MAY 2026

Insights into the "Pay Now, Argue Later" Mechanism

By William Reinsch and Thibault Denamiel

Introduction

"Pay now, argue later" refers to a tax administration scheme that requires taxpayers to settle tax obligations before filing a complaint. The approach seeks to make collection more efficient, better funding government programs while discouraging frivolous objections intended merely to delay payment.

The growing prevalence of "pay now, argue later" tax administration schemes has raised questions about the practice's impact on the business environments of countries that employ it. The CSIS Economics Program has conducted a survey aiming to assess private sector views of the practice in five different countries: Brazil, Peru, South Africa, South Korea, and Tanzania. After an introduction of the scheme, this paper outlines the survey results and what they mean for the mechanism's impact on implementing countries' ability to attract foreign direct investment (FDI).

WEIGHING EFFICIENCY AGAINST INVESTOR PROTECTIONS

The tension between the right to regulate and investment protection is at the heart of the "pay now, argue later" debate. How far can a state recalibrate the rules of its economy in pursuit of public purposes without undermining the legal protection of investment positions? Regulatory autonomy is a core attribute of sovereignty and a prerequisite for pursuing changing social priorities—whether fiscal sustainability, environmental protection, health, or energy transition. Conversely, the credibility of tax frameworks depends on the assurance that a state will not frustrate investment-backed expectations through arbitrary or opaque measures that effectively shift unforeseeable risk onto investors.

This friction becomes most visible where regulation is not only substantive (e.g., a new tax rate) but procedural, as procedural design can determine whether investors experience the system as predictable and rights-respecting or as coercive and uncertain. A measure may be justified as an efficiency-enhancing tool of governance—securing revenue, preventing delay tactics, and protecting budgets—while still raising concerns if it compresses access to review or imposes cash-flow burdens that functionally penalize contestation.

This is the space in which "pay now, argue later" mechanisms sit. Such policies can be defended as a fiscal necessity, but they also test the procedural safeguards that make a jurisdiction an attractive destination for investment over the long term.

BALANCING PUBLIC AND PRIVATE SECTOR INTERESTS

From a government revenue standpoint, tax authorities must afford sufficient powers to permit efficient and speedy collection. Governments employing the practice argue that "pay now, argue later" is necessary to disincentivize frivolous objections. However, by restricting taxpayers' ability to access domestic judicial systems to adjudicate the amount owed, the government may also end up reducing tax certainty.

In other words, "pay now, argue later" practices could trade a gain in government revenue for a greater long-term loss in private sector investment. Foreign investors may be discouraged to undertake or expand operations in "pay now, argue later" countries, putting them at a disadvantage compared to other countries that allow corporate taxpayers to dispute payments before being required to pay in full.

In addition, "pay now, argue later" may **cause** friction between state interests and the rights of taxpayers. By having to pay taxes up front, taxpayers face additional financial strain when contesting their tax liability. While "pay now, argue later" may promise a more efficient stream of revenue on the front end, it introduces unpredictability into long-term revenue streams. The practice could result in a treasury that is consistently fluctuating, as revenue implemented in a government budget could be removed from the state treasury if the taxpayer's petition is successful.

Considerations Around "Pay Now, Argue Later" Mechanisms

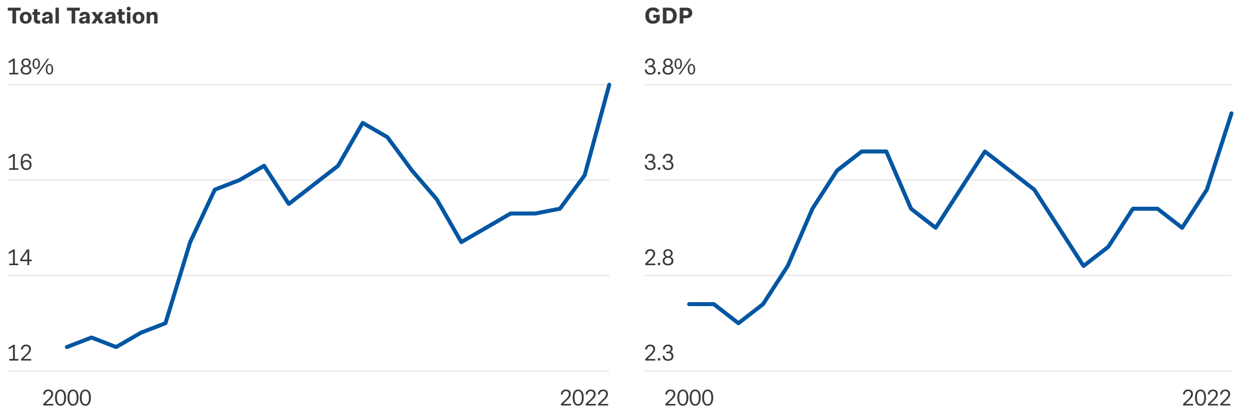
Governments rely on effective tax systems to generate revenue and support long-term economic development. At the same time, tax policy and tax administration play an important role in shaping the broader investment climate in which businesses operate. Policies that strengthen revenue collection can help finance essential public goods and services, but they may also affect how domestic and foreign firms perceive the predictability and fairness of a country's fiscal environment. In this context, tax administration mechanisms like "pay now, argue later" raise questions about the balance between efficient revenue collection and maintaining an attractive investment climate.

RECENT CORPORATE TAX REVENUE TRENDS

To understand the policy context in which "pay now, argue later" mechanisms operate, it is useful to first examine recent global trends in corporate tax revenues and the role they play in government finances.

Corporate tax revenue has risen in fiscal importance over time. Data from the Corporate Tax Statistics database of the Organisation for Economic Co-operation and Development (OECD) **indicates** that, across 131 jurisdictions, corporate income tax (CIT) revenues increased both as a share of total tax revenues and as a proportion of GDP between 2000 and 2022. On average, CIT revenues rose from 12.4 percent of total tax revenues in 2000 to 17.8 percent in 2022. Over the same period, CIT revenues as a share of GDP increased from 2.5 percent to 3.6 percent. As Figure 1 shows, these two indicators follow a similar trend over time, with downturns and recoveries linked to financial crises and the Covid-19 pandemic.

Figure 1: Average Corporate Tax Revenues as a Percentage of Total Tax and as a Percentage of GDP



Source: OECD.

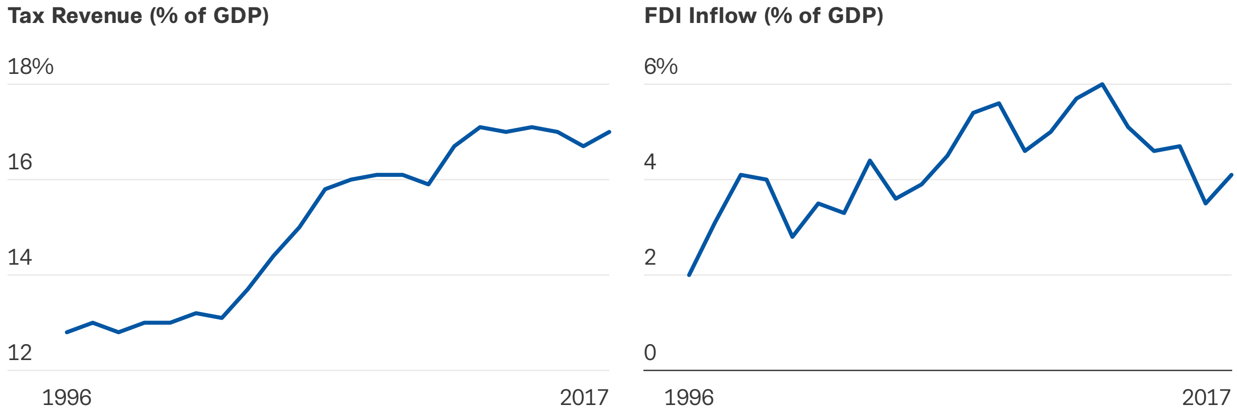
As the OECD's Corporate Tax Statistics 2025 report **notes**, there are substantial differences across jurisdictions. In Malaysia, for instance, corporate taxes accounted for more than 40 percent of total revenue. In Hungary, meanwhile, corporate income tax contributed less than 5 percent of total tax revenue. In many cases, these variations largely reflect differences in the relative importance of other types of taxes within national tax systems. These trends highlight corporate taxation's role in government revenue structures across various jurisdictions. Corporate tax revenue matters for economic development; therefore, governments place a strong emphasis on robust collection mechanisms.

TAX STRUCTURES AND GROWTH

Tax revenue plays a central role in economic development by providing governments with the financial resources needed to fund essential public goods and services. Healthcare, education, infrastructure, and social programs improve productivity, reduce inequality, and support long-term economic growth. Beyond financing public spending, taxation also forms a key part of the social contract between citizens and the state: When governments collect and manage taxes effectively and transparently, it strengthens accountability and deepens trust. In turn, a well-designed tax system can further stimulate economic activity. If executed effectively, a country's tax structure can encourage further investment. It can boost economic growth through incentives such as research and development tax breaks and promote business growth—especially for small- and medium-sized enterprises that generate employment. In other words, a robust and clear tax structure is the bedrock of national economic success.

FDI can contribute meaningfully to tax revenue mobilization, particularly in developing countries. For instance, a panel study of 90 developing economies (1996-2017) **finds** that FDI inflows are associated with significant increases in tax revenue, suggesting that foreign investment can help broaden the tax base and strengthen domestic resource mobilization. Importantly, this effect is not observed in resource-exporting countries, where revenues are less responsive to FDI. Comparative analyses further **show** that developing countries tend to experience positive long-run revenue effects from FDI, underscoring the importance of aligning tax policy and investment frameworks to support sustained, productive foreign investment.

Figure 2: Trends of FDI and Tax Revenue

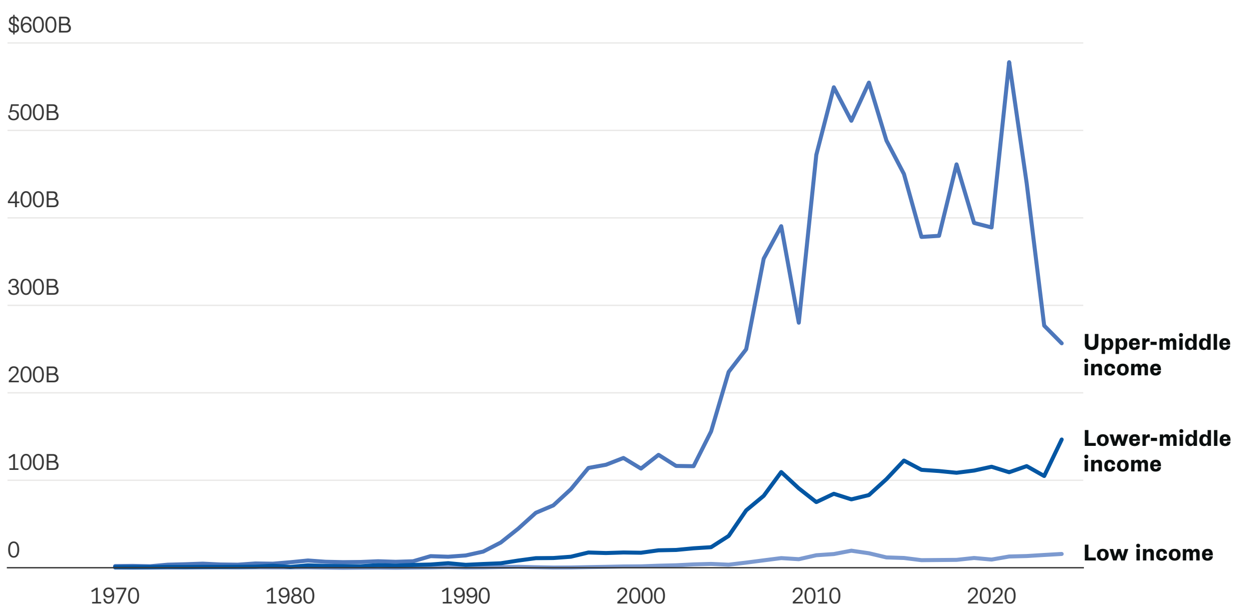


Source: Université Clermont Auvergne; UNU-WIDER; and UNCTAD.

TAX POLICY AND FDI

Taxation interacts closely with investment dynamics, particularly in developing economies where foreign investment can play a significant role in expanding the tax base. In the long term, tax policy has evident consequences for FDI. Research indicates an inverse correlation between tax rates and the flow of inbound capital, with a study finding a 1 percent reduction in taxation **increasing** FDI by 3.3 percent. Other studies **demonstrate** varying effects of taxation on FDI, with a 1 percent reduction in taxation having a correlated percent increase of 0-5 percent in FDI. Evidently, FDI flows do not just depend on rates. A clear and predictable policy implementation also contributes to incentivizing prospective investors.

Figure 3: FDI Rates in Low- and Middle-Income Countries



Source: World Bank.

Corporate taxation affects both the quantity and quality of FDI, with quality effects **accounting** for up to 40 percent of the total tax impact on the corporate tax base. Complementing this perspective, Cicatiello, De Simone, Ercolano, and Gaeta **show** that fiscal transparency (particularly during budget execution) is positively and independently associated with FDI inflows across a broad panel of countries. Predictable tax systems are central to sustaining foreign investment. Even if short-term revenue collection improves, policies that introduce uncertainty or constrain procedural fairness may undermine a country's long-term FDI attractiveness.

Similarly, a growing body of literature emphasizes that the design and administration of tax policy are equally important determinants of FDI. Improvements in tax administration quality can positively influence foreign investment by enhancing transparency and predictability. For example, Ferguson, Krupa, and Laux **find** that stronger tax administration capacity in developing countries is associated with higher FDI inflows, largely because improved administration reduces corruption, tax uncertainty, and agency problems. Investors respond not only to statutory tax burdens but also to the credibility and fairness of tax enforcement.

As such, the application of "pay now, argue later" may also reduce a country's FDI outlook. Requiring companies to incur an upfront capital payment before tax disputes are resolved creates additional uncertainty and financial strain for international businesses that are considering market entry or expansion. Firms seeking tax environments that are stable and predictable may view "pay now, argue later" arrangements as a significant risk factor, steering investment to countries perceived as "investor-friendly" with tax systems that allow for disputes to be resolved before payment is required.

COUNTRY-SPECIFIC PROCESSES

While the basics of the "pay now, argue later" practice are similar across countries, there are some variations in implementation:

- **Brazil:** Taxes are **required** to be paid before lodging a claim at the judicial level, with an exception for cases that involve a public matter. Similarly, a guarantee is not required to challenge a tax assessment at the administrative level. Administrative and criminal noncompliance may result in punitive fines of up to 150 percent of the principal amount. Following an infraction notice, penalties can be reduced by 50 percent if the debt is paid in 30 days or 40 percent if paid in installments.
- **Peru:** The National Superintendency of Customs and Tax Administration and Tax Court are **responsible** for overseeing and resolving tax disputes. Claimants must first issue an assessment to the Tax Administration; thereafter, they can petition to the Tax Court. Moreover, if taxpayers would like to appeal the results of a Tax Court ruling, they can **file** an appeal at the Tax Court. Like in Brazil, to appear in the Judiciary Court in Peru, taxpayers must provide guarantees or pay the disputed tax debt before a resolution can be filed.
- **South Africa:** Taxpayers are **required** to settle their obligations before challenging the South African Revenue Service's assessments. Taxpayers must **lodge** their disputes within 80 business days of the assessment, and they have 30 business days to appeal the result of their objection. The South African Revenue Service has the authority to suspend payment requirements, creating concern about the body's discretionary power given potentially arbitrary decisions. In Metcash Trading Ltd v Commissioner for the South African Revenue Service, the Constitutional Court

upheld "pay now, argue later." The court noted the need to balance taxpayer rights and frivolous objections that risk straining government finances.

- **South Korea:** Taxpayers who disagree with a proposed tax assessment may **file** a Review for Adequacy of Tax Imposition within 30 days of receiving the tax audit results and before a final tax assessment notice is issued. This allows taxpayers to contest the legality of the proposed assessment without making any payment. However, once the tax assessment notice is issued, South Korea's "pay now, argue later" system generally **requires** taxpayers to pay the assessed tax up front if they wish to avoid further accrual of interest (currently 9.125 percent per annum) and a flat 3 percent penalty for unpaid tax. Although appeals can still proceed without payment, doing so can be financially burdensome. If the taxpayer ultimately prevails, the amount paid is refunded with 1.2 percent interest. In cross-border cases covered by a tax treaty, acceptance into the Mutual Agreement Procedure within 90 days of the tax assessment notice can suspend interest accrual during the dispute resolution process.
- **Tanzania:** For an objection to be considered, the taxpayer must pay an up-front deposit of either one-third of the assessed tax or the amount not in dispute, whichever is greater. While taxpayers are permitted to request a deposit waiver, the criteria are unclear and arbitrary. This discretionary power was not always so broad—the Tax Revenue Appeals Act previously **specified** waiver qualifications, including for "legal or factual uncertainty, hardship or equity." The appeal process is lengthy, with claimants being able to file their initial **appeal** with the Tanzania Revenue Authority, and subsequently the Tax Revenue Appeals Board, the Tax Revenue Appeals Tribunal, and the Court of Appeal. As such, the process can be lengthy, sometimes taking years to proceed through all levels of the judicial system.

Survey Framework

To understand how private sector stakeholders perceive the impact of the "pay now, argue later" scheme, the CSIS Economics Program crafted a cross-sectional online survey. The survey was sent in April and May 2025 to approximately 100 public policy teams representing multinational enterprises in a wide range of sectors, such as mining firms and financial services providers.

The goal of the survey was twofold. The first goal was to understand how companies perceived potential impacts from "pay now, argue later" schemes on their own operations and long-term growth opportunities. The second was to gather views on how such schemes could impact a country's business environment, including its future ability to attract FDI.

To that end, the survey included the following questions:

- Does [COUNTRY]'s "pay now, argue later" practice impact your company's ability to expand operations in [COUNTRY]? (1 - Not at all; 5 - Significantly)
- How different are your company's estimates of what you owe to [COUNTRY]'s government in taxes compared to what [COUNTRY]'s tax authority has asked you to pay? (1 - No difference; 5 - Significant amount of difference)
- How different is [COUNTRY]'s application of the "pay now, argue later" practice to foreign firms relative to domestic firms? (1 - No difference; 5 - Significant amount of difference)

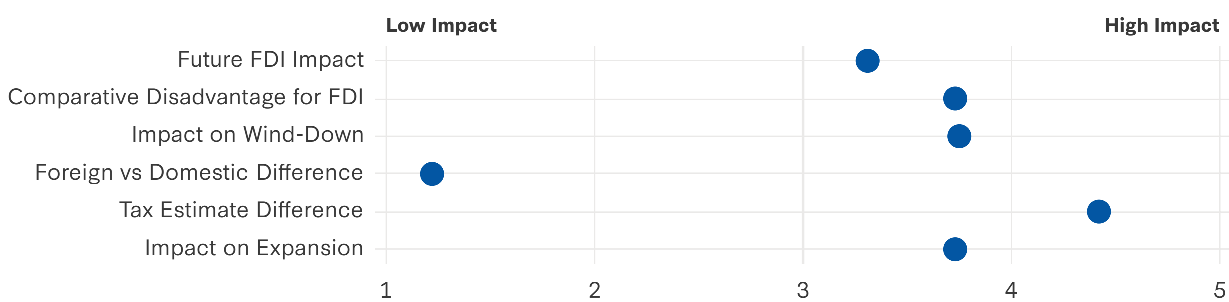
- Does [COUNTRY]'s "pay now, argue later" practice impact your company's considerations to wind down operations in [COUNTRY]? (1 - No impact; 5 - Significant impact)
- Does [COUNTRY]'s "pay now, argue later" put it at a comparative disadvantage when it comes to attracting foreign investment relative to other countries that allow corporate taxpayers to dispute payments before being required to pay in full? (1 - No discernible disadvantage; 5 - Significant disadvantage)
- Will [COUNTRY]'s "pay now, argue later" practice impact its ability to attract FDI in the future? (1 - No impact; 5 - Significant impact)

RESULTS

The survey results, shown in Figure 4, depict how private sector actors view the scheme. Results indicate that businesses believe the "pay now, argue later" policy to be a meaningful obstacle to their companies' operations, affecting both their willingness to expand (3.73) and their consideration of winding down operations (3.75). A particularly strong concern for survey respondents is the significant discrepancy between what companies believe they owe in taxes and what the government demands (4.42). Despite this, the policy is largely seen as being applied equally to domestic and foreign firms (1.22), suggesting that fairness in enforcement is not a major issue.

The "pay now, argue later" scheme is perceived to place practicing countries at a competitive disadvantage in attracting foreign investment (3.73), and this concern extends to its potential to draw future FDI (3.31). While the policy may be uniformly applied, private sector actors believe it still has a meaningful impact on business planning and investment decisions.

Figure 4: Perceived Impacts of "Pay Now, Argue Later"



Source: CSIS industry survey.

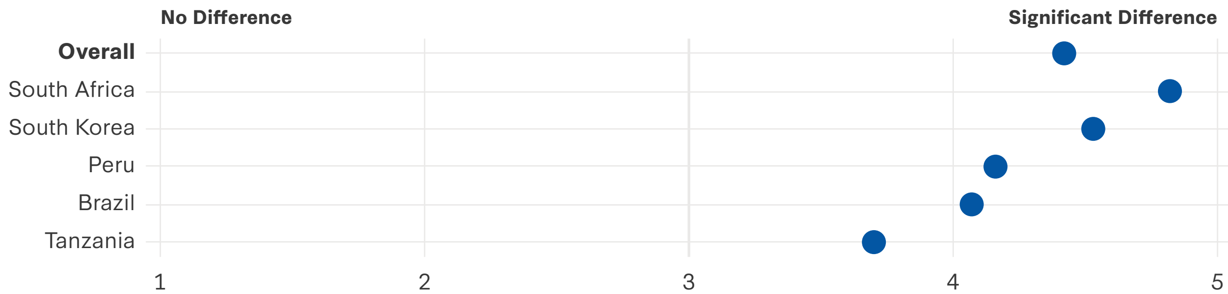
Major Takeaways

ARTIFICIAL REVENUE PROJECTIONS

Respondents expressed that there are large differences between what governments estimate companies owe in tax revenue and what these companies estimate that they owe. Significant discrepancies between companies' tax estimates and the amounts assessed by tax authorities could have adverse effects not just on businesses but also on governments' inherent ability to function. If tax authorities overestimate expected revenues based on disputed assessments, the "pay now, argue later" practice may lead to artificially inflated revenue projections. Such a misalignment may lead to unrealistic budget planning and spending commitments, creating fiscal imbalances when the anticipated funds fail to materialize after legal disputes are resolved or amounts are refunded. Additionally, the discrepancies could erode trust in the tax system, as businesses may perceive the government as using aggressive or inaccurate assessments to temporarily boost fiscal appearances, potentially undermining long-term compliance and credibility.

Figure 5: Difference Between Government and Firm Estimates of Tax Owed

Average response score by country to Question 2.



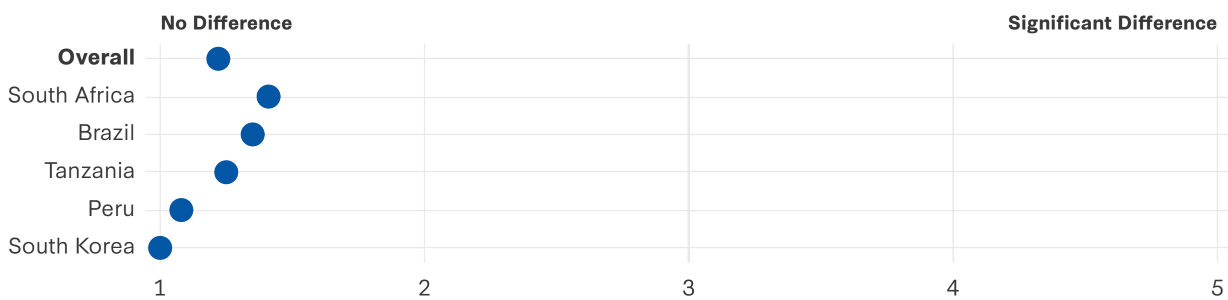
Source: CSIS industry survey.

LITTLE DIFFERENCE BETWEEN DOMESTIC AND FOREIGN FIRMS

The survey's finding that there is little perceived difference in how the "pay now, argue later" policy is applied to foreign versus domestic firms does help to maintain the credibility of tax authorities. Equal treatment helps reassure investors that the scheme, while potentially burdensome, is generally neither biased nor discriminatory. This sense of fairness can mitigate some of the perceived negative impacts of the policy by reinforcing the rule of law and reducing fears of preferential treatment or political risk.

Figure 6: Difference in Application of "Pay Now, Argue Later" Between Foreign and Domestic Firms

Average response score by country to Question 3.



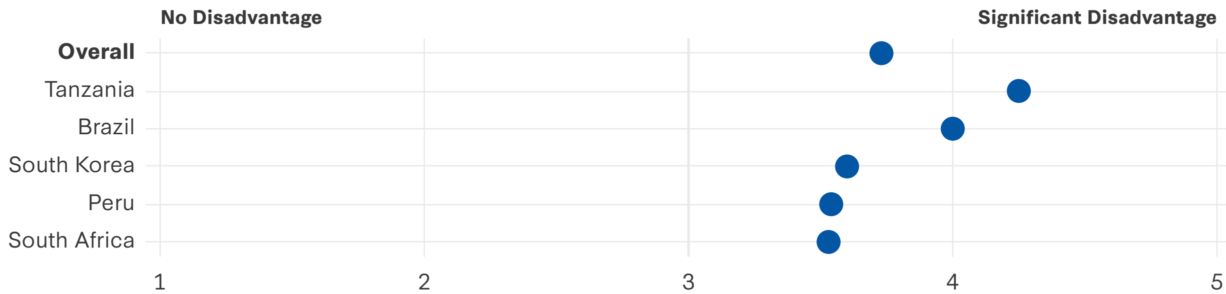
Source: CSIS industry survey.

PITFALLS OF COMPARATIVE DISADVANTAGE

The perception that the "pay now, argue later" policy may create a comparative disadvantage is relevant in the context of global investment competition. When countries enforce policies that require companies to pay disputed tax amounts up front, they introduce a layer of financial risk and operational uncertainty that can make them less attractive relative to jurisdictions with more flexible or investor-friendly tax dispute mechanisms. This is especially relevant for multinational firms that can choose where to allocate capital based on regulatory predictability and cost efficiency.

Figure 7: Impact of "Pay Now, Argue Later" on Countries' Attraction of FDI

Average response score by country to Question 5.

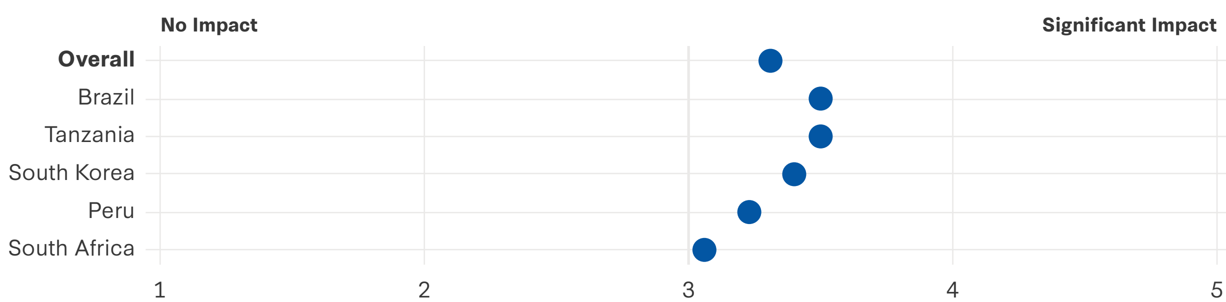


Source: CSIS industry survey.

A perceived disadvantage may affect not only the volume of FDI a country receives but also the type and quality of investment. Investors may favor markets with simpler, more transparent tax environments where disputes can be resolved before financial liabilities are enforced. The survey results suggest that the private sector considers the practice to hinder countries' ability to attract new investment and encourage companies to scale back or reconsider their presence in the market. Of course, a country's "pay now, argue later" practice is not the only feature of its business environment. Factors such as reliable energy infrastructure, rule of law, a robust labor market, and regulatory issues all contribute to firms' ability to thrive in a given economy.

Figure 8: Impact of "Pay Now, Argue Later" on Countries' Ability to Attract FDI in the Future

Average response score by country to Question 6.



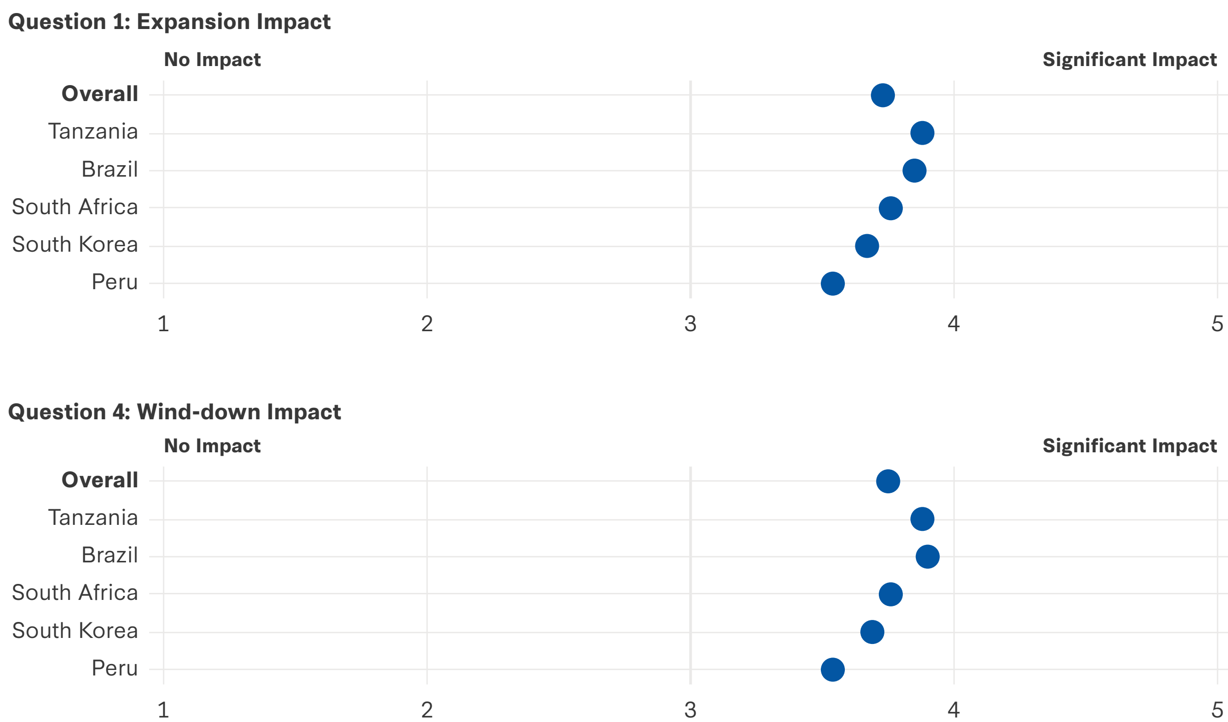
Source: CSIS industry survey.

LITTLE DIFFERENCE AMONG COUNTRIES

As shown in the table presented in the appendix, the lack of significant variation in respondents' perspectives of "pay now, argue later" practices across different countries suggests that, in the private sector's view, the mere existence of such a policy carries more weight than the specifics of how it is administered. Rather, the survey indicates that investors are primarily concerned with the up-front financial and operational risks inherent in being required to pay disputed tax amounts before resolution. In other words, even if the policy is applied transparently or equitably, its presence alone is perceived to create a deterrent effect by introducing uncertainty and tying up capital.

Figure 9: Variation in Reported Impact of "Pay Now, Argue Later" Across Countries

Average response score by country to Questions 1 and 4.



Source: CSIS industry survey.

Conclusion

The "pay now, argue later" tax policy, intended to enhance revenue collection and deter frivolous disputes, may present trade-offs for governments seeking to maintain a competitive business environment and a predictable balance sheet. Private sector views reflected in the CSIS survey suggest that the policy can introduce uncertainty and financial strain for investors, potentially discouraging both expansion and long-term investment. The survey implies that the scheme is typically applied in an equitable manner between domestic and foreign firms, helping preserve perceptions of fairness. Nevertheless, the survey results suggest that, in the private sector's view, countries that require up-front tax payments before adjudication risk deterring FDI and undermining their own economic competitiveness. ■

***William A. Reinsch** is senior adviser and Scholl Chair emeritus with the Economics Program and Scholl Chair at the Center for Strategic and International Studies (CSIS) in Washington, D.C. **Thibault Denamiel** is a former fellow with the Economics Program and Scholl Chair in International Business at CSIS.*

This report is made possible by the USCIB Foundation.

Appendix: Survey Response Results

Table A-1: Survey Response Results

Questions	Overall	Brazil	Peru	South Africa	South Korea	Tanzania
Q1. Does [COUNTRY]'s "pay now, argue later" practice impact your company's ability to expand operations in [COUNTRY]? 1 - Not at all; 5 - Significantly	3.73	3.85	3.54	3.76	3.67	3.88
Q2. How different are your company's estimates of what you owe to [COUNTRY]'s government in taxes compared to what [COUNTRY]'s tax authority has asked you to pay? 1 - No difference; 5 - Significant amount of difference	4.42	4.07	4.16	4.82	4.53	3.70
Q3. How different is [COUNTRY]'s application of the "pay now, argue later" practice to foreign firms relative to domestic firms? 1 - No difference; 5 - Significant amount of difference	1.22	1.35	1.08	1.41	1.00	1.25
Q4. Does [COUNTRY]'s "pay now, argue later" practice impact your company's considerations to wind down operations in [COUNTRY]? 1 - No impact; 5 - Significant impact	3.75	3.90	3.69	3.76	3.54	3.88
Q5. Does [COUNTRY]'s "pay now, argue later" put it at a comparative disadvantage when it comes to attracting foreign investment relative to other countries that allow corporate taxpayers to dispute payments before being required to pay in full? 1 - No discernible disadvantage; 5 - Significant disadvantage	3.73	4.00	3.54	3.53	3.60	4.25
Q6. Will [COUNTRY]'s "pay now, argue later" practice impact its ability to attract FDI in the future? 1 - No impact; 5 - Significant impact	3.31	3.50	3.23	3.06	3.40	3.50

Source: CSIS.