

THE AGN EUROPEAN REGION -- 2007 Corporate Tax Survey --

AGN International is an association of separate and independent accounting and consulting firms, represented in 83 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys of corporate taxes, parent companies, corporate, value added (VAT), salary and social security and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons from year to year and from country to country and give an insight into trends.

Introduction: A country's published tax rate is not always a good indicator of the actual tax that a company will have to pay. Often the accounting profit is adjusted to arrive at the tax base on which the published tax rate is then applied. Also certain countries apply different tax rates to different items in the profit and loss and balance sheet and add the resulting tax payable to the corporate tax. This therefore changes the effective tax amount that a company actually has to pay out of its accounting profit.

The objective of the corporate tax survey is to calculate the effective corporate tax payable in each country calculated from a model profit and loss account and balance sheet of a standard trading company making an accounting profit of € 1 million before tax. We also show the adjustments that are made to calculate the tax base and show the amount of after tax dividend that a company resident in a non-treaty (tax heaven) country acting as shareholder would receive. Additionally, the percentage of accounting profit received as dividend is also shown under different assumptions on who the shareholder is (individual or company) and if he is resident in an European Union Country, a tax-treaty country or a non-treaty-country.

Countries Covered: The 2007 survey covers 22 countries (20 members of the EU as well as Russia and Switzerland).

Results of the 2007 Survey

Nominal corporate tax rates: Standard (nominal) corporate tax rates for 2007 range from 10% in Cyprus to nearly 39% in Germany. Ireland (12,5% for trading income) and Hungary (16%) are also on the lower end of the scale.

Effective corporate tax rates: Effective corporate tax rates range from 7% in Malta, 10% in Cyprus and 17% in Hungary to 54% in Germany. Germany shows the largest divergence between nominal (39%) and effective (54%) rates.

Net Dividends paid to an Individual shareholder: If he is resident in the same country as the company the percentage of the accounting profit received by a shareholder ranges from 76% in Cyprus to 36% in Germany. If he is resident in a treaty country (applying the least favourable treaty withholding rate) he would get 93% out of a Maltese company's profit but only 39% of a German company's profit. If he is resident in a non-treaty country, he would receive 93% of a Maltese company's but only 36% of a German company's accounting profit.

Net Dividends paid to a corporate shareholder: If the company shareholder is resident in the European Union it would receive 93% out of a Maltese company's profit but only 46% of a German company's profit. If its registered office is in a non-EU treaty country the percentage again ranges from 93% (Malta) to 46% (Italy) and 43% (Germany) respectively and if the company shareholder is registered in a non-treaty country the percentage of the accounting profit received ranges from 93% in Malta to 36% in Germany.

Tax adjustments to the accounting profit: Bad debts: Hungary, Malta, the Netherlands, Romania and Russia allow general bad debt provisions; with the exception of Greece, Poland, Russia and Slovenia and limitations in the case of Switzerland and the Czech Republic all countries surveyed allow specific provisions.

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

Non-executive directors' fees: Austria, Germany and Slovenia disallow 50% of non-executive directors' fees, the Czech Republic, Luxembourg and Poland disallow them completely and, additionally, both Luxembourg and Poland charge a withholding tax. Ireland and Spain allow the deduction but charge a withholding tax.

Depreciation: With the exception of 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, the Czech Republic, France, Ireland, Malta, Poland, Portugal, Romania and Switzerland set a maximum purchase price. Annual depreciation rates range from 12,5% (Austria, Ireland, Romania) to 40% (Switzerland).

Intercompany interest deduction: All except Ireland apply the arm's length principle for intercompany interest (interest on loans granted by group companies or related parties respectively). Thin Capitalisation: All except Austria, Cyprus, Finland, France, Greece, Ireland, Malta, Sweden and Portugal apply thin capitalisation rules, in the UK transfer pricing rules are being applied. Withholding Tax on Interest: The Czech Republic, Greece, Italy, Portugal, Russia and the UK apply withholding taxes between 10% (Portugal) and 20% (Greece) 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: Hungary, Ireland, Luxembourg, the Netherlands, Sweden and Switzerland do not withhold tax on patent royalty payments to an EU company. The others do at rates between 10% (Austria, Cyprus, France, Germany, Italy, Malta, Poland, Portugal, Romania, Spain, UK) and 26% in Finland.

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

CONCLUSION:

From the corporate tax perspective Malta and Cyprus seem to be perfect places to run a business; if the shareholder is an individual or a company resident outside Malta or Cyprus respectively, up to 93% (Malta) and 90% (Cyprus) of the company's pre-tax accounting profit can be received as dividend. Doing an active business through an Irish company is still attractive, some of the Eastern-European countries such as Hungary however have become increasingly competitive.

Before taking or refraining from action in relation to the above, specific professional advice should be taken.

Full details of the AGN surveys, including a chart comparing the countries surveyed, can be downloaded from the internet at www.agn-europe.org Our Organisation Latest-Tax Surveys