

THE AGN EUROPEAN REGION

-- 2009 Parent Companies Survey--

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 2009 survey covers 26 countries, 21 of which are members of the EU.

Results of the 2009 Survey:

Net cash receivable by non-resident parent company: Cyprus pays the highest net dividend to a non-treaty country domiciled shareholder which amounts to 96,06% of the profit made by the parent company, followed by Liechtenstein (95,23%) and Malta (94,51%). Bottom of the list comes Switzerland (56,04%), followed by the Ukraine (61,01%) and Poland (64,18%).

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 Bulgaria and the UK, dividend income is fully taxed. A tax credit applies in the case of the UK. Only 84% of the dividend income is exempt in Romania and 85% in Liechtenstein, whereas dividend income is taxed at a special rate in Russia.

Dividend withholding tax credits (re: foreign subsidiaries): A tax credit for the withholding tax on dividend income from a USA and 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 Bulgaria, 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), Bulgaria, Estonia, Liechtenstein, Luxembourg, Portugal, Romania, 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, Denmark, France, Germany, 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 12,5% and 25%, Estonia and the Ukraine being on the higher end.

Corporate income tax payable: The corporate income tax due on taxable profit varies from 9% in Liechtenstein and 10% in Cyprus and Bulgaria to 33,99% in Belgium, 33.33% in France and 30% in Spain.

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, Malta, Norway, Sweden and the UK where no withholding tax is imposed and Liechtenstein where 4% 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 Cyprus, Liechtenstein and Malta.

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.

AGN International – Europe Ltd, a UK Registered company (No. 4619314), registered office: 5-6 Francis Grove, London SW19 4DT, UK. Phone (+44 20) 8944 5955, Fax (+44 20) 8947 3477, Email: info@agn.org.