convention and Florence Agreement are considered as part of the benchmark tax system and do not, thus, constitute TE.

Lao PDR is a part of the following customs agreements and free trade areas and/or agreements with ASEAN dialogue countries:

- ASEAN Trade in Goods Agreement (ATIGA);
- ASEAN China Free Trade Agreement (ACFTA);
- ASEAN Korea Free Trade Agreement (AKFTA);
- ASEAN Japan Comprehensive Economic Partnership;
- ASEAN Australia New Zealand Free Trade Area;
- ASEAN India Free Trade Area;
- Asia-Pacific Trade Agreement and Laos-Vietnam Free Trade Agreement.

Benchmark duty rates are based on the Association of Southeast Asian Nations (ASEAN) Harmonized Tariff Nomenclature (AHTN), incorporating the above free trade areas and customs agreements. Benchmark duty rates range between 0% and 40%, depending on the product category (at the HS Code level) and whether the goods are from an ASEAN country or another country. Tax expenditures arise where some imports or specific importers are charged lower or zero tariffs for goods that ought to be taxed under the appropriate customs

agreement. Articles 12.1 and 12.2 Law on Investment Promotion No. 14/NA provides customs tax exemptions on: (i) the import of materials and equipment which may not be supplied or produced in Lao PDR, to form the fixed assets and machinery directly used for production (also stipulated in Article 88 Customs Law No. 81/NA); and (ii) import of raw materials, mineral ore, equipment and parts to be used in the production of export (also stipulated in Article 90(4) Customs Law No. 81/NA). Both these provisions constitute TE (see Appendix Table A5 for the list of customs duty tax expenditure provisions). Customs duties are payable at the time of import, thus, there is no specific tax period for the benchmark customs duty system.

**Table 13** Estimated Tax Expenditure under the Customs Duty

	Revenue Foregone Estimates				
	2019	2020	2021	2022	2023
▪ Total (LAK Bn.)	49.89	167.17	94.54	181.91	388.20
▪ Customs duty foregone (% GDP)	0.038	0.124	0.068	0.125	0.256
▪ Customs duty foregone (% Tax)	0.281	1.060	0.510	0.729	1.120
▪ Total (% of customs duty collected)	5.159	15.624	8.000	8.244	13.220

Source: Calculations using MOF Data.

This report's customs duty TE estimation relies solely on data from 15,742 observations, which represent 25% of all observations with customs value greater than zero (i.e., those who are not eligible for exemptions). Revenue foregone from customs duty TE follows a similar fluctuating trend to VAT TE. It increases from LAK49.89 billion in 2019 to LAK167.17 billion in 2020, the increase possibly driven by customs duty exemptions

associated with imports to combat the effects of the pandemic. TE then drops to LAK94.54 billion in 2021, before increasing steadily thereafter and peaking at LAK388.20 billion in 2023. As a percentage of GDP, foregone revenue rose from 0.125% of GDP in 2022 to 0.26 percent of GDP in 2023. The peak in revenue foregone in 2023 can

be explained by persistent incentives under the Law on Investment Promotion No. 14/NA, increased import activity amid the country’s economic recovery,

exchange rate depreciation and inflation effects (which increased the imported goods’ kip value, even if import volume may have remained constant).

## 4.5 Tax Expenditure under the Excise Duty

### 1. Benchmark Tax System under Excise Duty

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
Excise Duty	Item	Various, outlined in Excise Tax Law No. 68/NA	Various, outlined in Excise Tax Law No. 68/NA, Art. 15 (effective 1/1/2020-31/12/2021); Section IV, Art. 15 of Law on Amendment No. 01/NA (effective 1/1/2022-8/10/2023); and Arts. 2 and 3 of Presidential Ordinance No. 003/P (Effective 9/10/2023-31/12/2023)	Monthly

The benchmark tax unit for excise tax is ultimately the individual/consumer (who bears the cost of the tax), however the liability for paying the tax will not always be with the individual: it may be with a legal entity or organization that supplies locally or imports the excisable good. During 2019–2023, the BTS under excise duty operated in accordance with Excise Tax Law No. 68/NA; however, parts of the law were amended in 2022 and 2023, respectively. **Article 10 Excise Tax Law No. 68/NA** outlines that excise taxpayers might be the goods importer, manufacturers of goods, service providers or

**Article 14 Excise Tax Law No. 68/NA** stipulates the tax base for excise duty to be calculated as follows: (i) for imported goods, the cost, insurance and freight (CIF) value, plus any applicable customs duties; and (ii) for locally supplied goods and services, the value at the time of supply. An exception is for imported beer, where excise tax is charged first according to (i) and then again on the difference between (i) and the wholesale price at the time of local supply. **Article 12 Excise Tax Law No. 68/NA** provides for exemptions from excise tax for some goods and services, some of which do not constitute tax expenditures i.e.,

they are a part of the benchmark tax system (all the exempt excisable goods fall within exemptions granted to diplomats and international organisations, international conventions, as well as the defence forces).

There is no single benchmark tax rate for excise tax. The benchmark rates for each product category and sub-category are as listed in the **Article 15 Excise Tax Law No. 68/NA, Law on Amendment**

**No. 01/NA of August 2021 and Presidential Ordinance No. 003/P of October 2023.** All excise tax rates in Lao PDR are charged at an ad-valorem rate. Importers of excisable products file and pay the excise tax at the time of customs clearance, while domestic manufacturers and service providers file on a monthly basis and pay the excise tax no later than the 15th day of the following month.<sup>10</sup> See Appendix Table A6 for the list of excise duty tax expenditure provisions.

**Table 14** Estimated Tax Expenditure under the Excise Duty

	Revenue Foregone Estimates				
	2019	2020	2021	2022	2023
▪ <b>Total</b> (LAK Bn.)	1.56	0.53	1.65	2.18	4.46
▪ <b>Excise duty foregone</b> (% GDP)	0.001	0.000	0.001	0.001	0.003
▪ <b>Excise duty foregone</b> (% Tax)	0.009	0.003	0.009	0.009	0.013
▪ <b>Total</b> (% of excise duty collected)	0.031	0.014	0.038	0.039	0.062

Source: Calculations using MOF Data.

This report’s excise duty TE estimation relies solely on data from 132 observations, which represent only 2.9% of all observations with excise value greater than zero (i.e., those who are not eligible for excise exemptions). Revenue foregone from excise duty TE is much lower than other indirect taxes. It dropped from LAK1.6 billion in 2019 to LAK0.53 billion, then increased steadily thereafter and peaked at LAK4.5 billion in 2023. As a percentage of GDP, revenue foregone is more stable,

averaging 0.01 percent of GDP. The increase revenue foregone from 2021 can be attributed to the delayed application of changes in excise tax rates introduced by the Tax Law Amendment 2021 (No. 01/NA dated 07 August 2021) and the Presidential Ordinance 002/P (dated 28 September 2023). The increase can also be attributed to exchange rate depreciation and inflation effects (which increased the imported excise goods’ kip value).

<sup>10</sup> Article 18 of Excise Tax Law No. 68/NA.

## 4.6 Tax Expenditure under Non-Tax Systems

### 1. Royalty Fees

#### ■ Benchmark Tax System under Royalty Fees

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
Royalty Fees	Local/foreign persons, Legal entities	Value of sales of applicable resources	Various, outlined in Presidential Ordinance No. 001/P 2015	Time of sale

Royalty Fees from natural resources constitute financial obligations for local and foreign persons or legal entities operating a business regarding natural resources<sup>11</sup> (Art. 2 Presidential Ordinance No. 001/P 2015).<sup>12</sup> The tax base for royalty fee is as defined in Art. 3 Presidential Ordinance No. 001/P 2015. This states that the rate is based on “production, economic growth rates, and the financial and economic policies of the government”. In Articles 5-7, it is stated that the fee is charged on an ad-valorem basis, as a percentage of sale value. Thus, the base is the value of sales of applicable resources. One exception is Mineral resources

serving construction business (Art. 5b Presidential Ordinance No. 001/P 2015), where a specific rate is applied per cubic meter of the minerals listed therein. The royalty fee rates are outlined in Articles 5-7 for Minerals, Non-Timber Forest Products and natural water resources for hydropower projects, respectively. The Royalty Fee is payable at the time of sale.

<sup>11</sup> Defined as “minerals, non-timber forest products, and water resources” (Article 4).

<sup>12</sup> Presidential Ordinance 002/P, dated 28 September 2023, supersedes this law; however, the definition of the tax unit remains the same. The Ordinance, however, took effect from 01 January 2024, which puts it outside the scope of this report.

## 2. Rental of State Land

### ■ Benchmark Tax System under Rental of State Land

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
Rental of state land	Investor	Size of land (ha)	<ul style="list-style-type: none"> <li>■ The tax rate for state land is based on the market value.</li> <li>■ For concession agreements, benchmark rates as outlined in Presidential Ordinance 02/2009</li> </ul>	One year

The tax unit for rental of state land is the investor (either foreign or local) who makes use of the land for their business venture. The benchmark base for the rental of state land is the size of the land parcel being rented, normally denominated in hectares (ha). The benchmark rate at which state land is rented is the prevailing market value of the land. For concession agreements, the benchmark rates are according to sector and zone and are outlined in **Presidential Ordinance No. 02/P dated 18 November 2009**. The tax period is one year. A list of non-tax tax expenditures can be found in appendix Table A7 for the list of tax expenditure provisions.

This report's non-tax TE estimation relies solely on data from 11 observations within a total of 278 potentially useful observations, representing 3.96% of total non-tax observations. The estimates of revenue foregone show that concession fees increased strongly between 2021 and 2022 (no data for 2023). This increase can be attributed to the same effects that contribute to increased profit tax expenditures, given that concession fee exemptions are also granted under the Law on Investment Promotion No. 14/NA. Specifically, an increase in the number of qualifying projects and sectors benefitting from tax holidays under Article 12 of the Law on Investment Promotion No. 14/NA, as well as broader eligibility criteria of many priority sectors has also contributed to the increased revenue foregone.

**Table 15** Estimated Tax Expenditure under Non-Tax Revenue

	Revenue Foregone Estimates				
	2019	2020	2021	2022	2023
▪ <b>Total</b> (LAK Bn.)			18.40	45.00	
▪ <b>Concession Fee Foregone</b> (% GDP)			0.013	0.031	

Source: Calculations based on MOF and State Asset Management Department Data.

Nevertheless, estimating TE linked to non-tax revenue is difficult due to challenges in identifying an appropriate benchmark. First, Presidential Ordinance No. 02/P on Land Concession Fees (2009) classifies investment zones outside SEZs into three categories, but there is no formal regulation specifying which districts belong to each category, making it impossible to determine the correct benchmark based on project location. Second, some mineral types specified in CAs are not listed in Article 12 of the Ordinance. Third, Article 12 does not define land concession fees for the construction or mine-closure phases of mining projects.

# 05

## POLICY RECOMMENDATIONS

# POLICY RECOMMENDATIONS

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Tax expenditures serve as an important policy tool in Lao PDR, enabling the government to promote investment, support priority sectors, and advance broader economic and social objectives. By reducing the tax burden on targeted activities, such as for priority sectors (Article 9 of the Law on Investment Promotion No. 14/NA) and essential services (Article 12 of VAT Law No. 48/NA), tax expenditures can attract FDI, enhance competitiveness and ultimately stimulate economic growth. They also allow the government to support vulnerable sectors or populations, without requiring direct budgetary spending. Within this context, systematic analysis of tax expenditures, particularly through estimating revenue foregone, plays a critical role in evaluating their effectiveness and fiscal impact. By quantifying the cost of each TE provision relative to the BTS, policymakers can assess whether these measures deliver value for money and align with national priorities (such as those defined in the NSEDP). This analysis not only enhances transparency, but also facilitates comparison with direct expenditures and supports integration into the budget process. Over time, it enables evidence-based reforms by identifying which TE provisions should be rationalised to ensure more efficient use of public resources.

Based on the analysis above, core policy recommendations include.

## ■ Improve Data Collection and Granularity

Accurate estimation of tax expenditures in Lao PDR is significantly constrained by poor data availability and

limited detail in tax records. Given these significant data and institutional constraints identified, future TE reporting should prioritize strengthening data integration, standardization, and inter-agency coordination. In particular, assigning a TIN to every investment project at the approval stage would enable tracking across databases such as TaxRIS and ASYCUDA. For many taxes, including CIT and VAT, there is no sectoral or activity breakdown of exempted transactions, and exemptions are often not tagged to specific policy objectives. This severely limits the government's ability to identify which sectors, firms, or projects benefit most from the tax expenditures, making it difficult to thoroughly assess their costs. Addressing this challenge requires substantial improvements in the country's tax data infrastructure.

Specifically, tax filing forms should be revised to include all key variables (income, expenditure, profit, tax rate, profit tax collected) within a single form, and enforced through mandatory electronic submission even during exemption periods, with penalties for non-reporting. For PIT, reporting should be expanded for salary income by requiring withholding agents and self-employed taxpayers to file standardized returns. In addition, non-tax data should be standardized by linking revenue records with underlying bases (e.g., concession area, resource volume, benchmark and preferential rates) through a shared database with the State Asset Management Department and other related agencies.

In addition, tax filing forms should be revised to include standardized fields that capture the legal basis, nature of tax expenditures claimed (e.g., exemptions, rate reliefs) and policy rationale. Investment projects that benefit from tax holidays or exemptions should be required to file periodic reports detailing their use of tax benefits, economic performance, and compliance with eligibility criteria. Furthermore, continued eligibility for tax expenditures can be made conditional on timely submission of accurate reports and compliance with core eligibility conditions.

In addition, sector-level and provision-level disaggregation of CIT and VAT data should be institutionalized within the tax administration. These improvements would enable more precise and comprehensive estimation of revenue foregone, while also facilitating monitoring and evaluation of the tax expenditures. Ultimately, better data empowers decision-makers to compare the fiscal costs of tax expenditures with their developmental returns and to reform or phase out underperforming provisions.

### ■ **Review and Rationalize Existing Tax Expenditures**

Lao PDR currently offers a wide range of tax expenditures, many of which have accumulated over time without systematic review or evaluation. This has led to a proliferation of tax expenditures, some of which may now be redundant, poorly targeted, or no longer justified. The rapid increase in revenue foregone, particularly from VAT and customs duty exemptions, raises concerns about the efficiency and sustainability of current tax policy. It is therefore imperative for the government to conduct a comprehensive review of all existing tax expenditures. A good starting point is to prioritise transparency by making public the consolidated inventory of all tax expenditure provisions across national and subnational levels, including their beneficiaries and costs (in terms of revenue foregone), and covering all relevant taxes.

While paucity of data prevents a thorough assessment of revenue foregone, the sheer number of incentives and generous eligibility criteria show that such incentives can create high levels of revenue foregone. A comprehensive review should assess the legal basis, fiscal cost, economic impact, and distributional implications of each tax expenditure provision, especially those linked to VAT and customs, as they contribute most to revenue foregone. To achieve this, there must

be a clear definition of economic and social performance benchmarks.

Tax expenditures that are outdated, duplicative, or yield minimal economic benefit should be reformed or eliminated. The government should also introduce sunset clauses to ensure that all new tax expenditures are time-bound and subject to renewal based on performance. Additionally, tighten eligibility criteria and reduce overly generous or open-ended tax expenditure provisions that exacerbate revenue leakage. By rationalizing its incentive regime, Lao PDR can reduce unnecessary revenue losses, improve the targeting of support to strategic sectors, and enhance the overall coherence and fairness of the tax system.

### ■ **Increase Transparency of (Subnational) Tax Expenditures**

Another critical gap in Lao PDR's tax expenditure framework is the lack of transparency around subnational tax incentives. While the formal system captures legislated tax expenditures, some exemptions are granted at the provincial level without being centrally recorded or evaluated. To address this, Lao PDR's authorities should establish legal requirements for the full disclosure of all tax expenditures whether granted through national law at the national level or at subnational level. All TE-granting entities should be required to report the beneficiaries, legal basis, and estimated value of the TEs they issue, information which can then be compiled into a centralized tax expenditure registry accessible to oversight bodies and the public.

Publishing this data annually would increase data available for TE estimation (hence providing a more complete picture of the estimates in Lao PDR) while simultaneously increasing transparency. It would also help identify overlaps and inconsistencies in incentive policies across jurisdictions. Strengthening transparency around (subnational) tax expenditures is a key step toward creating a more accountable and equitable fiscal system.

## ■ Centralized Tax Expenditure Oversight Unit

A major barrier to effective tax expenditure management in Lao PDR is the fragmentation of institutional responsibilities across multiple government bodies. Tax expenditures, while mostly approved by the former MPI (now IPO under the Prime Minister's Office), can have beneficiaries being monitored by the Tax Department, Customs Department, IPO, and even subnational entities, often without adequate coordination or centralized tracking. This institutional fragmentation limits interoperability among institutions.

To address this, Lao PDR should consider establishing a centralized inter-agency oversight unit mandated to consolidate information on all tax expenditures. This body should coordinate policy formulation, monitor implementation, and produce an annual comprehensive tax expenditure report. It would act as the central node for integrating data from various institutions, standardizing approval procedures, and verifying compliance with eligibility criteria. Such a unit could be housed within the MoF, with statutory authority to collect data and enforce reporting standards.

MOF has already made huge strides in centralising tax expenditure analytical capacity by creating a database which would act as a central node to tax expenditure analysis. While the database is at its pilot phase, data on core taxes can already be uploaded to generate a benchmark tax system and estimate the associated

tax expenditures for each tax type. Currently, the database is updated manually using the developed data templates. In the future, if the required data are stored in relevant databases and integrated with the TE tracking system, the process could be automated. This would allow the system to automatically extract and process data, enabling more timely and potentially real-time estimation of TE. MOF can go further in institutionalising this process by bringing it under the above unit, and mandating the associated stakeholders to provide and update key information needed for estimation of revenue foregone.

By enhancing transparency and strengthening governance, this unit would support a more rational, evidence-based approach to tax incentives. Additionally, it would enable alignment of tax expenditure policies with broader fiscal and development priorities, as well as integrate tax expenditure analysis into the annual budget preparation process. Without such a body, Lao PDR risks continued fiscal leakage and uncoordinated tax policy that undermines both revenue collection and economic effectiveness.

## REFERENCES

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# APPENDIX

Data collection faced several limitations that reduced the number of usable samples. About 17% of the sampled projects could not be matched with a TIN, and some projects had duplicate or multiple TINs assigned to the same project, which further limited the dataset. Table A1 shows how the availability of financial data varies by tax type and province. For Customs, Excise, and Import VAT, all matched TINs had at least one import record, indicating that these projects remain active. However, other financial data especially Profit

Tax are reported much less frequently. Overall, only 9.8% of TINs have profit records. In some provinces, the share of TINs with reported profits is extremely low, such as 0% in Borikhamxay, 1.9% in Oudomxay, and 3.4% in Khammouan, even though import activity is high. This gap suggests that while many projects are still operating, as shown by their imports, Profit Tax data in TaxRIS is either missing or not reported consistently. This raises concerns about tax compliance, data quality, or both.

**Table A1** Financial data availability

Province	Profit Tax				Customs, Excise, Import VAT	Sale VAT	Salary Tax	Non-Tax
	Loss	Zero	N/A	Profit				
<b>Department % of 225</b>	<b>57 25.3%</b>	<b>4 1.8%</b>	<b>98 43.6%</b>	<b>15 6.7%</b>	<b>181 80.4%</b>	<b>138 61.3%</b>	<b>26 11.6%</b>	<b>47 20.9%</b>
<b>Bokeo % of 23</b>	<b>7 30.4%</b>	<b>2 8.7%</b>	<b>19 82.6%</b>	<b>5 21.7%</b>	<b>20 87.0%</b>	<b>7 30.4%</b>	<b>10 43.5%</b>	<b>9 39.1%</b>
<b>Luangnamtha % of 36</b>	<b>16 44.4%</b>	<b>1 2.8%</b>	<b>28 77.8%</b>	<b>8 22.2%</b>	<b>28 77.8%</b>	<b>13 36.1%</b>	<b>20 55.6%</b>	<b>12 33.3%</b>
<b>Oudomxay % of 53</b>	<b>1 1.9%</b>	<b>0 0.0%</b>	<b>3 5.7%</b>	<b>1 1.9%</b>	<b>34 64.2%</b>	<b>10 18.9%</b>	<b>10 18.9%</b>	<b>14 26.4%</b>
<b>Borikhamxay % of 34</b>	<b>4 11.8%</b>	<b>0 0.0%</b>	<b>5 14.7%</b>	<b>0 0.0%</b>	<b>32 94.1%</b>	<b>17 50.0%</b>	<b>17 50.0%</b>	<b>11 32.4%</b>

Khammouan % of 59	14 23.7%	0 0.0%	49 83.1%	2 3.4%	56 94.9%	20 33.9%	20 33.9%	12 20.3%
Savannakhet % of 13	4 30.8%	2 15.4%	6 46.2%	5 38.5%	10 76.9%	6 46.2%	7 53.8%	3 23.1%
Salavan % of 39	10 25.6%	5 12.8%	24 61.5%	8 20.5%	27 69.2%	19 48.7%	20 51.3%	7 17.9%
Champasack % of 46	16 34.8%	0 0.0%	26 56.5%	6 13.0%	30 65.2%	21 45.7%	22 47.8%	4 8.7%
Sekong % of 12	3 25.0%	0 0.0%	9 75.0%	3 25.0%	9 75.0%	5 41.7%	5 41.7%	6 50.0%
<b>Total % of 540</b>	<b>132 24.4%</b>	<b>14 2.6%</b>	<b>267 49.4%</b>	<b>53 9.8%</b>	<b>427 79.1%</b>	<b>256 47.4%</b>	<b>157 29.1%</b>	<b>130 24.1%</b>

Source: ASYCUDA, MoF, State Asset Management Department and TaxRIS.

**Table A2** Tax Expenditures under the PIT

Exemption / Tax Relief	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>Additional working hours or overtime payments only for employees receiving a basic salary of LAK2 million or less (TE)</li> </ul>	Art. 35.3 ITL No. 67/NA	Social
<ul style="list-style-type: none"> <li>Uniforms and equipment for preventing labour accidents (TE)</li> </ul>	Art. 35.20 ITL No. 67/NA	Social – Health
<ul style="list-style-type: none"> <li>Personal allowance for spouse, children aged below 18 (LAK5m up to a maximum of LAK15m per year)</li> </ul>	Art.35.3 ITL No. 67/NA	Social
<ul style="list-style-type: none"> <li>Allowance for government personnel, national assembly members and provincial people’s assembly</li> </ul>	Art. 35.3 ITL No. 67/NA	Government duties

<ul style="list-style-type: none"> <li>Allowance for students</li> </ul>	Art. 35.3 ITL No. 67/NA	Social
<ul style="list-style-type: none"> <li>Profits derived from the sale of shares from a company listed on the Lao stock exchange.</li> </ul>	Art.35.4 ITL No. 67/NA	Financial Sector Development
<ul style="list-style-type: none"> <li>Dividends distributed to partners or shareholders of a company registered on the stock exchange</li> </ul>	Art.35.4 ITL No. 67/NA	Financial Sector Development
<ul style="list-style-type: none"> <li>Interest on deposits in the banking system, income from bonds issued by listed companies and government bonds</li> </ul>	Art.35.11 ITL No. 67/NA	Encourage savings behaviour
<ul style="list-style-type: none"> <li>Bonus or gift paid by government to a person with outstanding performance in monitoring, searching, protecting, prevention or blockage of illegal acts</li> </ul>	Art.35.13 ITL No. 67/NA	National Security
<ul style="list-style-type: none"> <li>Employee (5.5%) social security contributions are deductible from individual income tax. The contributions are computed on a maximum base of LAK4.5m per month; therefore, the maximum amount deductible is LAK247,500 (employee).</li> </ul>	Law on Social Security Art 74.2; Notice 0824/LSO	Encourage savings behaviour

Source: Article 35 of ITL No. 67/NA, Article 74 of Law on Social Security No. 0824/LSO.

**Table A3** Tax Expenditures under the CIT

Exemption	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>A newly registered small entity (6-50 staff, total assets not exceeding LAK1.5 billion, &amp; annual turnover ≤ LAK3 billion a) is subject to a profit tax rate of 3% for 3 years, after which the standard PT rate applies).</li> </ul>	Art. (Amended) 16(2) ITL No. 67/NA	Tax Compliance / Formalization

<ul style="list-style-type: none"> <li>A newly registered medium-sized entity (51-99 staff, total assets not exceeding LAK6 billion, &amp; annual turnover ≤ LAK6 billion) is subject to a profit tax rate of 5% for 3 years, after which the standard PT rate applies).</li> </ul>	<p>Art. (amended) 16(2) ITL No. 67/ NA</p>	<p>Tax Compliance / Formalization</p>
<ul style="list-style-type: none"> <li>Businesses engaged in human resource development, such as schools, training centers, innovative research, other educational activities, modern hospitals, pharmaceutical factories, medical equipment, and traditional medicine production and treatment pay a profit tax rate of 5%, after the end of the tax holiday period as stipulated in LIP.</li> </ul>	<p>Art. (amended) 16(2) ITL No. 67/ NA</p>	<p>Social</p>
<ul style="list-style-type: none"> <li>Businesses that apply innovative technologies that are environmentally friendly, resource-efficient, and use clean energy for production, pay a profit tax rate of 7%, after the end of the tax holiday as stipulated in LIP.</li> </ul>	<p>Art. (amended) 16(2) ITL No. 67/ NA</p>	<p>Environmental</p>
<ul style="list-style-type: none"> <li>Companies listed on the Lao stock exchange pay a profit tax rate of 13% for four years following listing, after which the standard PT rate applies.</li> </ul>	<p>Art. (amended) 16(2) ITL No. 67/ NA</p>	<p>Financial Sector Development</p>
<ul style="list-style-type: none"> <li>0.1% for micro enterprises that register as enterprises and voluntarily enter the value added tax system</li> </ul>	<p>Art. (amended) 16(2) ITL No. 67/ NA</p>	<p>Tax Compliance / Formalization</p>
<ul style="list-style-type: none"> <li>Profit tax exemption for 10 years for investment in sectors set out in section 2, 3, 5 and 6 of Article 9 of LIP, situated in Zone 1 (as defined in Article 10).</li> </ul>	<p>Art. 9,10,11 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>Profit tax exemption for 4 years for investment in sectors set out in section 2, 3, 5 and 6 of Article 9 of LIP, situated in Zone 2 (as defined in Article 10).</li> </ul>	<p>Art. 9,10,11 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>Investors who re-invest their net profit for their additional operation or investment activities will receive a profit tax exemption for the next accounting year for one year based on the portion of profit re-invested for their additional operation or investment activities.</li> </ul>	<p>Art. 14 LIP No. 14/NA</p>	<p>Investment Promotion</p>

<ul style="list-style-type: none"> <li>SEZ Developers: Production industry, services on tourism industry development, services in public health, education, sport and physical activity, and real estate development shall receive profit tax incentives according to zones as follows:   <b>Zone 1:</b> exempted from profit tax for sixteen years.</li> </ul>	<p>Art. 40 SEZ Decree No. 188/ GoL; Art. 62 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>Upon the expiration of the exemption period, Zone Developers in <b>Zone 1</b> shall pay profit tax at thirty-five percent (35%) of profit tax rate as specified in the Tax Law for the five years, and thereafter pay according to the rates set in the Tax Law;</li> </ul>	<p>Art. 40 SEZ Decree No. 188/ GoL; Art. 62 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>SEZ Developers: Production industry, services on tourism industry development, services in public health, education, sport and physical activity, and real estate development shall receive profit tax incentives according to zones as follows:   <b>Zone 2:</b> exempted from profit tax for eight years.</li> </ul>	<p>Art. 40 SEZ Decree No. 188/ GoL; Art. 62 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>Upon the expiration of the exemption period, Zone <b>Developers</b> in <b>Zone 2</b> shall pay profit tax at thirty-five percent (35%) of profit tax rate as specified in the Tax Law for the five years, and thereafter pay according to the rates set in the Tax Law.</li> </ul>	<p>Art. 40 SEZ Decree No. 188/ GoL; Art. 62 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>Zone <b>Investors</b> in sectors specified in the Article 9 of Law on Investment Promotion shall be exempted from profit tax for additional two years from the profit tax exemption period as stipulated in the Article 11 Paragraphs 2 and 3 of the LIP.</li> </ul>	<p>Art. 43 SEZ Decree No. 188/ GoL; Arts. 9, 11, 62 LIP No. 14/NA</p>	<p>Investment Promotion</p>

<ul style="list-style-type: none"> <li>Investments in business activities as specified in the Article 9 Points 3, 4, 5 and 6 of the Law on Investment Promotion, upon the expiration of the profit tax exemption period, shall pay the profit tax at thirty-five percent (35%) of the profit tax rate specified in the Tax Law for the five years and thereafter pay the profit tax in accordance with the Tax Law.</li> </ul>	<p>Art. 43 SEZ Decree No. 188/GoL; Art. 62 LIP No. 14/NA</p>	<p>Investment Promotion</p>
<ul style="list-style-type: none"> <li>Income from activities that provide a public benefit or social purpose, such as art, sport etc</li> </ul>	<p>Art. 35.10 ITL No. 67/NA</p>	<p>Social</p>
<ul style="list-style-type: none"> <li>Rent from the assets of a business operator who complies with their income tax obligations</li> </ul>	<p>Art. 35.17 ITL No. 67/NA</p>	<p>Tax Compliance/ Support Economic Activity</p>
<ul style="list-style-type: none"> <li>Income from the transfer of real estate rights recorded in the balance sheet of a business operator</li> </ul>	<p>Art. 35.8 ITL No. 67/NA</p>	<p>Social</p>

Source: ITL and various amendments.

**Table A4** Tax Expenditures under the VAT

Exemption	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>Import of: all types of crop seeds, animals for breeding, animal sperms, vaccines, equipment and liquid nitrogen for storing vaccines and animal sperms, animal feeds, raw materials to produce animal feeds and vaccines;</li> </ul>	<p>Art. 12.1.1 VAT Law No. 48/NA</p>	<p>Food Security</p>
<ul style="list-style-type: none"> <li>Import of: Raw materials used in the production of fertilizers, agro-processing products, organic fertilizers, [scientific] fertilizers [and] pesticides that are not dangerous to the ecosystem, human and animal health and life;</li> </ul>	<p>Art. 12.1.2 VAT Law No. 48/NA</p>	<p>Food Security</p>
<ul style="list-style-type: none"> <li>Import of: Equipment and machinery used in agriculture;</li> </ul>	<p>Art. 12.1.3 VAT Law No. 48/NA</p>	<p>Food Security</p>

<ul style="list-style-type: none"> <li>Import of: Animal medicines, artificial organs for transplantation for animal bodies</li> </ul>	Art 12.1.13	Food Security
<ul style="list-style-type: none"> <li>Import of: Traditional medicines, artificial organs for transplantation for human bodies, human blood and supporting equipment for patients, the disabled and elderly;</li> </ul>	Art 12.1.14 VAT Law No. 48/NA	Social – Education
<ul style="list-style-type: none"> <li>Import of: Medical tools [and] equipment, [laboratory] equipment or wheelchairs for public services of hospitals, health care centers.</li> </ul>	Art 12.1.15 VAT Law No. 48/NA	Social – Education
<ul style="list-style-type: none"> <li>Import of: Vehicles serving professional activities, contributing to public benefits such as fire trucks, ambulances, vehicles equipped with repair facilities, outside television and radio broadcast vehicles and other professional vehicles.</li> </ul>	Art 12.1.16 VAT Law No. 48/NA	Not available on the local market
<ul style="list-style-type: none"> <li>Domestic supply of: Unprocessed agricultural or preliminary processed products including peeled, grinded [and] milled;</li> </ul>	Art. 12.2.1 VAT Law No. 48/NA	Food Security
<ul style="list-style-type: none"> <li>Domestic supply of: All kinds of live or deceased animals, whole or in parts, that are unprocessed or preliminary processed to ensure freshness or non-perishability;</li> </ul>	Art. 12.2.2 VAT Law No. 48/NA	Food Security
<ul style="list-style-type: none"> <li>Domestic supply of: afforestation, plantation of industrial, fruit and medicinal trees;</li> </ul>	Art. 12.2.3 VAT Law No. 48/NA	Food Security
<ul style="list-style-type: none"> <li>Domestic supply of: all types of crop seeds, animals for breeding, animal feeds, vaccines, raw materials to produce animal feeds and vaccines;</li> </ul>	Art. 12.2.4 VAT Law No. 48/NA	Food Security
<ul style="list-style-type: none"> <li>Domestic supply of: Raw materials used in the production of fertilizers, agro-processing products, organic fertilizers, [scientific] fertilizers and pesticides that are not dangerous to the ecosystem, human and animal health and life;</li> </ul>	Art. 12.2.5 VAT Law No. 48/NA	Food Security

<ul style="list-style-type: none"> <li>Domestic supply of: equipment and machinery used in agricultural activities;</li> </ul>	Art. 12.2.7 VAT Law No. 48/NA	Food Security
<ul style="list-style-type: none"> <li>Domestic supply of: textbooks and learning materials</li> </ul>	Art. 12.2.11 VAT Law No. 48/NA	Social – Education
<ul style="list-style-type: none"> <li>The supply of education services by e.g. childcare centres, kindergartens, primary and secondary schools, vocational schools, colleges, academies, universities, sporting and athletic schools.</li> </ul>	Art. 12.2.13 VAT Law No. 48/NA	Social – Education
<ul style="list-style-type: none"> <li>The examination, treatment, and diagnosis of humans and animals</li> </ul>	Art. 12.2.17 VAT Law No. 48/NA	Social – Health
<ul style="list-style-type: none"> <li>Animal medicines and artificial organs for transplantation of animal bodies</li> </ul>	Art. 12.2.18 VAT Law No. 48/NA	Agriculture
<ul style="list-style-type: none"> <li>Traditional medicines, artificial organs for transplantation of human bodies, human blood, equipment or wheel-chairs for patients, disabled and elderly;</li> </ul>	Art. 12.2.19 VAT Law No. 48/NA	Social – Health
<ul style="list-style-type: none"> <li>Medical tools, equipment, [laboratory] analytical tools for hospitals, healthcare centers to serve society;</li> </ul>	Art. 12.2.20 VAT Law No. 48/NA	Social – Health
<ul style="list-style-type: none"> <li>For SEZ Developers: Construction of road, electricity system, water supply, wastewater treatment and waste disposal system shall be exempted from value added tax</li> </ul>	Art 40.3 SEZ Decree No.188/GoL	Investment Promotion / Export Promotion
Rate Relief	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>For SEZ Developers: Construction of any other infrastructure shall pay value added tax at fifty percent (50%) of the value added tax rate as specified in the Law on Value Added Tax.</li> </ul>	Art 40.3 SEZ Decree No.188/GoL	Investment Promotion / Export Promotion
<ul style="list-style-type: none"> <li>For SEZ Investors: the use of electricity and water in production: fifty percent (50%) of the value added tax rate specified in the Value Added Tax Law;</li> </ul>	Art 43.3 SEZ Decree No.188/GoL	Investment Promotion / Export Promotion

- For SEZ Investors: For the construction and development of infrastructures to support business operations of investors in sectors that are not 100% production for export, investors shall pay fifty percent (50%) of the value added tax rate as specified in the Value Added Tax Law.

Art 43.3 SEZ  
Decree No.188/  
GoL

Investment Pro-  
motion / Export  
Promotion

Source: VAT Law No. 48/NA, SEZ Decree No. 188 Article 43.3

**Table A5** Tax Expenditures under the Customs Duty

Exemption	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>▪ Import of materials, equipment which may not be supplied or produced in the Lao PDR, to form the fixed assets, and of machinery and vehicles directly used for production.</li> </ul>	Art. 12.1 (Amendment) LIP No. 14/NA	Investment Promotion
<ul style="list-style-type: none"> <li>▪ Import of raw materials, equipment, mineral ore and parts to be used in the production for export.</li> </ul>	Art. 12.2 (Amendment) LIP No. 14/NA, Art.90.4 Customs Law No. 81/NA	Investment Promotion

Source: Article 90 Customs Law No. 81/NA, Article 12 Law on Investment Promotion No. 14/NA.

**Table A6** Tax Expenditures under the Excise Duty

Exemption / Tax Relief	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>▪ Rescue vehicles, rescue airplanes, rescue boats, ambulances, fire trucks, and specialized service vehicles for the National Defence Forces and security forces;</li> </ul>	Art 12(5) Excise Tax Law No. 68/NA	National Security, Health- care

<ul style="list-style-type: none"> <li>▪ Machinery Used for agricultural production</li> </ul>	Art 12(6) Excise Tax Law No. 68/NA	Food Security
<ul style="list-style-type: none"> <li>▪ Heavy machinery such as backhoe loader, drum rollers, excavators, motor graders, bulldozer, A truck equipped for pile foundation work that directly contribute to production and are considered as fixed assets</li> </ul>	Art 12(7) Excise Tax Law No. 68/NA	Encourage domestic manufacturing
<ul style="list-style-type: none"> <li>▪ Motorcycles using clean energy</li> </ul>	Art 12(10) Excise Tax Law No. 68/ NA	Environmental
<ul style="list-style-type: none"> <li>▪ Vehicle components imported for assembly in domestic factory system</li> </ul>	Art 12(11) Excise Tax Law No. 68/ NA	Employment creation
<ul style="list-style-type: none"> <li>▪ Passenger vehicles using hybrid energy pay 50% of the applicable rates based on engine size for fuel energy (outlined in Art. 12 (2.1.1.1).</li> </ul>	Art 15(2.1.1.2) Excise Tax Law No. 68/NA	Environmental
<ul style="list-style-type: none"> <li>▪ Passenger transportation vehicles using clean energy pay a rate of 3%.</li> </ul>	Art 15(2.1.1.3) Excise Tax Law No. 68/NA	Environmental
<ul style="list-style-type: none"> <li>▪ Cargo transportation vehicles like: normal 2-door pickup trucks and semi-automatic 2-door pickup trucks using clean energy pay a rate of 3%</li> </ul>	Art 15(2.1.2) Ex- cise Tax Law No. 68/NA	Environmental
<ul style="list-style-type: none"> <li>▪ Other small passenger and cargo transportation vehicles using clean energy pay a rate of 3%</li> </ul>	Art15(2.1.3) Ex- cise Tax Law No. 68/NA	Environmental
<ul style="list-style-type: none"> <li>▪ Medium passenger and cargo transportation vehicles using clean energy pay a rate of 3%</li> </ul>	Art 15(2.2) Ex- cise Tax Law No. 68/NA	Environmental
<ul style="list-style-type: none"> <li>▪ Large passenger and cargo transportation vehicles using clean energy pay a rate of 3%</li> </ul>	Art 15 (2.3) Ex- cise Tax Law No. 68/NA	Environmental
<ul style="list-style-type: none"> <li>▪ Vehicles utilizing fuel energy, manufactured or assembled within the domestic factory system in CKD form are subject to a 5% excise tax rate</li> </ul>	Art. 15 Excise Tax Law No. 68/NA	Employment Creation

- Vehicles utilizing fuel energy, manufactured or assembled within the domestic factory system in IKD form are subject to a 3% excise tax rate

Art. 15 Excise  
Tax Law No.  
68/NA

Employment  
Creation

Source: Article 15 Excise Tax Law No. 68/NA.

**Table A7** Tax Expenditures under Non-Tax Systems

Exemption	Legal Reference	Rationale
<ul style="list-style-type: none"> <li>▪ Investors investing in sectors as specified in Art. 9 of the law on investment promotion will receive exemption from rental or concession fee of state land as follows:   <b>Zone 1:</b> exemption for ten years; for investment in sectors as specified in points 2, 3, 5 and 6 of Art. 9 of the Law on Investment Promotion will receive additional five years of such exemption;</li> </ul>	Art. 15 LIP No. 14/NA	Investment Promotion
<ul style="list-style-type: none"> <li>▪ Investors investing in sectors as specified in Art. 9 of the law on investment promotion will receive exemption from rental or concession fee of state land as follows:   <b>Zone 2:</b> receive exemption for five years; for investment in sectors as specified in points 2, 3, 5 and 6 of Article 9 herein will receive additional three years of such exemption;</li> </ul>	Art. 15 LIP No. 14/NA	Investment Promotion

Source: Article 15 Law on Investment Promotion No. 14/NA.





## TAX EXPENDITURE REPORT

