

THE AGN EUROPEAN REGION -- 2004 Corporate Tax Survey --

Accountants Global Network (AGN) International is an association of separate and independent accounting and consulting firms, represented in 80 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys of corporate taxes, corporate structures, value added taxes (VAT), salary taxes and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons and insight into trends.

The corporate tax survey's objective is to find out the effective corporate tax payable in each country, calculated from a model profit and loss account of a standard trading company making an accounting profit of € 1 million before tax. We also attempt to show the amount of after tax dividend that a company resident in a non-treaty (tax heaven) country as shareholder would receive. Additionally the percentage of accounting profit received as dividend is shown under different assumptions on who the shareholder is (individual or company) and if he is an EU-resident, tax treaty-country or non-treaty-country resident.

The 2004 corporate tax survey covers almost the complete European Region, including some of the new members such as Hungary, the Czech Republic, Slovenia and Cyprus.

Nominal corporate tax rates

Standard (nominal) corporate tax rates for 2004 range from 10% in Cyprus to 38,65% in Germany. Ireland (12,5% for trading income) and Hungary (16%) are also on the lower end of the scale, whereas Austria, Belgium, France, Gibraltar, Greece, the Netherlands and Spain all show nominal tax rates of at least 34%.

Effective corporate tax rates

The truth however lies in comparing the effective corporate tax burden, thus considering taxable adjustments of the accounting profit and withholding taxes on business expenses such as intercompany interest and royalties.

Effective corporate tax rates range from 12% in Cyprus and 16% in Hungary to 51% in Germany. Ireland (18%) and Slovenia (28%) show effective tax rates below 30%, the majority of the countries surveyed effectively levy corporate taxes between 31% and 46%.

Portugal shows the largest divergence between nominal (25%) and effective (47%) rates, followed by Sweden, Luxembourg and Italy.

Net dividends received by shareholders

When distributing the company's after-tax profit to its shareholders, additional withholding taxes may be levied by the company's domicile country. Without taking into consideration the shareholder's personal income tax that he may still have to pay in his domicile country (usually reduced by a tax credit for dividend withholding taxes) the situation is as follows:

a. Individual same country resident shareholder

The percentage of the accounting profit received by a shareholder being an individual, resident in the company's country ranges from 75% in Cyprus to 39% in Germany and Sweden.

b. Individual treaty country resident shareholder

If the shareholder is an individual, resident in a tax treaty country (applying the least favourable treaty withholding rate) he would get 88% out of a Cyprus company's profit but only 42% of a German or Russian company's profit.

c. Individual non-treaty country resident shareholder

In the case of an individual shareholder, resident in a country with which the company's country has no tax treaty, he would receive 88% of a Cyprus company's but only 37% of a German company's accounting profit.



d. EU resident company as shareholder

If the shareholder is a company domiciled in an EU member country it would receive 88% out of a Cyprus company's profit but only 45% of a Gibraltar company's profit.

e. Treaty country (non EU) resident company as shareholder

In the case of company as shareholder, domiciled in a non-EU country with which the trading company's country has entered into a tax treaty, the percentage again ranges from 88% (Cyprus) to 45% (Gibraltar and Portugal).

f. Non-treaty country resident company as shareholder

The percentage of the accounting profit received by a shareholder being a company domiciled in a non-EU country with which the trading company's country has not entered into a tax treaty ranges from 88% in Cyprus to 37% in Germany.

Tax adjustments to the accounting profit

In virtually all countries surveyed the company's accounting profit has to be adjusted (usually increased) to arrive at the taxable profit. In the tables those add backs and adjustments are generally shown as a percentage of book expenses.

Bad debts: Germany, Gibraltar, Hungary, the Netherlands and Slovenia allow general bad debt provisions; with the exception of Greece and limitations in the case of Spain and the Czech Republic all countries surveyed allow specific provisions.

Complimentary pension provisions: Belgium, France and Ireland do not allow the deduction of company pension provisions (usually on the basis of an actuarial valuation), Luxembourg limits such deductions and levies an additional withholding tax.

Non-executive directors fees: Austria and Germany disallow 50%, Slovenia disallows 30% of non-executive directors fees, Luxembourg disallows them completely and charges a withholding tax. Spain allows the deduction but charges a withholding tax.

Depreciation: With the exception of Germany, Ireland, Russia and the UK, the annual depreciation of fixed assets for book purposes, which is usually based on the assets' useful life, is also being accepted for tax purposes. Additionally or alternatively in most countries legal tax depreciation rates apply at least for specific types of assets.

Company cars: Austria, France, Ireland, Portugal and the Czech Republic set a maximum purchase price, Belgium allows the depreciation of only 75% of the purchase cost and also disallows 25% of current expenses. Annual depreciation rates range from 12,5% (Austria, Ireland, Slovenia) to 30% (Sweden).

Intercompany interest deduction: All except Ireland, Russia and the Czech Republic apply the arm's length principle for intercompany interest (interest on loans granted by group companies or related parties respectively). All except Austria, Cyprus, Greece, Ireland, Russia, Slovenia and Sweden apply thin capitalisation rules, in the UK debt/equity rules are subject to case by case negotiation. Belgium, France, Gibraltar, Greece, Italy, Portugal, the UK and the Czech Republic apply withholding taxes between 12,5% (Italy) and 35% (Gibraltar) on intercompany interest payments (assuming the loan has been granted by a parent EU company, applying the least favourable EU country treaty withholding rate).

Royalties: Germany, Hungary, Ireland, the Netherlands, Russia and Sweden do not withhold tax on patent royalty payments to an EU company. The others do at rates between 5% in France and 35% in Gibraltar.

Company formation costs: Only Belgium, Cyprus, Ireland, Sweden and the UK completely disallow the deduction of formation costs.



CONCLUSION

From the corporate tax perspective Cyprus seems to be the perfect place to run a business; if the shareholder is an individual or a company resident outside Cyprus, up to 88% of the company's pre-tax accounting profit can be received as dividend.

Doing an active business through an Irish or UK company is still attractive, some of the new south/eastern-European EU member countries such as Hungary, Slovakia and Slovenia however have become increasingly competitive.

Before taking or refraining from action in relation to setting up companies or shifting business from one country to another, specific professional advice should be taken in the countries concerned.

Full details of the AGN 2004 Corporate Tax survey, including a chart comparing the countries surveyed, can be obtained free of charge from AGN Europe's head office at 5-6 Francis Grove, London SW19 4DT, telephone+ 44 (0) 20 8947 4888, e-mail info@agn.org or downloaded from the internet at www.agn.org