

THE AGN EUROPEAN REGION

-- 2008 Parent Companies 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.

Introduction: Parent companies are used to hold participations in group companies to collect dividends and make capital gains from the sale of subsidiaries in the most tax efficient way.

The objective of the survey of parent company jurisdictions is to compare and contrast the conditions for the exemption of dividends and capital gains and to try to identify the most useful and flexible jurisdiction to place the parent company. The tax calculations are based on a standard profit and loss account and balance sheet with subsidiaries in France, Germany, USA and Switzerland.

Countries Covered: The 2008 survey covers 24 countries, 17 of which are members of the EU.

Results of the 2008 Survey:

Net cash receivable by non-resident parent company: The Isle of Man pays the highest net dividend to a non-treaty country domiciled shareholder which amounts to 100% of the profit made by the parent company, followed by Gibraltar (96,56%) and Cyprus (96,06%). Excluding the Isle of Man, Gibraltar and Liechtenstein due to the lack of double tax treaties, the position is as last year i.e Cyprus is top of the list with 96,06%. Bottom of the list comes Switzerland (56,04%), followed by the Ukraine (61,01%) and Russia (62,22%).

Dividend income (re: foreign subsidiaries): Most parent company jurisdictions apply a full dividend income exemption system for dividend income from foreign subsidiaries. However, in some jurisdictions like Ireland and the UK, dividend income is fully taxed. A tax credit applies in the case of the UK. Only 85% of the dividend income is exempt in Liechtenstein and 95% in France, Germany and Italy.

Dividend withholding tax credits (re: foreign subsidiaries): A tax credit for the withholding tax on dividend income from a USA participation is granted in Luxembourg, Norway, the UK and Italy. A tax credit for the withholding tax on dividend income from a Swiss participation is granted in Italy, Norway and the UK.

Capital gain (re: foreign subsidiaries): Capital gains resulting from the sale of shares in foreign subsidiaries are fully tax exempt in most parent company jurisdictions. However, in Greece, Poland, Russia and the Ukraine capital gains are fully taxed.

Investment costs write down (re: subsidiaries): Investments can be fully written down in the jurisdictions of Austria (in a period of 7 years), Estonia, Gibraltar, Ireland, the Isle of Man, Liechtenstein, Luxembourg, Spain and Switzerland.

Interest deduction: Interest paid on a loan taken by the parent company to purchase a foreign subsidiary can be fully deducted in most jurisdictions. It is not deductible in Cyprus, Germany and Italy.

Interest withholding tax: Twelve countries participating in the survey (Austria, Cyprus, France, Germany, the Isle of Man, Liechtenstein, Luxembourg, Malta, the Netherlands, Norway, Sweden and Switzerland) do not impose any withholding tax on interest paid. The rate in the rest varies between 15% and 35%, the Ukraine and Gibraltar being on the higher end.

Corporate income tax payable: The corporate income tax due on taxable profit is zero in Gibraltar and the Isle of Man. It varies from 9% in Liechtenstein and 10% in Cyprus to 33,33% in France and 30% in Spain and the UK.

Dividend withholding tax (re: non-resident parent company): In most of the jurisdictions a withholding tax on dividend applies in case of distributing a dividend to the non-resident parent. The rate varies from 15% to 35% except in the case of Cyprus, Gibraltar, Greece, Ireland, the Isle of Man, Malta, Norway, Sweden and the UK where no withholding tax is imposed.

CONCLUSION:

Most parent company jurisdictions apply a full dividend income and capital gains exemption system. In some of the parent company jurisdictions where the exemption system does not apply, like the UK, a tax credit is granted. From a tax point of view and particularly with regard to a low tax burden and a short-term realisation of dividends, a non-resident taxpayer will gain most benefit from a parent company in the Isle of Man, Gibraltar or Cyprus.

It may be necessary to establish a combination of parent companies in different jurisdictions to achieve all tax saving objectives.

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