THE AGN EUROPEAN REGION

-- 2008 Corporate Tax Survey--

AGN International is an association of separate and independent accounting and consulting firms, represented in 86 countries with 480 office locations and 9,900 partners and staff. The AGN European Region conducts annual surveys of corporate, parent companies, 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.

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 2008 corporate tax survey covers almost the complete European Region, including some of the newer members (such as Hungary, the Czech Republic, Slovenia and Cyprus) as well as Russia and the Ukraine.

Nominal corporate tax rates

Standard (nominal) corporate tax rates for 2008 range from 10% in Cyprus to app. 33% in France. Liechtenstein (15%) and Romania (16%) are also on the lower end of the scale, whereas Germany, Norway, Sweden, Spain and the United Kingdom all show nominal tax rates of at least 28%. A remarkable exception however is the Isle of Man, where – apart from rental profits from Isle of Man property, and local banking services – no corporate tax is charged.

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 7% in Malta, 10% in Cyprus and 13% in Liechtenstein to 42% in the Ukraine. Switzerland (21%), Croatia (23%), Hungary (23%), the Netherlands (25%), Slovenia (26%) Sweden (25%) and Austria (27%) show effective tax rates below 28%, the majority of the countries surveyed effectively levy corporate taxes between 28% and 41%.
The Ukraine shows the largest divergence between nominal (25%) and effective (42%) rates, followed by Romania, Italy, and the Czech Republic.

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 83% in Liechtenstein to 50% in Norway and Spain.

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 93% out of a Maltese company's profit but only 50% of a Spanish or Italian company's accounting 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 93% of a Maltese company's but only 43% of an Italian 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 93% out of a Maltese company's profit but only 57% of a Czech 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 93% (Malta) to 50% (Italy and Spain).

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 93% in Malta to 43% in Italy.

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: Malta, the Netherlands, Romania Russia and the Ukraine allow general bad debt provisions; with the exception of Greece, Hungary, Norway, Poland, Russia and Slovenia and limitations in the case of the Czech Republic all countries surveyed allow specific provisions.

Complimentary pension provisions: France, Liechtenstein and Russia do not allow the deduction of company pension provisions (usually on the basis of an actuarial valuation), Luxembourg and Slovenia 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. Spain allows the deduction but charges a withholding tax.

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

Intercompany interest deduction: All countries apply the arm's length principle for intercompany interest (interest on loans granted by group companies or related parties respectively). All except Austria, Cyprus, France, Greece, Italy, Liechtenstein, Malta, Norway and Sweden apply thin capitalisation rules, in the UK transfer pricing rules are being applied. Croatia, 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, Liechtenstein, Luxembourg, the Netherlands, Norway, Sweden, Switzerland and the Ukraine do not withhold tax on patent royalty payments to an EU company. The others do at rates between 10% (Austria, Cyprus, France, Italy, Malta, Poland, Portugal, Romania, Spain and the UK) and 25% in Slovenia.

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

CONCLUSION

From the corporate tax perspective Malta and Cyprus (as well as the Isle of Man - zero tax!) 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 a Liechtenstein company is also very attractive, some of the South- and Eastern-European countries such as Croatia and 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