

Chapter 5

Corporate taxation



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5. CORPORATE TAXATION

SUMMARY

In recent decades there has been a clear trend decline in the OECD-30 countries' statutory corporate tax rates. From 2000 (the first year with comparable data combining rates from national and sub-national levels across countries), the fall in Australia's corporate tax rate has exceeded those in the OECD-30 average and the OECD-10 average.

The decrease in statutory corporate tax rates across the OECD-30 has not led to a reduction in corporate tax receipts as a share of GDP because reductions in rates have often been partnered by a broadening of the tax base. In addition, there has been a rapid growth in company profits as a share of GDP.

Australia's effective corporate tax rate has been relatively stable over the period since 1965, and at 20 per cent in 2004-05 was slightly above the historic average.

Classification issues make comparisons of the headline corporate income tax burden difficult. Subject to these limits, Australia has the highest corporate tax burden of the OECD-10 at 5.3 per cent of GDP, compared with the unweighted average of 3.4 per cent.

Australia's 30 per cent statutory corporate rate is in line with the OECD-10 – it has the equal fourth lowest rate of the OECD-10 and is slightly below the OECD-10 average of 30.8 per cent. Australia's 30 per cent statutory corporate tax rate is slightly above the OECD-30 unweighted average of 28.5 per cent and significantly below the weighted average of 35.6 per cent.

Australia has the equal lowest value of depreciation allowances of the OECD-10 countries if the value is measured as the present value of depreciation as a proportion of initial purchase price.

Despite moves in many OECD countries for a more neutral treatment between debt and equity financing of investments, there remain major differences in the effective marginal tax rates (EMTRs) of most corporate tax systems' investments funded by debt or by equity.

The report also compares EMTRs and effective average tax rates (EATRs) in the corporate taxation area. Australia has the third highest EMTR (24.3 per cent) of the OECD-10 (except New Zealand) for a marginal investment in plant financed by equity. The average is 21.5 per cent.

- For a similar investment financed by debt, Australia has the second highest EMTR (-23.1 per cent), compared with the average of -31.7 per cent.
- When looking at investment in industrial buildings, the data show that Australia has the equal second lowest EMTR on equity financed investment.

Of the OECD-10, Australia has the fourth highest EATR (26.2 per cent) for an investment in plant and equipment financed by equity, with the average being 25.2 per cent.

- For a similar investment financed by debt Australia has the second highest EATR (6.9 per cent) with the average being 5.6 per cent.
- When looking at investment in industrial buildings, the data show that Australia has the equal second lowest EATR on equity-financed investment.

A number of countries, including Australia, have lower corporate rates or concessions for smaller companies or for start-ups.

Half of the OECD-10 countries permit loss carry back and over half allow the amortisation of goodwill, neither of which Australia permits.

With the exception of New Zealand, all of the OECD-10 countries impose some general form of corporate capital gains tax (CGT). There are significant variations in the rate of CGT depending on the nature and level of the shareholding.

5.1 INTRODUCTION

As discussed in Chapter 4, most aggregate measures of the corporate tax burden based on proportions of GDP have limited value because of statistical classification issues.

Data on average corporate tax rates are potentially more useful, but there are difficulties in making international comparisons. This is because of major differences in how countries classify corporate revenues and corporate profits and also differences in the way countries prepare national accounts (for example, in the case of Germany, total accrual taxation revenue in 2003 was €768 million according to *Revenue Statistics*, but €888 million on a national accounts basis).

Given these limits, there is a need to go beyond some of the aggregate measures to examine the impacts of corporate taxation on actual investment decisions and international competitiveness. In the remainder of this chapter, after examining the aggregate measures and their limits, there is a comprehensive discussion of corporate tax rates.

There is also a brief discussion of the conceptual choice of a corporate tax base because of the potential trade-offs between the corporate tax base and the corporate tax rate, as well as some efficiency differences between tax bases.

Some forward looking numerical approaches are then suggested, based around effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) derived from particular international studies that look at a range of different investments and financing options.

There are a number of further insights from the detailed comparator tables in this chapter on depreciation arrangements including the treatment of goodwill, treatment of company losses, treatment of start-up companies and taxation of corporate capital gains.

5.2 BROAD INTERNATIONAL COMPARISONS

5.2.1 Corporate income tax burden

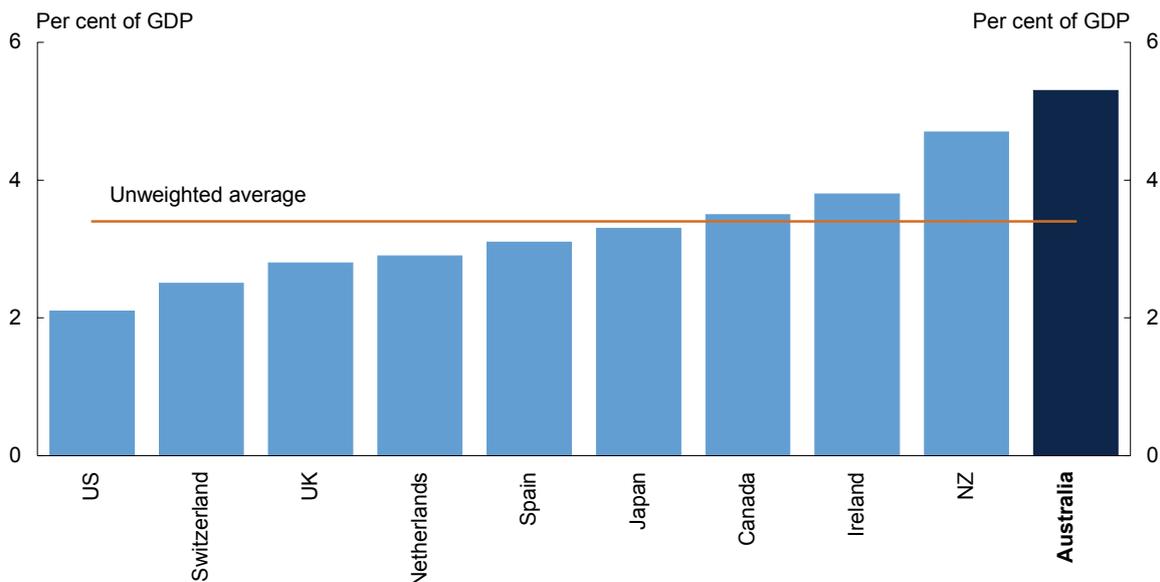
As discussed in detail in Appendix 4.1, classification issues make comparisons of headline corporate income tax burdens difficult (this is the measure most frequently used in commentary about corporate tax burden). In particular, care should be exercised when analysing income tax data that have been disaggregated into personal and corporate components. Some of the difficulties with disaggregating the overall income tax measure include differences between countries in:

- the levels of incorporation;
- the ways that personal and company tax systems are integrated (for instance, with imputation systems such as Australia's, the OECD acknowledges that the question arises as to whether the company tax underpinning dividend franking credits should be allocated to individuals rather than corporations);
- the way retirement income systems are constructed;
- the way taxes on resource rents are collected; and
- the incentives to distribute or retain earnings (retained earnings may face more concessional CGT rates in some countries).

Notwithstanding these caveats, Australia's corporate tax burden as a proportion of GDP is compared with the average for the OECD-10 in Chart 5.1.

Chart 5.1: Direct taxation in respect of companies^(a)

OECD-10, taxation revenue as a proportion of GDP,
ordered by tax burden, 2003



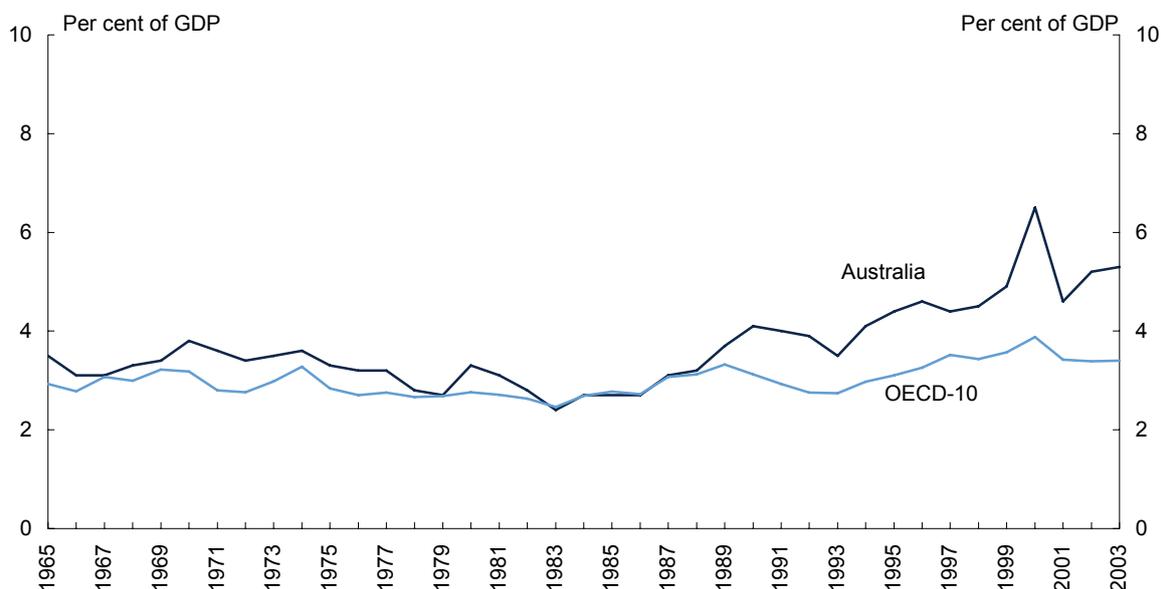
(a) The OECD notes that, for the purpose of international comparison, there are significant risks in relying on disaggregated data, especially in disaggregating classification 1000 (income taxation revenue).

Source: OECD *Revenue Statistics*, 2005.

Australia has the highest corporate tax burden of the OECD-10 at 5.3 per cent of GDP, compared with the unweighted average of 3.4 per cent (Chart 5.1). New Zealand (4.7 per cent) also has a high tax burden, but it may be affected by some of the same classification issues as Australia – in particular, its imputation system is similar to Australia's. The low tax burden for the United States (2.1 per cent) stands in contrast to its relatively high statutory tax rate.

Australia's corporate tax burden was relatively stable for the period from 1965 to 1988 and broadly in line with the average for the OECD-10 during that time (Chart 5.2). Since 1988, the Australian corporate tax burden has increased from a little under 4 per cent of GDP to a little over 5 per cent. In comparison, the average corporate tax burden for the OECD-10 remained relatively stable over the entire period – there has been a slight increase in the corporate tax burden for the OECD-10 since the mid-1990s, but it is not as discernable as the increase for Australia.

Chart 5.2: Australian corporate tax burden in perspective
 OECD-10, total corporate taxation revenue as a proportion of GDP, 1965-2003

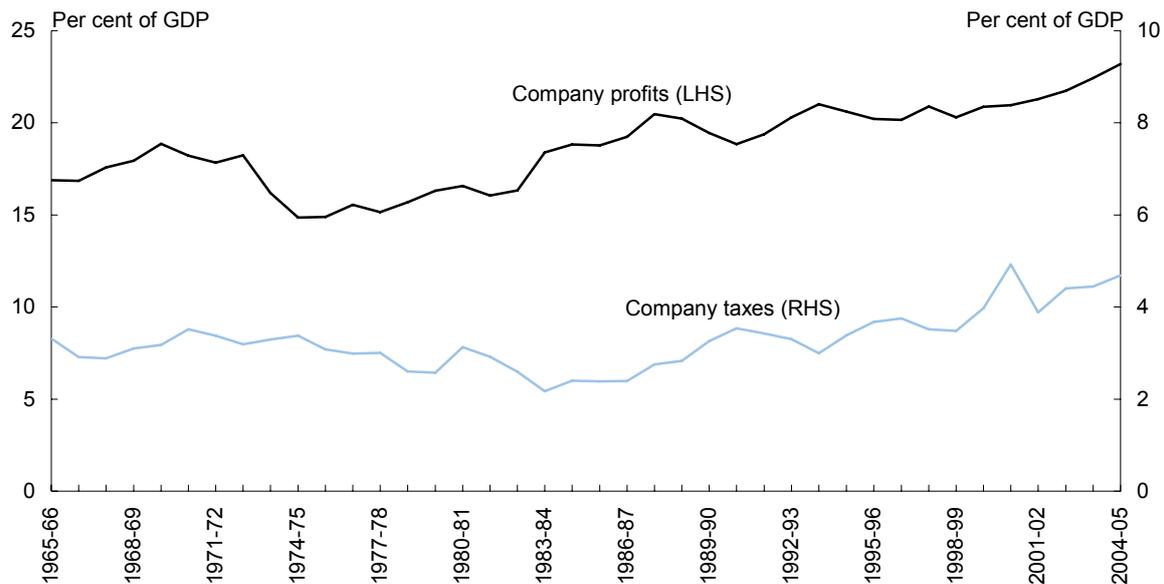


Source: OECD Revenue Statistics, 2005.

Part of the explanation for the increase in Australia's tax burden is the rapid growth in company profits as a share of GDP (Chart 5.3). Company profits are generally measured in the national accounts as gross operating surplus.

Chart 5.3: Corporate tax burden and corporate gross operating surplus

Australia, corporate profits and taxation revenue as a proportion of GDP, 1965-66 to 2004-05



Source: Australian Treasury estimates.

The share of Australian company profits in GDP has increased by about 40 per cent, from 16.9 per cent of GDP in 1965-66 to 23.2 per cent in 2004-05 – an increase of 6.3 percentage points. This gain has been entirely at the cost of the declining share of gross mixed income in GDP. Gross mixed income consists broadly of business, farming and investment activities carried out by entities other than corporations – that is, mostly individuals. This long run shift from mixed income to company income partly reflects the incorporation of small businesses.

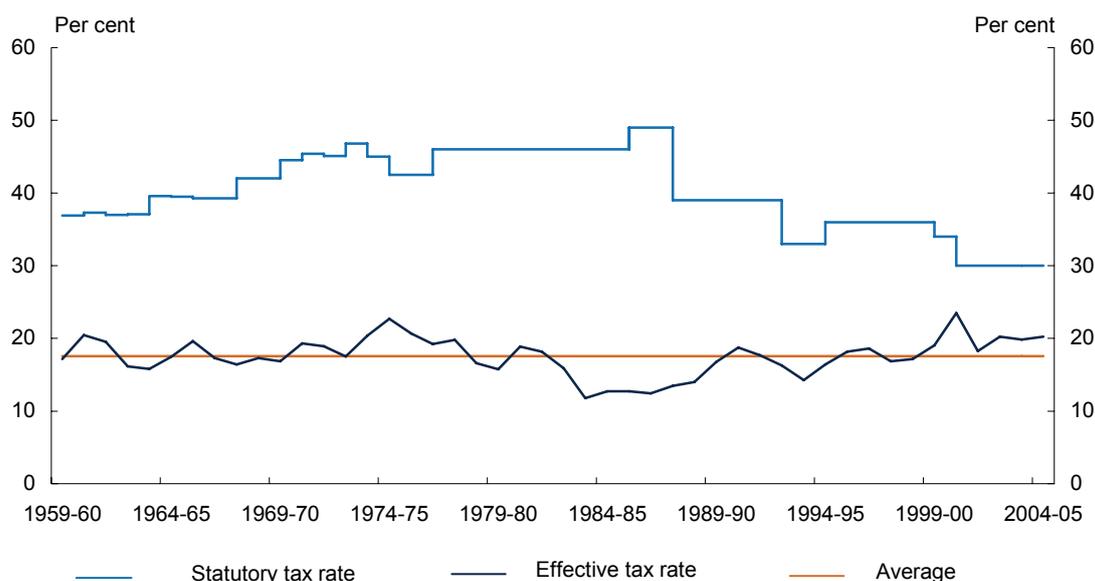
5.2.2 Effective corporate tax rates

An alternative measure of the corporate tax burden is the effective rate of corporate tax. The effective rate is total corporate taxation revenue taken as a proportion of corporate gross operating surplus (broadly, corporate profits) from the national accounts.

The effective corporate tax rate is a potentially useful measure of corporate tax burden. It provides information about the size of the corporate tax base when compared with the statutory corporate tax rate (currently 30 per cent in Australia), and it also incorporates changes over time in the share of corporate profits in total GDP, which the aggregate corporate tax burden does not.

The effective corporate tax rate for Australia since 1959-60 is shown in Chart 5.4. The statutory corporate tax rate is also included to show how the statutory rate and the effective rate can move in different directions. The tax base is broader when the two rates converge, and the base narrows as the two rates diverge. Even though there have been significant changes in statutory rates, it is interesting to note that the effective corporate tax rate has been relatively stable over the entire period.

Chart 5.4: Statutory and effective corporate tax rates^(a)
Australia, 1959-60 to 2004-05



(a) Pre 1974-75 there were separate tax rates for public and private companies. The chart is based on an average of the two rates.

Source: Australian Treasury estimates.

Australia's statutory corporate tax rate reached a high point of 49 per cent in the late 1980s and has been reduced several times since then. The effective corporate tax rate has been relatively stable over the period since 1965 and at 20 per cent in 2004-05 is slightly above the historic average.

Estimates of the effective corporate tax rate could be extended to other OECD countries, but the OECD does not publish effective tax rate data and there are classification issues and significant differences in the national accounts treatment of elements of company profits.

5.3 STATUTORY CORPORATE TAX RATES AND BASES

Australia's corporate income tax system seeks to fulfil two fundamental roles as:

- a (withholding) tax on the income of Australian residents received from an Australian resident company; and
- a tax on the (Australian source) income of foreigners, earned from an Australian company or the Australian branch of a foreign company.

The effective corporate tax rate can be split into two key parts – the tax rate and the tax base.

The statutory corporate tax rate is important to domestic corporations because it is one determinant of their after-tax income. Corporations then divide this after-tax income between distributions to their shareholders and retained profits. The latter are available for financing (among other things) business expansion and investment. The statutory corporate tax rate also affects the production costs of domestic corporations.

The other determinant of a corporation's after-tax income is the corporate tax base which may be structured in several ways (see Appendix 5.1: Corporate Base Options). It also depends on a country's depreciation arrangements, corporate tax exemptions and concessions. These arrangements vary from country to country and limit the usefulness of statutory corporate rates as a basis for international comparisons.

5.4 STATUTORY CORPORATE TAX RATES

Although the statutory corporate tax rate has its limitations in making international comparisons of the corporate tax burden, it nevertheless has a number of useful features, especially where information is available on the combined impact of national and sub-national government taxes.

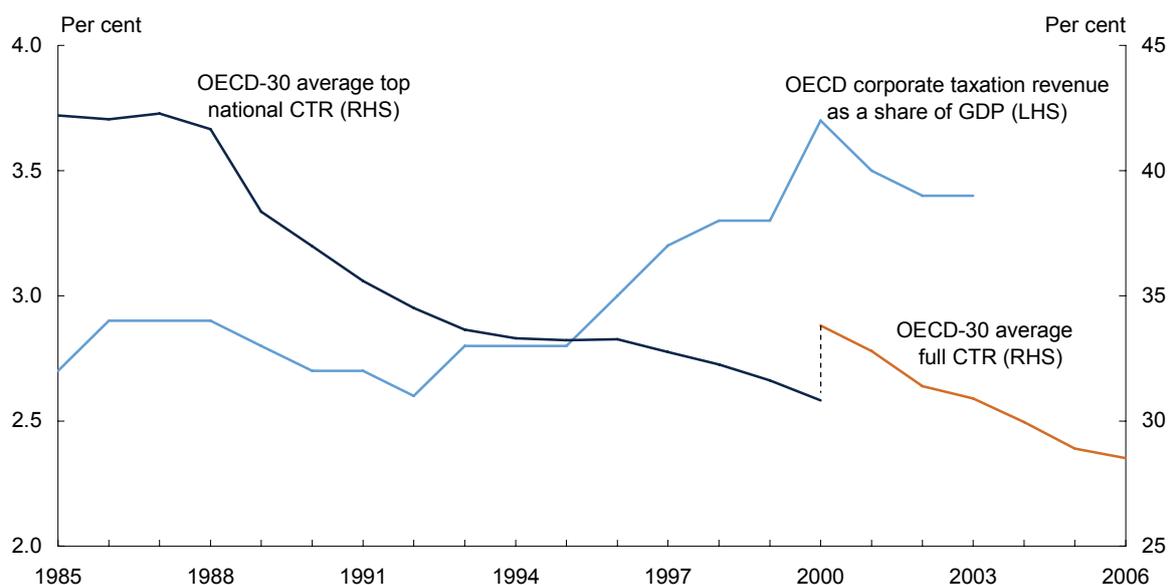
Only the national corporate tax rate information is readily available prior to 2000. After 2000, information is available on the 'full' rate from all levels of government. As the full rate is a better measure for international comparisons, it will be used wherever possible (this explains the 'break' in Chart 5.5 – the size of the break of 3 percentage points indicates the importance of using the full rate for international comparisons).

In recent decades there has been a clear trend decline in countries' top national statutory corporate tax rates (Chart 5.5). Australia's rate reductions have been slightly greater than the OECD-30 unweighted average decline, with the corporate tax rate falling from 49 per cent in 1987 to 30 per cent from 1 July 2001.

This trend decline in OECD-30 countries looks set to continue, with the Spanish government recently finalising its proposal to cut gradually the corporate tax rate from 35 per cent to 30 per cent by 2011 and the Netherlands government in its 2006 Budget reducing its top corporate tax rate by 1.9 percentage points to 29.6 per cent.

Chart 5.5: Historical trends in statutory corporate tax rates and corporate taxation revenue (unweighted)^(a)

OECD-30, 1985-2006



(a) Rates are top national statutory corporate tax rates until 2000 and full corporate tax rates post 2000. Averages are unweighted.

Source: OECD Tax Database; KPMG (various years); OECD (2005); Deloitte (2006); various country websites.

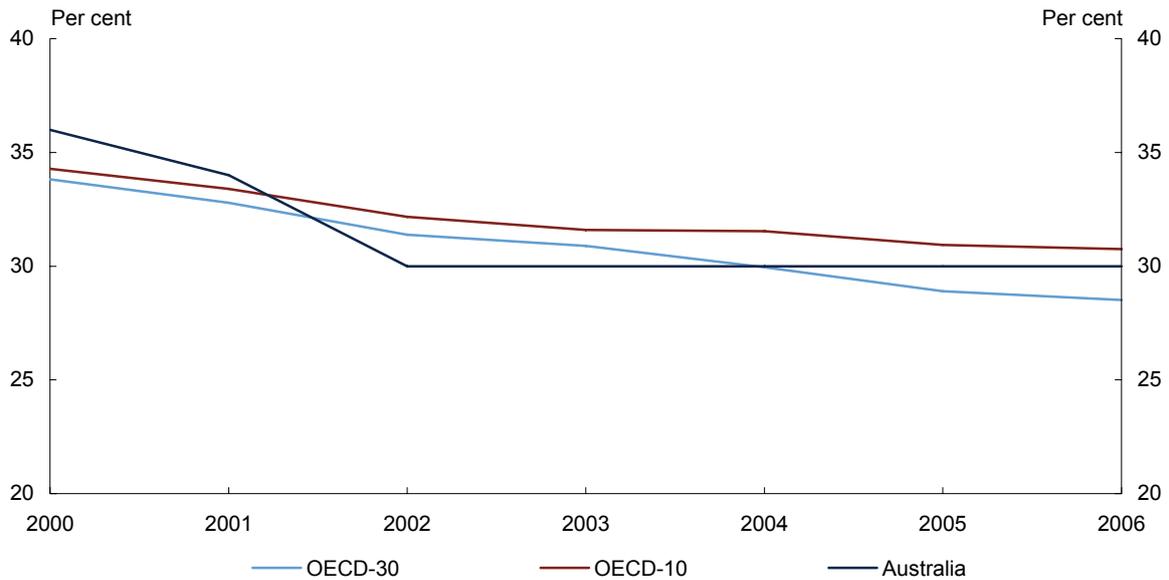
The OECD top national average statutory corporate tax rate declined from 42.2 per cent in 1985 to 30.8 per cent in 2000, measured on an unweighted basis (from 43.4 per cent to 33.5 per cent on a GDP-weighted basis). The OECD-30 full corporate average statutory tax rate declined from 33.8 per cent in 2000 to 28.5 per cent in 2006 measured on an unweighted basis (from 38.7 per cent to 35.6 per cent on a GDP-weighted basis).

Australia's statutory corporate tax rate increased from 46 per cent in 1985 to 49 per cent in 1987 before declining to 36 per cent in 1995-96 (see Chart 5.4), to 34 per cent on 1 July 2000 and to 30 per cent on 1 July 2001.

Chart 5.5 shows that the decrease in statutory corporate tax rates has not led to a reduction in corporate tax receipts in OECD countries as a share of GDP. In 1985, corporate taxation revenue was 2.7 per cent of GDP and in 2003 the ratio had increased to 3.4 per cent of GDP. This increase in corporate taxation revenue as a proportion of GDP has occurred because reductions in rates have often been partnered by a broadening of the tax base and the rapid growth in company profits as a share of GDP. In Australia's case, this partly reflects a significant shift of income from unincorporated businesses towards the corporate sector.

The decrease in statutory corporate tax rates has been attributed by some to the competition between countries to attract highly mobile international capital. Others have noted that in the European Union the decrease in corporate tax rates has been accompanied by a broadening of the corporate tax base, implying that attracting investment is not the main goal of European tax policy. Rather, reductions in the statutory corporate tax rate may be designed to diminish corporations' incentives for shifting income to their affiliates in low-tax countries via transfer pricing (Sullivan 2006, p 440).

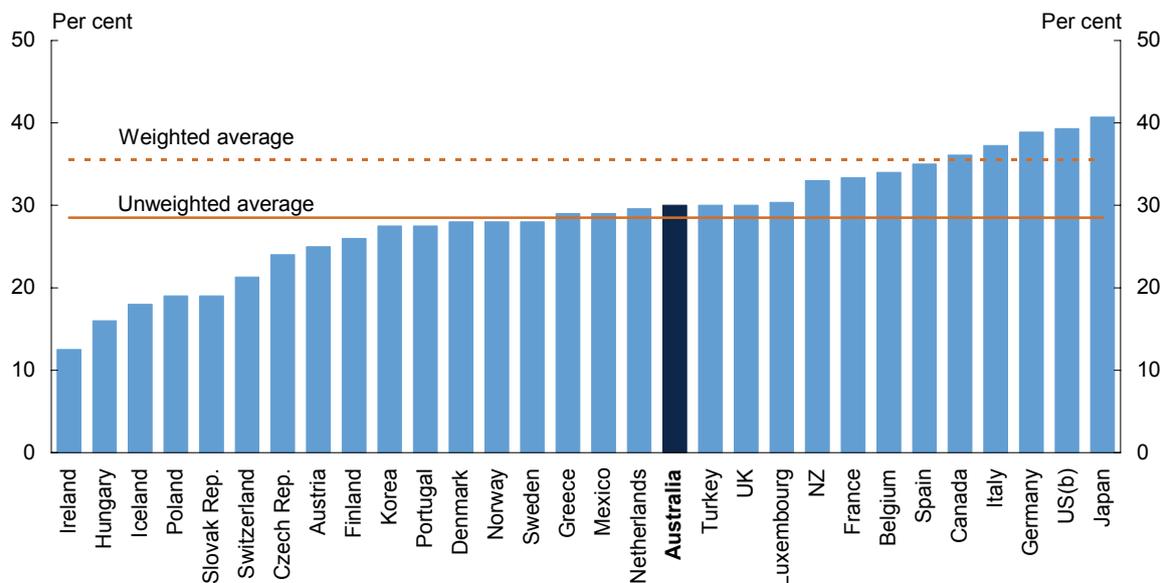
Chart 5.6: Full statutory corporate tax rates^(a)
 OECD-30 and OECD-10 countries (unweighted average), Australia, 2000-2006



(a) Rates are full (national, sub-national and surcharge) statutory corporate tax rates.
 Source: OECD Tax Database; KPMG (various years); Deloitte (2006); various country websites.

At the beginning of the year 2000, Australia’s corporate tax rate was 36 per cent while the OECD-30 average full statutory corporate tax rate was 33.8 per cent and OECD-10 average was 34.3 per cent. Over the period 2000-2006 Australia’s corporate tax rate declined by 6 percentage points while the OECD-30 declined by 5.3 percentage points and the OECD-10 by 3.5 percentage points (Chart 5.6).

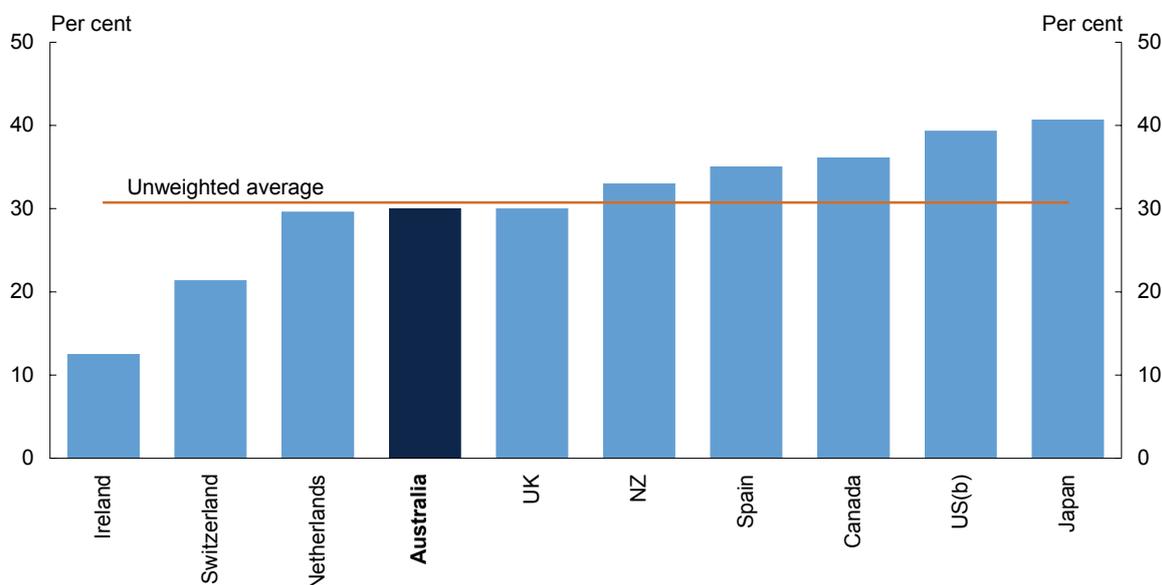
Chart 5.7: Full statutory corporate tax rates^(a)
 OECD-30, 2006



(a) Rates are full (national, sub-national and surcharge) statutory corporate tax rates.
 (b) The rate for the United States is the OECD full statutory corporate tax rate for 2005, which is the latest available OECD rate.
 Source: OECD Tax Database; KPMG (various years); Deloitte (2006); various country websites.

Australia's 30 per cent statutory corporate tax rate is equal eighteenth of the OECD-30 and is slightly above the OECD-30 unweighted average of 28.5 per cent and significantly below the weighted average of 35.6 per cent (Chart 5.7).

Chart 5.8: Full statutory corporate tax rates^(a)
OECD-10, 2006



(a) Rates are full (national, sub-national and surcharge) statutory corporate tax rates.

(b) The rate for the United States is the OECD full statutory corporate tax rate for 2005, which is the latest available OECD rate. Source: OECD Tax Database; KPMG (various); Deloitte (2006); various country websites.

Chart 5.8 provides a snapshot of full statutory corporate tax rates for the OECD-10 in 2006. Australia has the equal fourth lowest full statutory corporate tax rate of the OECD-10 countries. The average for the OECD-10 is 30.8 per cent.

5.4.1 Corporate tax rates – detail

Appendix 5.2 provides more detailed information on the corporate tax rate in the OECD-10.

Some of the OECD-10 countries have a lower corporate rate for companies earning relatively small profits or for start-ups. Australia has the entrepreneurs' tax offset which provides an offset of up to 25 per cent of income tax liability on their business income for Simplified Tax System (STS) taxpayers with a group turnover of less than A\$75,000.

Spain, which has a general corporate rate of 35 per cent, applies special rates to particular entities:

- listed collective investment including real estate investment funds (1 per cent);
- entities involved in oil and gas research and exploitation operations (40 per cent); and
- asset-holding companies (40 per cent).

Ireland, which has a 12.5 per cent general corporate tax rate, imposes a 25 per cent corporate tax rate on profits from mining, certain petroleum activities and certain land dealing operations.

5.5 CORPORATE TAX BASES

Analysing a country's tax base is as important as analysing its tax rates, although tax base comparisons are much more difficult to quantify.

There are several ways of structuring the corporate income tax base. The conventional or historical approach has been that corporate tax has been imposed on the entire return to corporate equity, that is the normal return as well as any economic profit (above-normal return). All OECD-10 countries use this as the fundamental corporate income tax base.

On the other hand, corporate tax may be levied only on economic profit, making the normal return to capital untaxed (Devereux and Sorensen 2005, p 23). Such a system has been trialled in two countries in the past (but withdrawn). Belgium has just introduced such a system for its income base, and there are features of this approach in the Nordic shareholder model.

Belgium introduced a notional or deemed interest that provides a deduction for the cost of capital. The stated purpose of the Belgium reform is to reduce the tax discrimination between debt financing and equity financing. As a general rule, as the system reduces the corporate income base by allowing deductions for a proportion of the value of equity in the company (based on a long-term government bond rate) or by allowing immediate expensing of capital expenditure, there is a need to have higher corporate tax rates.

Lastly, the corporate tax may be imposed on the entire return to all forms of corporate capital including debt capital. This model was proposed by the United States Treasury in 1992. This 'Comprehensive Business Income Tax' base is much broader than the usual corporate tax base as it establishes equal treatment between debt and equity by not allowing interest deductions. As a result, for any given revenue requirement, this broad base will mean a lower corporate tax rate. No country has introduced such a system.

More details on these alternatives are set out in Appendix 5.1.

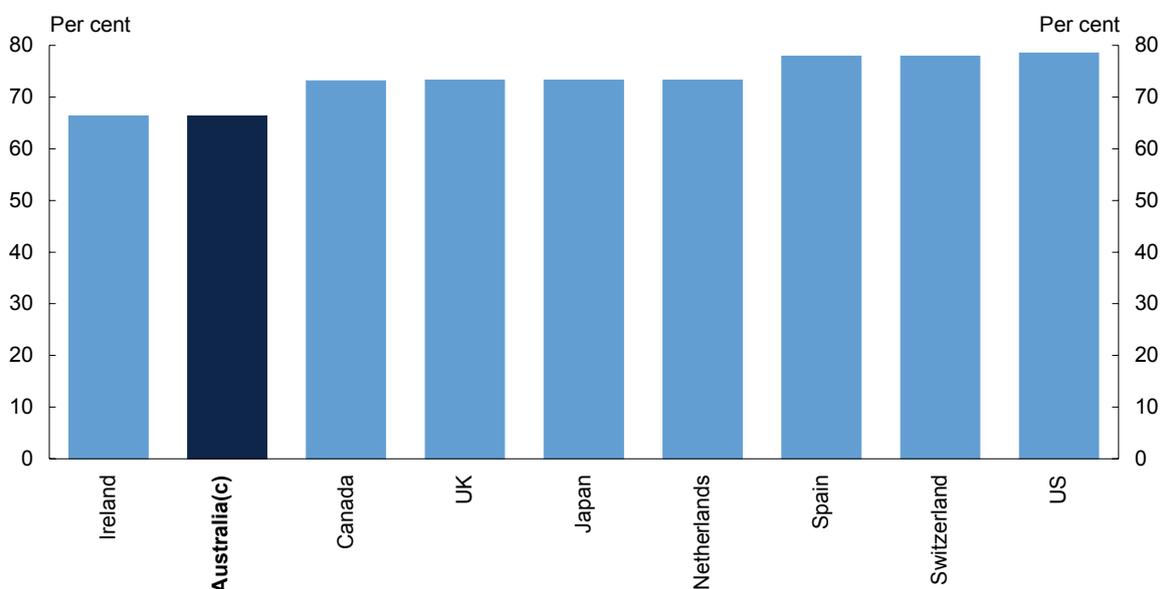
A key element of the corporate tax base is depreciation arrangements. Appendix 5.3 provides detailed information on the depreciation arrangements in the OECD-10.

Depreciation deductions are given in lieu of the loss of economic value of a wasting or depreciable asset. The rate of the deductions given partly reflects the economic life of the asset, the method used to calculate the applicable rate and any other loadings or concessions available.

There are two common methods for determining the rate of write-off for physical assets: prime cost and declining balance. The prime cost (or straight-line) method writes the value of an asset off in equal instalments over its effective life. The declining balance method operates by applying a constant rate of write-off, typically at a higher rate than prime cost, to the written-down value of the asset.

The differing approaches to depreciation result in the value of depreciation deductions varying across countries, as shown in Chart 5.9. Australia has the equal lowest present value of depreciation allowances (around 66 per cent) of the OECD-10 (except New Zealand) measured against the initial purchase price of a hypothetical investment in plant.

**Chart 5.9: Present value of depreciation as a proportion of initial purchase price^(a)
OECD-10^(b), 2005**



(a) The present value figures do not include the value of investment allowances.

(b) Devereux does not do the calculations for New Zealand.

(c) The Devereux estimate for Australia is based on the prime cost method of depreciation. If the declining balance method were adopted the present value of depreciation deductions would be higher, resulting in a marginal improvement in Australia's relative position.

Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

There are some similarities in depreciation arrangements applying in the OECD-10 countries, including:

- most countries allow both declining balance and prime cost depreciation;
- rates in many countries are broadly based on the life of an asset; and
- most countries have some form of concessional treatment directed towards particular assets or industries.

Declining balance rates vary across countries. Many countries such as Canada and the United Kingdom use broad asset pools/classifications, with all assets in the pool or within the classification being depreciated at a given rate. Other countries such as Australia, Spain, Switzerland and the United States calculate their declining balance rate with explicit reference to the prime cost rate.

The United States uses double the prime cost rate (so called 'double declining balance') for shorter lived assets and 150 per cent of the prime cost rate for longer lived assets. Switzerland uses a double declining balance method while Spain uses 150 per cent to 250 per cent depending on the life of the asset. Australia's declining balance rate is set at 150 per cent of the prime cost rate for all applicable assets.

It is difficult to make precise comparisons of depreciation arrangements for specific categories of assets because of the varying methods that are used across countries, the investment allowances that some countries provide and the differing methods of recapturing excess depreciation on sale of the asset.

Australia's declining balance rate for an item of plant with an eight-year life is the third lowest out of the OECD-10 countries. For buildings, Australia's rate is around the average of the OECD-10 and for computers Australia's rate is less than average. Australia is one of three countries in the OECD-10 that does not provide amortisation of goodwill.

5.5.1 Treatment of losses

Another key aspect of the corporate tax base is the treatment of losses. Appendix 5.4 provides detailed information on the treatment of losses in the OECD-10.

Half of the OECD-10 permit the carry back of losses: Canada, Ireland, the Netherlands, the United Kingdom and the United States. In the OECD-10 countries, the length of period for loss carry back generally ranges between one and three years while the carry forward period is typically longer, with several countries, including Australia, offering indefinite carry forward.

The OECD-10 countries generally allow the transfer of losses within corporate groups but typically subject to specific restrictions. The OECD-10 countries typically impose restrictions on their loss recoupment rules which are usually variants of either a continuity of ownership test or same business test or both.

5.5.2 Key corporate tax concessions

Countries often offer business a variety of tax concessions although, as was noted earlier, there has been a trend within the OECD-30 towards lowering the statutory corporate tax rate and broadening the tax base by eliminating or reducing corporate tax concessions. Appendix 5.5 provides more information on key corporate tax concessions in the OECD-10.

Most of the OECD-10 countries allow non-capital Research and Development (R&D) expenditures to be expensed, with capital expenditure generally amortised over a defined period. Australia, Canada, Ireland, Japan, Spain, the United Kingdom and the United States provide credits against corporate tax. Ireland's and the United States' credits are available only for incremental Research and Development expenditure. Australia and the United Kingdom are the only countries that provide relief where the Research and Development credit is earned in a loss period.

All of the OECD-10 countries provide specific concessions to particular industries or expenditures, the most common being for mining and minerals exploration and environmental expenditure. Most concessions are provided by way of accelerated depreciation, investment allowances or reduced tax rates. Australia, Spain and the United Kingdom provide some form of accelerated depreciation for small businesses; in the case of Australia and the United Kingdom this is aimed at simplifying the taxation arrangements for these businesses. As noted previously, Canada, Spain, the United Kingdom and the United States have reduced rates for small to medium-sized business.

5.6 EFFECTIVE MARGINAL AND EFFECTIVE AVERAGE TAX RATES — DEFINITIONS AND COMPARISONS

There are a range of other tools for analysing the corporate tax burden and making international comparisons. The use of effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) for the corporate sector has some parallels to the effective rate analysis included in Chapter 4. There are also some significant differences, primarily as most of the analysis for the effective corporate tax burden is based on a time period of several years. This time aspect requires the use of present value analysis to convert future values to today's dollars.

Following is a brief definition and summary of the advantages and disadvantages of effective marginal tax rates and effective average tax rates. Appendix 5.6 (Alternative Measures of the Corporate Tax Burden) provides a more detailed discussion of effective marginal and effective average tax rates.

5.6.1 Effective marginal tax rates

An EMTR is a measure of the effect of tax on the return to a marginal investment. A marginal investment is one that just breaks even or covers all of its economic costs, including a return to the labour and capital that may be provided by the owner of the investment. A marginal investment returns a normal profit to the investor.

The effect of tax on the return to a marginal investment depends not only on the statutory corporate tax rate but also on depreciation allowances and any available corporate tax concessions. In particular, EMTRs are strongly dependent on the value of depreciation allowances, assuming that the corporate base has not been significantly reduced by non-depreciation tax concessions (Devereux, Griffith and Klemm 2002, p 463).

5.6.2 Effective average tax rates

An EATR is a measure of the effect of tax on a non-marginal investment. A non-marginal investment is one that not only covers all of its economic costs but also provides an economic or above-normal profit to the investor. So the EATR is a measure of the proportion of pre-tax economic profit that the investor gets to keep after paying corporate tax.

EATRs may be a better indicator of the tax incentives facing a multinational corporation in deciding on a country for locating a large, discrete investment project, especially where the corporation has a strong expectation that it will earn economic profit due to a patent or similar source of market power.

The advantages of these two measures are summarised in Table 5.1.

Table 5.1: Alternative measures of the corporate tax burden

Method	Advantages	Disadvantages
Effective marginal tax rates	<ul style="list-style-type: none"> Forward looking measure Measure for incentives to save and invest – and efficiency of tax system Measures the tax burden of a marginal investment Can incorporate taxes at shareholder level Calculates rates for particular taxpayers, groups or industries for various asset types and financing arrangements Long-standing, internationally recognised measure 	<ul style="list-style-type: none"> Complex calculation Not appropriate if project/asset earns above-normal profit
Effective average tax rates	<ul style="list-style-type: none"> Forward looking measure Measure for examining location decisions for investments Measures the tax burden of an inframarginal investment Can incorporate taxes at shareholder level Calculates rates for particular taxpayers, groups or industries for various asset types and financing arrangements 	<ul style="list-style-type: none"> Complex calculation Problems with determining above-normal profit

These more detailed tools attempt to analyse the effects of the tax system on investment decision-making. While they can incorporate tax issues such as the basic design features of depreciation schemes, these models have difficulty with incorporating the many other differences in more specific design features of corporate tax systems. For instance, different countries have differing depreciation regimes (not just in terms of rates, but in terms of tax base and arrangements for the disposal of depreciated assets). There are often very specific provisions for particular types of investments such as Research and Development, films, venture capital, and small business.

The differences in the results from these models may be narrowed by international tax rules and practice, including the foreign tax credit, thin capitalisation and transfer pricing rules; and the ability of multinational corporations to shift income to low-tax jurisdictions.

At the shareholder level the differing degree of integration of the corporate and personal tax systems across countries affects the tax burden on shareholders. All of these factors contribute to the complexity of making international comparisons of the corporate tax burden.

A balance needs to be struck between capturing the most important characteristics and omitting so many that the comparison becomes so distanced from reality that it is of little practical use. These tools depend critically on the assumptions used in the model but they do have a number of significant advantages over other measures.

5.6.3 Comparisons

Effective marginal tax rates

Devereux, Griffith and Klemm (2002) derive EMTRs for investments in plant and equipment, and industrial buildings financed by either equity or debt. These estimates have been updated and published on the Institute of Fiscal Studies (United Kingdom) website.

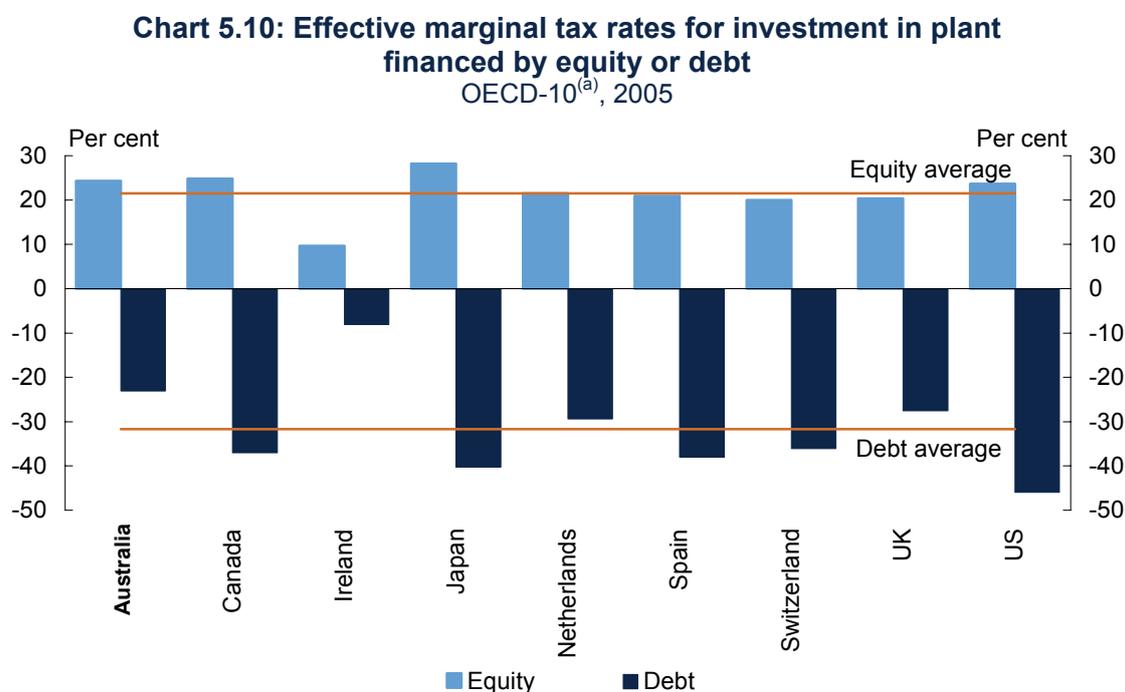
In order to calculate the EMTRs a number of assumptions were made by Devereux, Griffith and Klemm:

- the economic depreciation rate for plant and machinery is 12.25 per cent;
- the economic depreciation rate for industrial buildings is 3.61 per cent;
- there is a common fixed inflation rate of 3.5 per cent;
- the real interest rate is 10 per cent; and
- only corporate taxes are included, not personal taxes.

Charts 5.10-5.14 present EMTRs for hypothetical investments for all of the OECD-10 apart from New Zealand as the Devereux calculations do not include New Zealand.

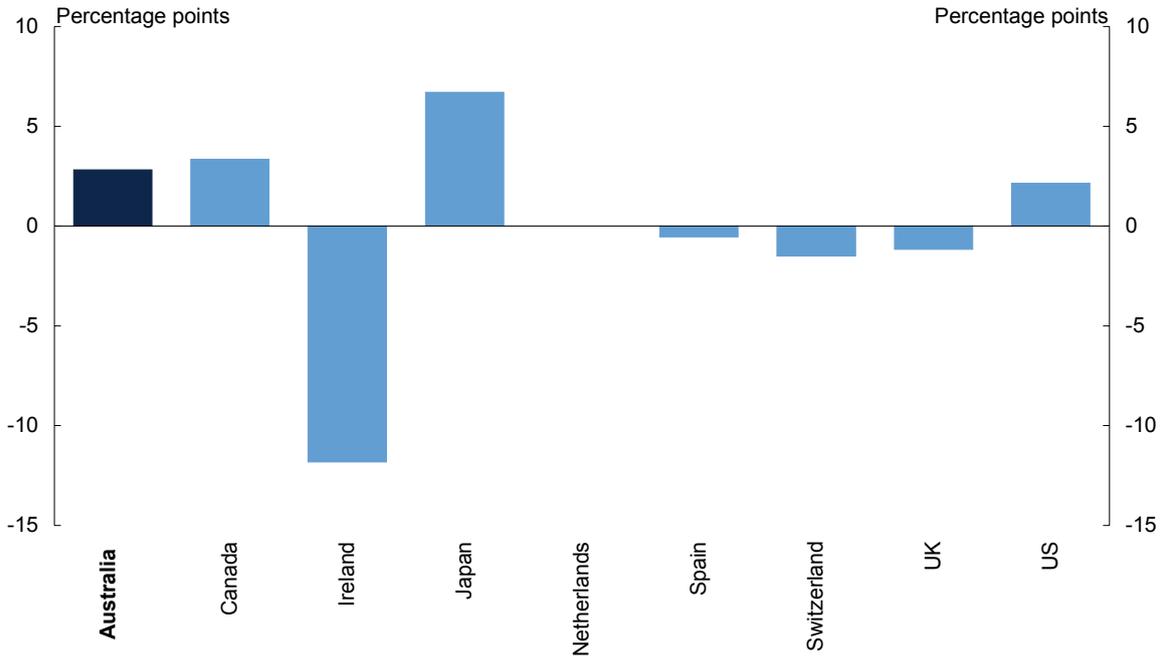
Chart 5.10 shows EMTRs for a marginal investment in plant financed by either equity or debt.

- Australia has the third highest EMTR (24.3 per cent) for a marginal investment in plant financed by equity and is around 3 percentage points above the average EMTR of 21.5 per cent, which Chart 5.11 depicts.
- Australia has the second highest EMTR (-23.1 per cent) for a marginal investment in plant financed by debt and is around 9 percentage points above the average EMTR of -31.7 per cent, which Chart 5.12 depicts.



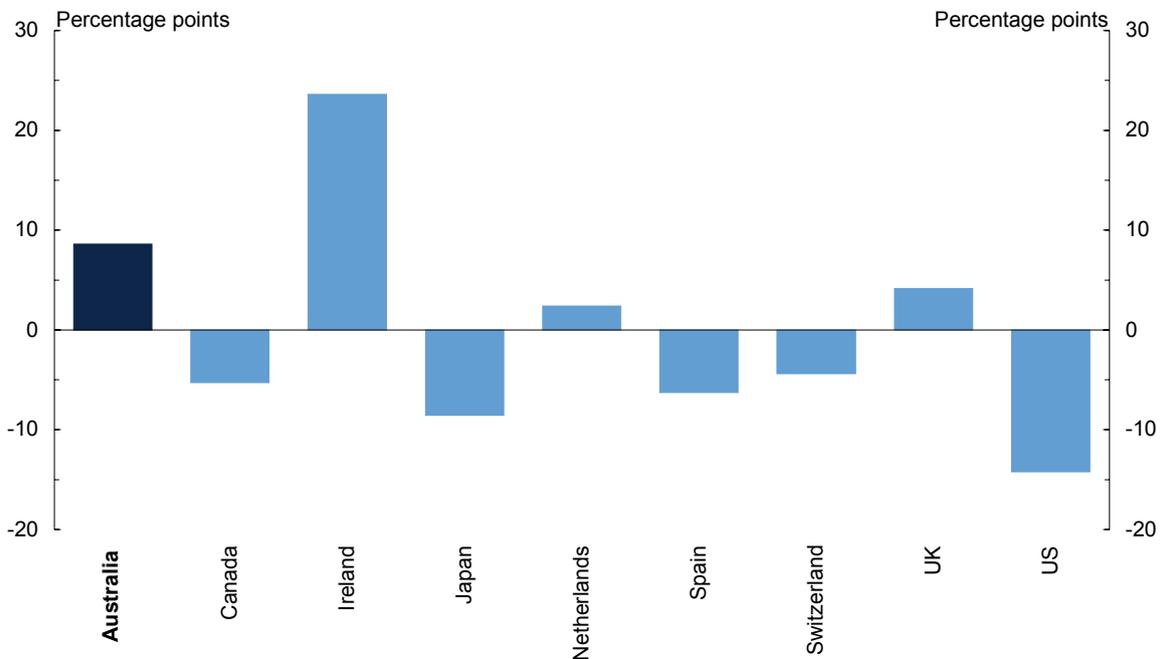
(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.11: Deviation from average EMTR for investment in plant financed by equity
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.12: Deviation from average EMTR for investment in plant financed by debt
OECD-10^(a), 2005

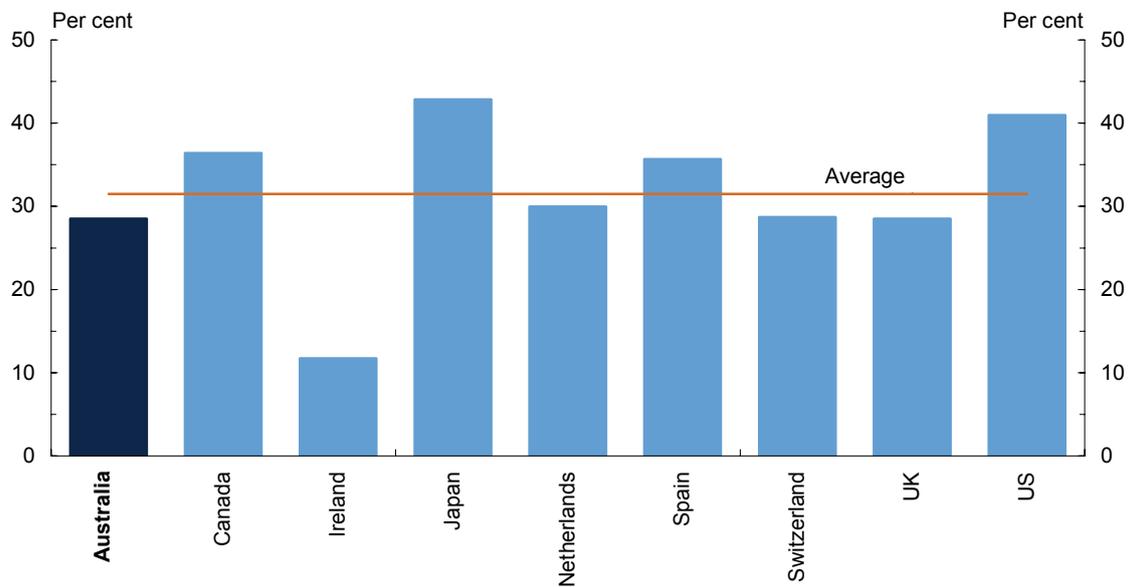


(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.13 shows EMTRs for a marginal investment in industrial buildings financed by equity (Devereux does not do the EMTR calculations for buildings financed by debt).

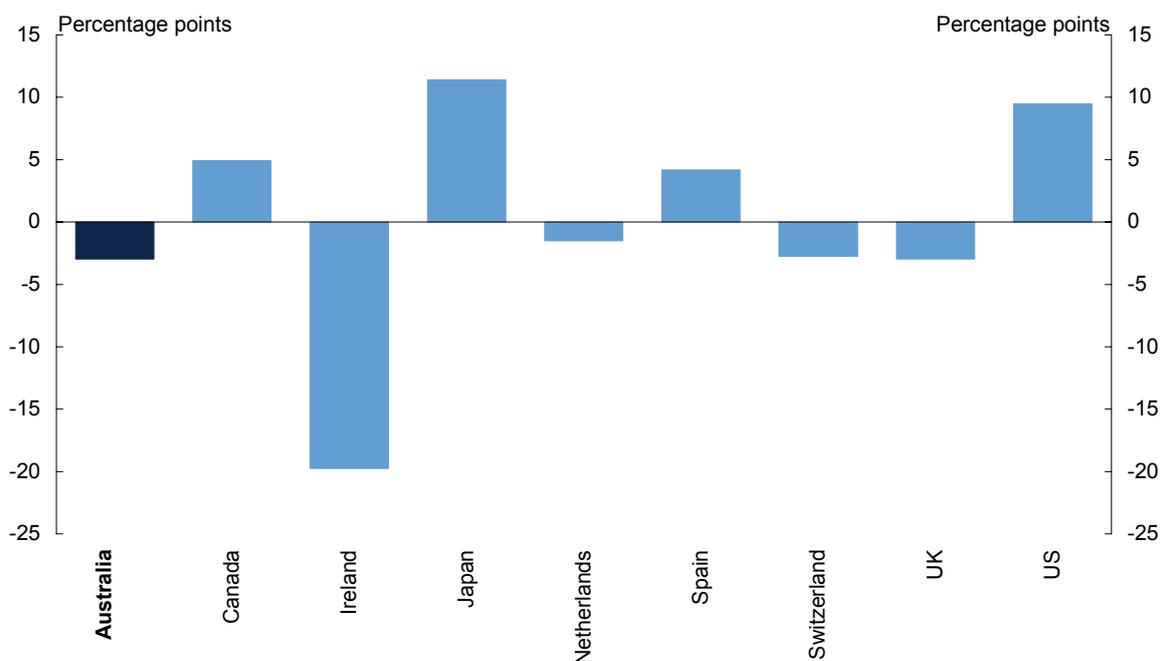
- Australia has the equal second lowest EMTR (28.5 per cent) for a marginal investment in buildings financed by equity and is 3 percentage points below the average EMTR of 31.5 per cent, which Chart 5.14 depicts.

Chart 5.13: Effective marginal tax rates for investment in industrial buildings financed by equity
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.14: Deviation from average EMTR for investment in industrial buildings financed by equity
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Effective average tax rates

Devereux, Griffith and Klemm (2002) also derive EATRs for investments in plant and equipment and industrial buildings financed by either equity or debt (but not debt for buildings) for differing rates of economic profit.

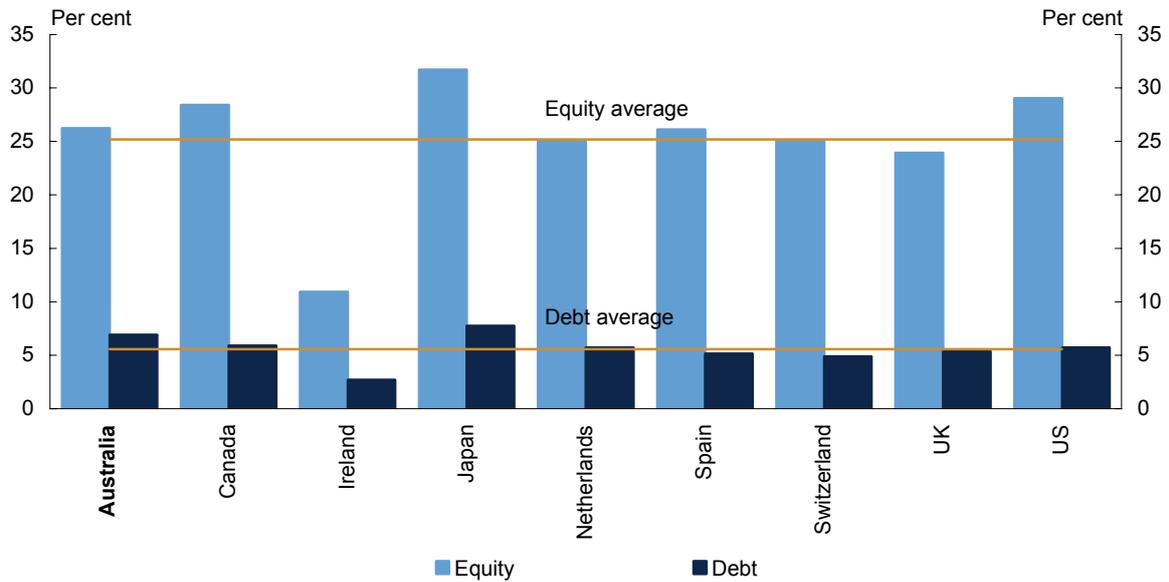
Although the EATR is useful in gaining an understanding of the strategic location decisions of multinational corporations that have an ability to generate economic profits, it is less useful in understanding the behaviour of Australian businesses which raise capital from Australian shareholders and are not choosing between locating in Australia or some overseas country. The EMTR is the better measure for understanding the behaviour of such Australian companies as it offers an explanation of how companies determine their scale of production.

Charts 5.15-5.20 present EATRs and deviations from the average EATR for hypothetical investments for the OECD-10 countries (again excluding New Zealand) in:

- plant and equipment financed by equity or debt with each earning 10 per cent economic profit (the deviation from the average for each type of investment is also charted);
- industrial buildings financed by equity with each earning 10 per cent economic profit (the deviation from the average for each type of investment is also charted); and
- plant and equipment financed by equity earning economic profit of 10 per cent, 20 per cent, 30 per cent and 40 per cent respectively (the deviation from the average EATR is not shown) in these differing level of profit examples.

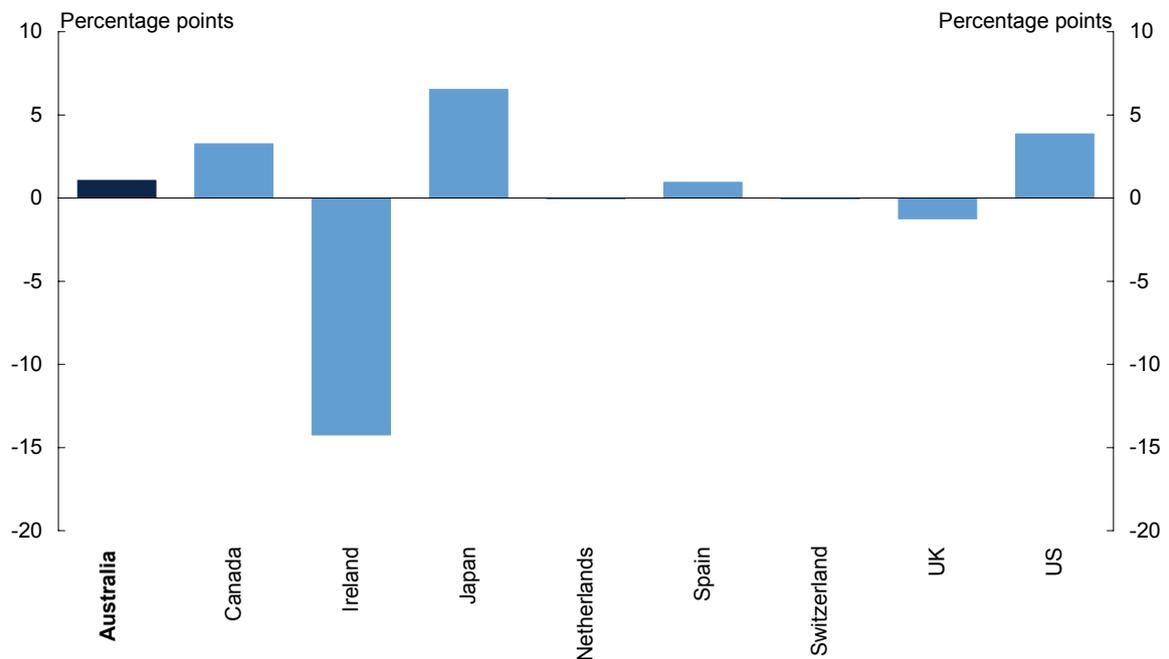
Chart 5.15 shows that Australia has the fourth highest EATR (26.2 per cent) for an investment in plant financed by equity and is around 1 percentage point above the average of 25.2 per cent, which Chart 5.16 depicts; Chart 5.15 shows for a similar investment financed by debt Australia has the second highest EATR (6.9 per cent) and is around 1 percentage point above the average of 5.6 per cent, which Chart 5.17 depicts.

Chart 5.15: Effective average tax rates for investment in plant financed by equity or debt
OECD-10^(a), 2005



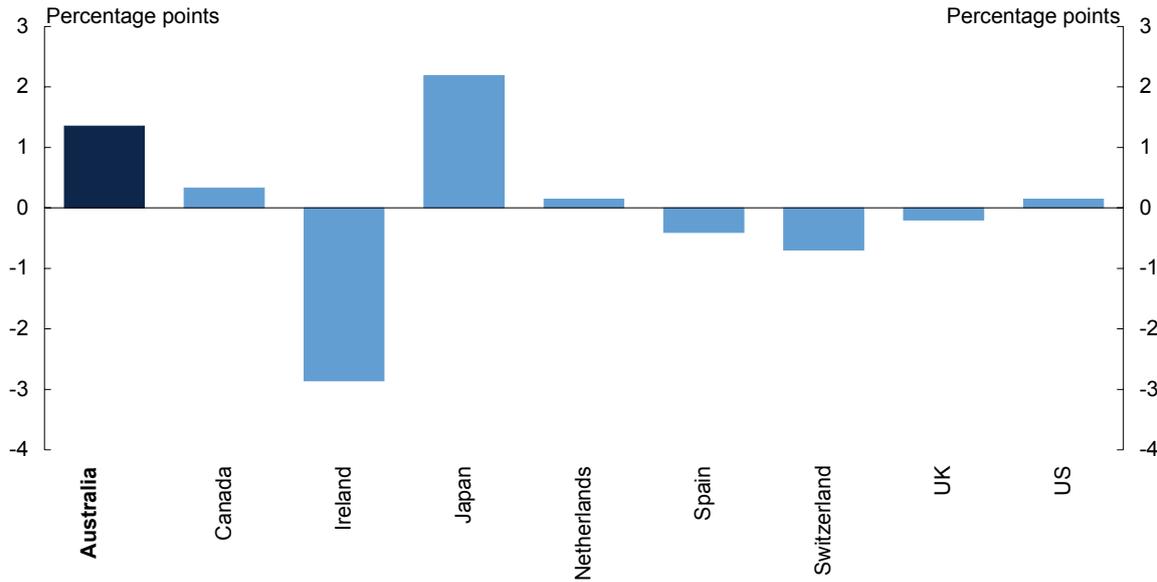
(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.16: Deviation from average EATR for investment in plant financed by equity
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

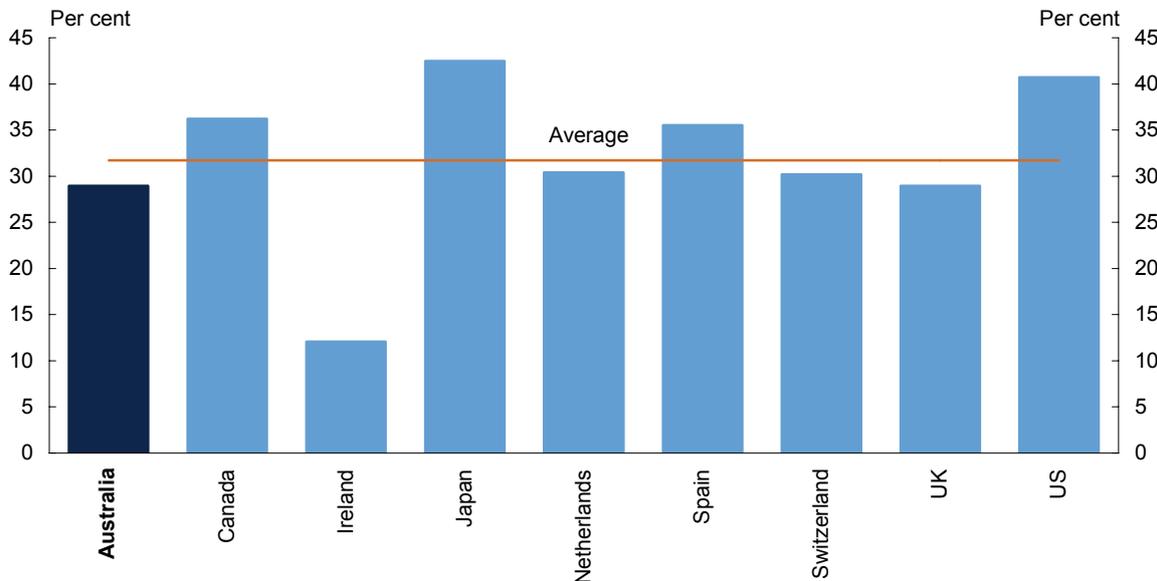
Chart 5.17: Deviation from average EATR for investment in plant financed by debt
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

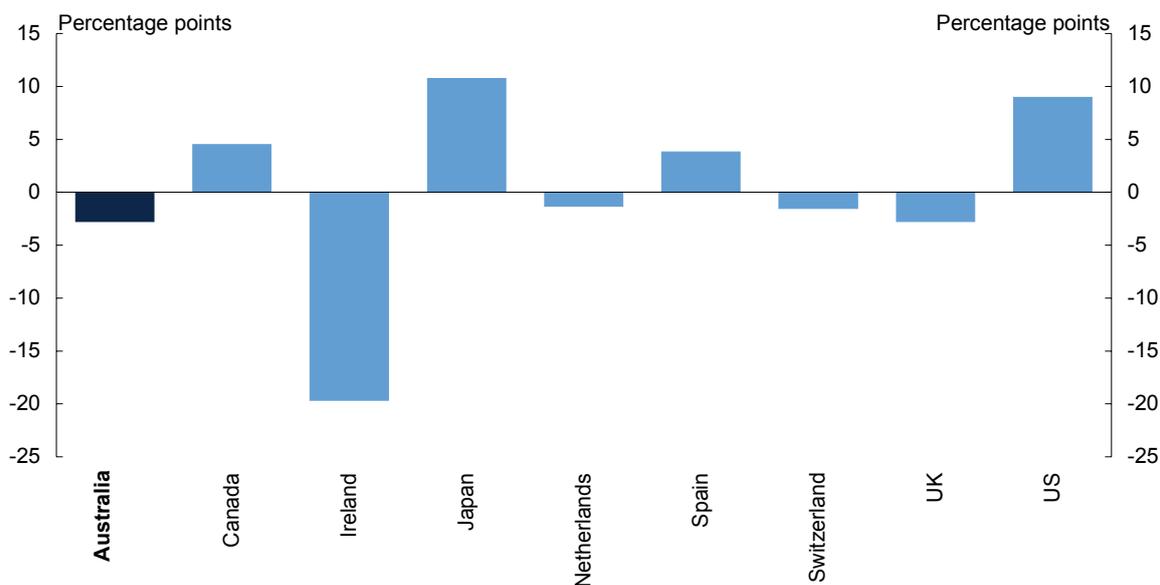
Chart 5.18 shows that Australia has the equal second lowest EATR (29 per cent) for an investment in industrial buildings financed by equity and is around 3 percentage points below the average of 31.7 per cent, which Chart 5.19 depicts.

Chart 5.18: Effective average tax rates for investments in industrial buildings financed by equity
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.19: Deviation from average EATR for investment in industrial buildings financed by equity
OECD-10^(a), 2005

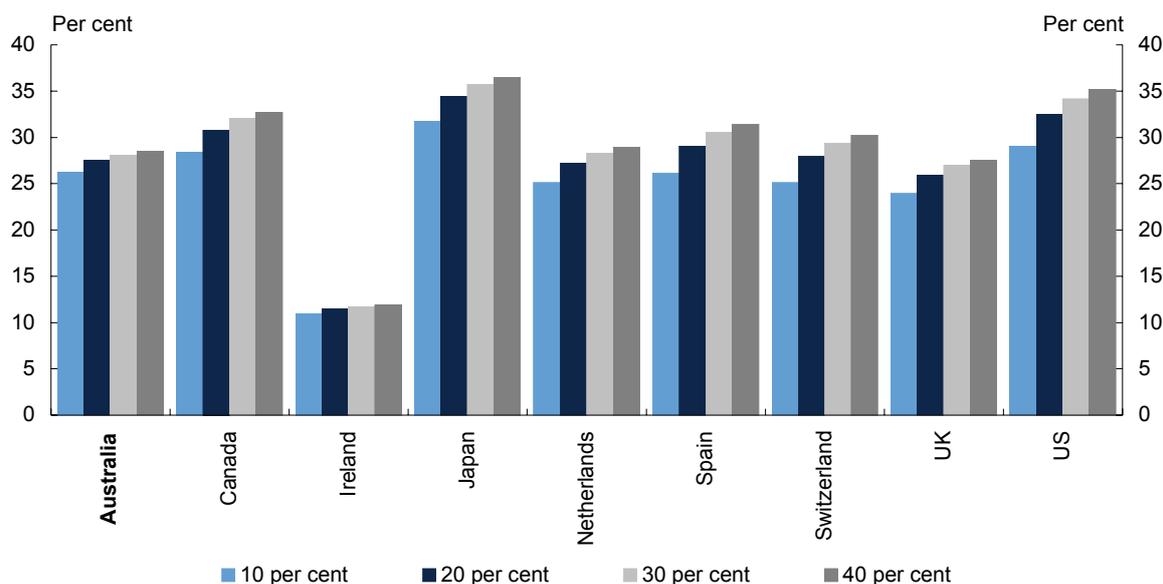


(a) Devereux does not do the calculations for New Zealand.
Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

Chart 5.20 shows EATRs for an investment in plant financed by equity for differing levels of economic profit.

- For an investment earning 10 per cent economic profit, Australia's EATR (26.2 per cent) is the fourth highest with the average EATR being 25.2 per cent.
- For an investment earning 20 per cent economic profit, Australia's EATR (27.5 per cent) is the fourth lowest with the average EATR being 27.4 per cent.
- For an investment earning 30 per cent economic profit, Australia's EATR (28.1 per cent) is the third lowest with the average EATR being 28.5 per cent.
- For an investment earning 40 per cent economic profit, Australia's EATR (28.5 per cent) is the third lowest with the average EATR being 29.2 per cent.

Chart 5.20: Effective average tax rates for investments in plant with differing rates of economic profit
OECD-10^(a), 2005



(a) Devereux does not do the calculations for New Zealand.

Source: Devereux, Griffith and Klemm (2002); Institute of Fiscal Studies (2006).

5.7 TAXATION OF CAPITAL GAINS

Appendix 5.7 provides detailed information on corporate capital gains taxation in the OECD-10.

With the exception of New Zealand, all of the OECD-10 impose some general form of corporate capital gains tax (CGT). As noted in Chapter 6, although New Zealand does not have a general CGT regime, it has redrawn the boundary between revenue and capital to ensure that particular types of short-term gains are classified as normal operating taxable income (Desai 2006, p 1083).

There are significant variations in the rate of CGT depending on the nature and level of the shareholding. Table 5.2 provides for the OECD-10 the CGT rate applying to a company for the gain made on a sale of: a non-participation shareholding; a resident participation shareholding; and a non-resident participation shareholding. A 'participation' refers to ownership of a subsidiary or affiliate as defined by the particular jurisdiction's law that is eligible for participation relief, typically subject to other conditions being met. There are significant variations in the rate of CGT depending on the nature and level of the shareholding.

Table 5.2: Comparison of corporate capital gains tax rate, OECD-10, 2006

	Company tax rate (per cent)	CGT rate on gain on non-participation (per cent)	CGT rate on gain on resident participation (per cent)	CGT rate on gain on non-resident participation (per cent)
Australia	30.0	30.0	30.0	0.0
Canada(a)	36.1	18.0	18.0	18.0
Ireland	12.5	20.0	0.0	0.0
Japan	40.7	40.7	40.7	40.7
Netherlands	29.6	29.6	0.0	0.0
New Zealand	33.0	0.0	0.0	0.0
Spain	35.0	35.0	0.0	0.0
Switzerland(b)	21.3	21.3	0.0	0.0
United Kingdom	30.0	30.0	0.0	0.0
United States	39.3	39.3	39.3	39.3
Average	30.8	26.4	12.8	9.8

(a) The Canadian rates are based on the general (non-manufacturing) corporate rate.

(b) The rates for Switzerland are based on a capital gain realised by a company in the canton of Zurich.

Source: Various, see Chapter 1 (1.4.1).

Caution needs to be exercised in drawing inferences from Table 5.2, which abstracts from the particular conditions that have to be met for participation relief to be granted. For the gain from the sale of a non-participation, Australia's corporate CGT rate is equal fourth highest and is around 4 percentage points above the average rate (26.4 per cent). For the gain from the sale of a resident participation, Australia's corporate CGT rate is third highest and is around 17 percentage points above the average of 12.8 per cent (Australia's consolidation rules effectively grant resident participation relief for intra-group sales of companies). Australia, like several other OECD-10 countries, exempts the gain from the sale of a non-resident participation provided certain conditions are met.

The canton of Zurich in Switzerland and some other cantons use a stepped-rate system for taxing certain corporate gains where the tax rate at first increases for relatively short holding periods and then decreases as the period of ownership increases.

Some of the OECD-10 countries allow both carry forward and limited carry back of capital losses. Several OECD-10 countries, including Australia, impose restrictive tests on the carry forward of losses.

The OECD-10 provide CGT rollover in specific circumstances that vary from country to country. In addition, Australia provides a range of CGT concessions directed at small business owners (including small corporate businesses) that satisfy the eligibility criteria.

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APPENDIX 5.1: CORPORATE BASE OPTIONS

There are several ways of structuring the corporate income tax base. The conventional or historical approach has been that the corporate tax has been imposed on the entire return to corporate equity, that is, the normal return as well as any economic profit (above-normal return). On the other hand, corporate tax may be imposed on the entire return to all forms of corporate capital including debt capital. Lastly, corporate tax may be levied only on economic rent, making the normal return to capital untaxed (Devereux and Sorensen 2005, p 23).

TAXING THE FULL RETURN TO EQUITY

Most countries around the world, including the OECD-10 countries, subject the entire return to equity to corporate tax which means that they typically allow interest incurred in earning corporate income as a deductible expense. This means that any undistributed profits have been subject to corporate tax.

Countries often start with the competitive capital export neutrality (CEN) principle and seek to tax the worldwide income of their corporations (Hong Kong is an exception as it taxes its corporations only on their domestic source income) but most countries then vary from this principle. For example, many countries (including Australia, the United Kingdom and the United States) do not tax the active or genuine business income of their corporations' direct investments in other countries which is not repatriated. Further, some countries such as Australia provide an exemption for the repatriated income of their corporations' direct offshore investments whereas others, including the United Kingdom, the United States and Japan, operate a foreign tax credit system in relation to their corporations' offshore investments whether they be direct or portfolio.

TAXING THE FULL RETURN TO CAPITAL

Taxing the full return to capital at the corporate level essentially means denying a deduction for interest expenses incurred in the earning of corporate income. In 1992 the United States' Treasury proposed the Comprehensive Business Income Tax (CBIT) as a means of making the corporate investment financing decision neutral between debt and equity. The CBIT proposal was designed to tax corporate income only once and at a uniform rate so as to make the personal taxation of corporate income unnecessary and eliminate the classical double taxation of corporate income (Devereux and Sorensen 2005, p 34). At this stage, no country in the world has adopted the CBIT proposal.

TAXING ECONOMIC RENTS

Other means of making the corporate investment financing decision neutral between debt and equity include introducing a corporate cash flow tax or alternatively an allowance for corporate equity.

Corporate cash flow tax

Introducing a corporate cash flow tax would provide immediate expensing for all capital expenditure. A corporate cash flow tax would effectively tax only economic rents because the present value of the normal return on an investment would equal its capital cost. Some countries such as the United Kingdom and Ireland introduced immediate expensing in the 1970s but then abandoned it.

In recent times Estonia has come close to a corporate cash flow tax. The Estonian distributions tax, if modified to allow a deduction for the corporation's revenue raised from new equity issues, would be effectively the same as the S-based cash flow tax outlined in the report of the Meade Committee in 1978 (Devereux and Sorensen 2005, p 30). However, the EU Parent-Subsidiary Directive, however, may compel Estonia to bring back a traditional corporation tax (Devereux and Sorensen 2005, p 31).

Allowance for corporate equity (ACE)

Another way of only taxing economic rents is to permit corporations to deduct from their corporate tax base an imputed normal return on their equity similar to the interest deduction (Devereux and Sorensen 2005, p 32). From 1994 to early 2001 Croatia ran an ACE system. All firms (corporate and non-corporate) were permitted to reduce their taxable profits by an imputed return on their equity. There was not an obvious reason for Croatia's abolition of the ACE system in January 2001 but the principal objective appears to have been the goal of establishing a reduced headline corporate tax rate (Devereux and Sorensen 2005, p 33).

APPENDIX 5.2: CORPORATE TAX RATES — OECD-10

Appendix table 5.2.1: Corporate tax rates — OECD-10

Country	Top combined corporate tax rate (per cent)	Comment
Australia	30	No sub-national income taxes apply. Certain offshore banking unit (OBU) income (except capital gains) earned by an OBU is taxed at an effective rate of 10 per cent. Income derived from investment companies that are registered pooled development funds is taxed at 15 per cent where the investment is in small to medium enterprises and 25 per cent for other investment income. The entrepreneurs' tax offset provides an offset of up to 25 per cent of income tax liability on their business income for simplified tax system (STS) taxpayers with a group turnover of less than A\$75,000.
Canada	36.1	The 36.1 per cent consists of a national rate of 21 per cent, a surtax of 1.1 per cent and a representative sub-national rate of 14 per cent. The rate for Canadian manufacturing and processing income is reduced to 34.1 per cent. The rate for the active business income of a small business company that is less than the threshold of C\$300,000 is reduced to 27.6 per cent. The rate for the first C\$300,000 of active business income derived by a Canadian-controlled private corporation where the business is carried on primarily in Canada is reduced to 17.6 per cent.
Ireland	12.5	The normal rate of corporate tax is 12.5 per cent. For particular non-trading profits and for profits from mining, certain petroleum activities and certain land-dealing operations the rate is 25 per cent. Dealing in undeveloped residential Irish land is taxed at 20 per cent. A 10 per cent rate is applied to the active trading income of particular current manufacturing companies and to the eligible income of International Financial Services and Shannon companies. The 10 per cent rate for manufacturing is being phased out but still exists for some companies until 2010.
Japan	40.69	The 40.69 rate covers the national corporate tax rate (30 per cent), business, prefectural and municipal taxes. The rate has been calculated using the standard rate for Tokyo including the deduction for business tax. For companies with capital not greater than ¥100 million, the national corporate tax rate is 22 per cent on the first ¥8 million of taxable income and 30 per cent on any excess.
Netherlands	29.6	The corporate income tax rate is 25.5 per cent on the first €22,689 and 29.6 per cent on any balance. The exemptions from corporate income tax include all profits from a forestry business and capital gains, dividends and other profit distributions obtained from an eligible participation. A participation is eligible if the following criteria are all satisfied: (1) the recipient company holds at least a 5 per cent interest in the subsidiary (a percentage of lower than 5 per cent is also eligible if the shares are held for sound business reasons or for the common good); (2) the shares are not stock-in-trade; (3) if the shares are in a non-resident non-EU subsidiary, they may not be a portfolio investment; and (4) if the shares are in a non-resident non-EU subsidiary, the non-resident must be subject to tax on its profits in its home jurisdiction.

Appendix table 5.2.1: Corporate tax rates — OECD-10 (continued)

Country	Top combined corporate tax rate (per cent)	Comment
New Zealand	33	A five-year income tax exemption applies to exploration and development operations in an offshore permit area conducted by a non-resident company. The five-year term begins with the non-resident company's 2005-06 income year and terminates on 31 December 2009.
Spain	35	The general corporate tax rate is 35 per cent. Corporations with yearly net sales not greater than €8 million pay a 30 per cent rate on the first €120,202.41 of annual profits, with any excess taxed at 35 per cent. A surcharge of between 0.01 per cent and 0.75 per cent applies to corporate income tax due and is deductible for corporate income tax purposes. Special rates apply to particular entities: listed collective investment institutions including real estate investment funds (1 per cent); entities involved in oil and gas research and exploitation operations (40 per cent); and asset-holding companies (40 per cent). There is a reduction in the tax base of companies purchasing holdings in non-resident companies that deliver a majority of the voting rights and meet certain other conditions. This concession entails reducing the corporate tax base by the amount of the investments made in the year up to a maximum of €30,050,605.22, providing the reduction does not exceed 25 per cent of the original tax base. The Spanish government has announced that there will be a gradual rate reduction in order to reach 30 per cent by the year 2011. For small and medium-sized companies with a certain limit on their taxable income, the reduction will reach a rate of 25 per cent also by the year 2011.
Switzerland	21.3	The 21.3 per cent is derived from a national rate of 8.5 per cent and a sub-national rate of 17.65 per cent based on a company located in the city of Zurich. The combined rate is not a simple addition of the national and sub-national rates because the taxes are deductible. Cantonal governments may encourage the formation of new companies that are of economic significance by granting them total or partial tax relief. At the national level the State Secretary for Economic Affairs may grant newly established companies tax relief.
United Kingdom	30	Corporate tax rates (£) Up to 10,000 0 10,001 50,000 23.75 50,001 300,000 19 300,001 1,500,000 32.75 Over 1,500,000 30 Note: The unusual structure of the corporate rates results from the clawback of the benefits of the tax free threshold and lower rates as the corporate rate increases. All limits are reduced in circumstances where there are affiliated companies. Small companies in the 0 per cent rate band are taxed at the 19 per cent rate on profits they pay out to non-corporate shareholders. Dividends derived by a resident company from another resident company, which together with the former company satisfies the grouping requirements, are exempt. Non-resident companies pay corporation tax only if they are trading in the United Kingdom via a permanent establishment; otherwise non-resident companies pay income tax at the basic rate of 22 per cent on their United Kingdom-sourced income. For certain types of investment income, such as interest, the 20 per cent savings rate applies. Interest from bank deposits and Euro bonds is not taxable. The United Kingdom government has announced that from April 2006 it will replace the 0 per cent and non-corporate distribution rates of corporation tax for small companies with a single-band rate of 19 per cent.

Appendix table 5.2.1: Corporate tax rates — OECD-10 (continued)

Country	Top combined corporate tax rate (per cent)	Comment																
United States	39.3	<p>National corporate tax rates (US\$)</p> <table border="1"> <tr> <td>Up to 50,000</td> <td>15</td> </tr> <tr> <td>50,001 75,000</td> <td>25</td> </tr> <tr> <td>75,001 100,000</td> <td>34</td> </tr> <tr> <td>100,001 335,000</td> <td>39</td> </tr> <tr> <td>335,001 10,000,000</td> <td>34</td> </tr> <tr> <td>10,000,001 15,000,000</td> <td>35</td> </tr> <tr> <td>15,000,001 18,333,333</td> <td>38</td> </tr> <tr> <td>Over 18,333,333</td> <td>35</td> </tr> </table> <p>The 39.3 rate consists of the national rate of 35 per cent and sub-national rate of 6.6 per cent which is a weighted average sub-national corporate marginal income tax rate. The combined rate is not a simple addition of the national and sub-national average rate because sub-national taxes are deductible at the national level.</p> <p>Regulated investment companies (RICs) and real estate investment trusts (REITs) are taxed at the corporate rate but can claim a deduction for investment income and capital gains passed out to shareholders.</p> <p>Corporations that are eligible to be treated as S corporations and elect to do so are treated as fiscally transparent entities. Their income is taxed at the shareholder level only.</p> <p>Interest derived on bonds issued by United States' sub-national governments is exempt from tax at the national level where the bonds satisfy certain conditions.</p> <p>The United States has a corporate alternative minimum tax, which aims to ensure that companies making profits pay at least some income tax no matter how many deductions and concessions they claim by requiring them to do another tax calculation that adds back various concessions. There is an exemption from AMT for small corporations.</p> <p>Note: The unusual structure of the corporate rates results from the clawback of the benefits of the lower rates as the corporate rate increases.</p>	Up to 50,000	15	50,001 75,000	25	75,001 100,000	34	100,001 335,000	39	335,001 10,000,000	34	10,000,001 15,000,000	35	15,000,001 18,333,333	38	Over 18,333,333	35
Up to 50,000	15																	
50,001 75,000	25																	
75,001 100,000	34																	
100,001 335,000	39																	
335,001 10,000,000	34																	
10,000,001 15,000,000	35																	
15,000,001 18,333,333	38																	
Over 18,333,333	35																	

Source: Various, see Chapter 1 (1.4.1).

APPENDIX 5.3: DEPRECIATION ARRANGEMENTS — OECD-10

Appendix table 5.3.1: Depreciation arrangements — OECD-10

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
Australia	<p>Generally can choose either prime cost or declining balance method.</p> <p>Declining balance rates are 150 per cent of prime cost rates.</p> <p>For buildings and certain intangible assets, prime cost must be used.</p>	<p>Rate depends on the effective life of the asset.</p> <p>The taxpayer may choose to use either a reasonable estimate of the effective life or the effective life determined by the tax authorities. Intangible assets must use the effective life prescribed by the tax authorities.</p> <p>Depreciation rate is determined using the following formulas:</p> <ul style="list-style-type: none"> • Prime cost method: 100 per cent divided by asset's effective life. • Declining balance method: 150 per cent divided by asset's effective life. 	No	None	<p>Only applies to balancing adjustment events occurring before 21 September 1999, unless the taxpayer is a small business taxpayer for the income year in which the balancing adjustment event occurred.</p>	<p>Some relief for small businesses under the Simplified Tax System (STS).</p> <p>Adjustment to prescribed effective lives for the oil and gas pipeline, transmission and distribution industry; the aviation industry; and the motor transport and truck assets industry.</p> <p>Taxpayers can claim deductions for the loss in value of depreciating assets costing less than A\$1,000 via a low-value pool. This option is also available where the declining balance method is used and the asset's written-down value is less than A\$1,000.</p>
Canada	<p>Generally calculated on a declining balance basis at prescribed rates.</p>	<p>Rate is generally provided by regulations.</p> <p>The declining balance depreciation rates for plant and equipment are 20 to 30 per cent, while the depreciation rate for buildings is 4 per cent.</p>	No	None	<p>Generally no charge due to the extensive use of pooling.</p>	<p>Generally no.</p>

Appendix table 5.3.1: Depreciation arrangements — OECD-10 (continued)

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
Ireland	Prime cost. Declining balance used for some motor vehicles.	Prescribed rate.	No	Approved expenditure on buildings for pollution control costing. Sea fishing boats.	Taxpayer can reduce the cost of a replacement item by any balancing charge arising on the disposal of the original item.	100 per cent write-off for capital expenditure on oil and gas exploration, development and abandonment, incurred under a licence issued by the Minister for Energy. Urban renewal schemes including 50 per cent write-off for commercial and industrial buildings. Special rules for certain telecommunication infrastructure. 100 per cent capital allowance for child care facilities. Various other special rules including mining, ships, private health, and agricultural buildings.
Japan	Generally can choose either prime cost or declining balance method. Buildings must be depreciated using the straight-line method and intangible assets must also generally be amortised using this method.	Taxpayers cannot apply their own depreciation rates and must use those stipulated by Japanese tax law, which provides a range of rates for each asset category based on the useful life. Depreciation for tax purposes may not exceed the amount of depreciation recorded for accounting purposes.	In general, the depreciation method selected by the corporation must be applied consistently. The corporation may apply to change the method. The application must be submitted to the tax office prior to the commencement date of the accounting period in which the change is to be effected.	In the year when specified machinery or equipment is acquired, a corporation may take additional depreciation. With respect to certain fixed assets, a corporation has the option of taking such additional depreciation or claiming the investment tax credit (see Appendix 5.5).	Capital gains/losses on sale of equipment must be included in computation of taxable income for the year during which the equipment is sold. Taxation on income realised from certain assets can be deferred by reducing the value of newly acquired fixed assets by the amount of that income, with a number of required conditions.	Special depreciation, by means of either additional depreciation for the first year or accelerated depreciation, is available for corporations filing blue form tax returns in relation to certain fixed assets as specified under the tax law. Examples include: <ul style="list-style-type: none"> • <i>Qualifying facilities for preventing pollution</i>: 10 to 14 per cent of acquisition cost (75 per cent of the acquisition cost in the case of a large corporation). • <i>Qualifying ships for sea transportations</i>: 16 to 18 per cent of acquisition cost.

Appendix table 5.3.1: Depreciation arrangements — OECD-10 (continued)

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
Japan (continued)						'Blue tax return' filing status allows companies several tax privileges including the ability to carry forward tax losses and to use accelerated depreciation rates for certain assets. To qualify for and maintain a blue return filing status, a taxpayer must maintain 'clean' accounting books in Japan (that is, accounts prepared in accordance with Japanese accounting standards with no issues/subsequent adjustments); produce accounts quickly for tax auditors; and file tax returns within time limits.
Netherlands	Prime cost (declining method may be allowed in exceptional cases). Assets should not be depreciated below a residual value.	Depreciation rate is in accordance with the expected economic life and residual value. The law does not contain a specific rate or period.	Switching is allowed only if this switch is not aimed at a one time tax benefit and is in line with the 'sound business practice' principle.	For certain assets free depreciation is available, the amount of which is generally limited to the acquisition or production cost. Four types of assets are eligible for free depreciation: assets important for protection of the environment; assets important for improving working conditions; assets that are of technological importance or are used for Research and Development (R&D); and assets used for production in certain regions or by certain groups of companies.	<i>Reinvestment reserve:</i> Deferral for three years for gains from certain business assets (if being replaced by similar assets) which is then offset by the purchase price of the new assets, thereby reducing allowable depreciation.	Accelerated depreciation is available for environmentally friendly fixed assets and sea-going vessels. Assets with a minor value can be written off immediately as a current expense in the year of acquisition.

Appendix table 5.3.1: Depreciation arrangements — OECD-10 (continued)

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
New Zealand	Generally can choose either prime cost or declining balance method.	<p>The estimated useful life of an asset is determined by the Inland Revenue and the rate for that asset is the function of a pre-set formula, incorporating the estimated useful life. Inland Revenue publishes the straight-line and declining balance method rates and these must be used.</p> <p>A Bill before Parliament provides for a new pre-set formula for calculating depreciation rates, referred to as the double declining balance method.</p> <p>Taxpayers can apply to the Commissioner to determine a special depreciation rate.</p>	Yes (unless pool method of depreciation is adopted, in which case this has to be maintained for all assets in the pool).	<p>20 per cent loading applies to all new assets, excluding buildings, used imported motor cars and international aircraft.</p> <p>20 per cent loading will continue to apply once double declining balance method is adopted.</p>	Recapture and further deduction upon sale of an asset (except for buildings) but no offsets allowed.	<p>Special deductions exist for specific industries including mining, forestry, agriculture and petroleum.</p> <p>Accelerated depreciation for all assets other than buildings, aircraft.</p> <p>Mineral mining exploration and development costs are 100 per cent deductible plus a deduction is available for income appropriated for planned expenditure within the next two years.</p> <p>Forestry planting and maintenance expenditure are immediately deductible. Cost of standing timber deductible only at sale.</p> <p>Scientific research expenditure immediately deductible.</p> <p>International aircraft depreciable at 15 per cent declining balance method or 10 per cent straight-line.</p> <p>Film expenditure, including depreciation, deductible over two years spanning film completion.</p> <p>Straight-line depreciation deduction for fixed life intangible property.</p> <p>Assets of value less than NZ\$2,000 can be pooled and depreciated using lowest declining balance rate applying to any pool asset.</p> <p>Small asset write-off of NZ\$500.</p>

Appendix table 5.3.1: Depreciation arrangements — OECD-10 (continued)

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
Spain	<p>Prime cost method may be used for any depreciable asset. Declining balance method may be used for certain new tangible assets that have an anticipated useful life of three years or more (only new assets located in Spain qualify for declining balance). Sum of digits. Declining balance and sum of digits may not be applied to buildings, furniture and tools.</p>	<p>Fixed by law, rates vary depending on the industry. Companies may use higher rates if they can demonstrate that the actual depreciation is in excess of that allowed by law. Under a temporary measure, depreciation rates may be increased by 10 per cent for new assets acquired between 1 January 2003 and 31 December 2004. The declining balance rates are determined by reference to the applicable straight-line rate, weighted by the following coefficients:</p> <ul style="list-style-type: none"> • less than five years: one and a half; • five years or more but less than eight years: two (double declining balance); and • eight years or more: two and a half. 	<p>Allowed only in very exceptional cases.</p>	<p>Smaller companies can claim:</p> <ul style="list-style-type: none"> • free depreciation (a type of investment allowance) for investments in new tangible fixed assets that create jobs; • calculated by multiplying the amount of increased employees by Ptas 15 million (€90, 151); and • investment in new small-value tangible assets to a maximum claim of Ptas two million (€12,020). <p>Accelerated depreciation for new tangible and intangible assets at one and half times the straight-line depreciation rate.</p>	<p>No. A tax credit exists.</p>	<p>Specific arrangements apply to hydrocarbon and mines concessions while small business has access to accelerated depreciation rates.</p>
Switzerland	<p>Generally can choose either prime cost or declining balance method. Rates for declining balance method are double those under the straight-line method — 'double declining' balance.</p>	<p>Maximum safe haven rates set out in official federal guidelines. If taxpayer can prove that higher rate is justified, then such rate may be used. Some cantons have special favourable rates, including immediate expensing.</p>	<p>Switching is basically not allowed. Exemptions may be accepted if the system of the whole enterprise is changed.</p>	<p>Water pollution abatement machinery and installations.</p>	<p>There is a charge offset with regard to essential operational assets at the national and cantonal level.</p>	<p>There are no industry-specific enhanced depreciation/amortisation rules, but investments for energy-saving equipments and environmentally-friendly machineries can be depreciated preferentially.</p>

Appendix table 5.3.1: Depreciation arrangements — OECD-10 (continued)

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
United Kingdom	<p>The declining balance method applies to capital allowances (tax depreciation) on plant and equipment.</p> <p>The straight-line method applies to industrial buildings and goodwill (see Appendix table 5.3.2).</p> <p>Non-industrial commercial buildings such as offices qualify for tax depreciation only if they are located in Enterprise Zones.</p>	<p>Rates prescribed for asset classes.</p> <p>Generally the depreciation rates for plant and equipment are 25 per cent and 4 per cent for buildings.</p>	No	<p>First-year allowances are available for expenditure on plant and machinery incurred by small and medium-sized enterprises at a rate of 40 per cent; expenditure on water-efficient technology assets after 31 March 2003 at a rate of 100 per cent; certain expenditure on energy-saving plant and machinery at a rate of 100 per cent; and expenditure on industrial buildings in qualifying enterprise zones at a rate of 100 per cent.</p> <p>Not for capital expenditure, although accelerated tax depreciation rates are prescribed in some circumstances.</p> <p>(Separately, loadings apply to qualifying revenue-type expenditure on Research and Development — see Appendix 5.5).</p>	<p>Pooling for general plant and equipment results in allowances being given on the net amount each year (subject to first-year allowances).</p> <p>In other circumstances capital allowances previously claimed are clawed back when a qualifying asset is sold at above its original cost.</p>	See Appendix table 5.3.2.

Appendix table 5.3.1: Depreciation arrangements — OECD-10 (continued)

Country	Prime cost or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
United States	<p>Generally double declining balance for shorter lived assets, and 150 per cent declining balance for longer lived assets. Straight-line for real property (see note). Salvage value is always deemed to be nil.</p> <p>Note: Assets are grouped into classes and each class is assigned a recovery period and a depreciation method. Various exceptions also exist that can result in longer depreciation periods or less accelerated depreciation methods.</p>	<p>The Internal Revenue Service has published guidance listing the required 'class life' for various asset classes.</p> <p>The class life determines the allowable recovery period and depreciation method. Taxpayers can also elect to use certain allowable longer depreciation periods or allowable less accelerated depreciation methods.</p>	<p>Once the depreciation method and life are selected in a filed tax return, a change is generally not allowed (although, as noted below, there is an automatic switch to straight-line from declining balance).</p> <p>Note: The declining balance methods generally switches to straight-line over the remaining depreciable life when that results in a greater annual depreciation amount than the declining balance method, so that the full cost is depreciated by the end of the depreciable period.</p>	None	<p>Gain/loss is computed based on the difference between the selling price and the cost base of the item sold reduced by depreciation deductions taken against that item. Such gain/loss is included in taxable income.</p> <p>Under certain circumstances, gains from the sale of assets used in a trade or business can be treated as capital gains rather than ordinary income, but generally the amount of gain that is treated as capital gain is reduced by the amount of depreciation previously claimed (commonly referred to as 'depreciation recapture'). Different 'recapture' provisions apply to real property.</p> <p>Other than in a qualifying 'like-kind exchange' transaction, profit on sale of equipment cannot be offset against replacements or other equipment to defer the tax gain.</p>	<p>The cost of certain depreciable personal property up to US\$100,000 can be expensed in the year acquired, if certain limitations are met; for example the US\$100,000 amount is reduced dollar-for-dollar by the total amount of qualifying property placed in service in that year that exceeds US\$400,000.</p> <p>Note: Under current law, the US\$100,000 and US\$400,000 amounts will reduce to US\$25,000 and US\$200,000, respectively, for tax years beginning after 2007.</p>

Appendix table 5.3.2: Summary of annual depreciation rates (selected assets) — OECD-10

Country	Equipment (approximately eight-year life)	Buildings	Computers	Intangibles
Australia	Effective life for equipment as determined by the ATO mostly higher than eight years. Prime cost: 12.5 per cent. Declining balance: 18.75 per cent.	2.5 per cent or 4 per cent of original cost of building.	Generally, over four years. Prime cost: 25 per cent. Declining balance: 37.50 per cent.	Non-deductible. Blackhole provisions provide five years write-off for expenditure on rights that preserve the value of goodwill. Other business expenditure that preserves the value of goodwill may be deductible.
Canada	20 per cent declining balance.	4 per cent of purchase price.	30 per cent.	7 per cent (declining balance rate) allowable for 75 per cent of cost with respect to purchased goodwill only.
Ireland	12.5 per cent of original cost over eight years.	4 per cent of original cost over 25 years. See Appendix table 5.3.1 with regard to industry-specific arrangements for details of accelerated annual depreciation rates.	12.5 per cent of original cost over eight years.	Non-deductible.
Japan	12.5 per cent straight-line. 25 per cent declining balance.	Maximum of 14.2 per cent and minimum of 2 per cent for straight-line only.	25 per cent straight-line. 43.8 per cent declining balance.	Amortised using the straight-line method over a period of five years.
Netherlands	12.5 per cent prime cost.	2.5 to 4 per cent. Possibly not allowed as of 2007.	33 to 50 per cent.	Self-developed goodwill cannot be activated, so cannot be depreciated; acquired goodwill through asset deal amortisable over 5-10 years depending on the underlying assets.
New Zealand	Prime cost: 18.6 per cent (including 20 per cent loading). Declining balance: 26.4 (including 20 per cent loading). Note: The New Zealand government introduced legislation in May 2005, with a date of effect of 1 April 2005, to move to a double declining balance method.	3 per cent — straight-line. 4 per cent — declining balance.	36 per cent — straight-line (including 20 per cent loading). 48 per cent — declining balance (including 20 per cent loading).	Acquisition payment non-deductible. Preservation cost deductible.
Spain	Maximum of 10 per cent or 15 per cent for office equipment, depreciated over a maximum of 20 or 14 years respectively.	Maximum of 2 per cent for commercial buildings, depreciated over a maximum of 100 years. Maximum of 3 per cent for industrial buildings, depreciated over a maximum of 68 years.	Maximum of 25 per cent, depreciated over a maximum of eight years.	Under certain circumstances, goodwill acquired from non-related parties and through consideration is depreciable for tax purposes. Maximum of 5 per cent, depreciated over a maximum of 20 years.

Appendix table 5.3.2: Summary of annual depreciation rates (selected assets) — OECD-10 (continued)

Country	Equipment (approximately eight-year life)	Buildings	Computers	Intangibles
Switzerland	<p>Machinery for production purposes:</p> <p>Straight-line — 15 per cent. Declining balance — 30 per cent.</p>	<p>Commercial buildings:</p> <p>Straight-line — 1.5 to 2 per cent. Declining balance — 3 to 4 per cent.</p> <p>Industrial buildings:</p> <p>Straight-line — 3.5 to 4 per cent. Declining balance 7 to 8 per cent.</p>	<p>Office machines:</p> <p>Straight-line — 20 per cent. Declining balance — 40 per cent.</p>	<p>Goodwill:</p> <p>Straight-line — 20 per cent. Declining balance — 40 per cent.</p>
United Kingdom	<p>25 per cent a year on reducing balance method (6 per cent a year on a reducing balance method where the useful economic life when new is more than 25 years). First-year allowances of 40 per cent are available for certain investments by small and medium-sized businesses. The rate of first-year capital allowances for small business spending on most plant and machinery will be increased from 40 per cent to 50 per cent for a period of one year for spending incurred on or after 1 April 2006 by businesses subject to corporation tax, and on or after 6 April 2006 by businesses subject to income tax. First-year allowances of 100 per cent are available for particular investments including in certain energy-saving plant and equipment, water efficient and for qualifying capital expenditure on Research and Development.</p>	<p>4 per cent straight-line based on original cost for qualifying industrial buildings. Different rules apply to the second and subsequent owners. Separate rules apply where buildings are located in enterprise zones.</p>	<p>Until 31 March 2004 small businesses were able to claim 100 per cent of their qualifying ICT expenditure in the year of investment. Currently, ICT assets can (by election) form a single asset pool for capital allowances purposes as short-life assets (where they are likely to have a lifetime of less than five years).</p>	<p>Following the <i>Finance Act 2002</i> tax deductions are available in respect of purchased goodwill broadly in line with the accounting amortisation. Where there is no accounting amortisation a separate tax election for tax depreciation at 4 per cent per annum is available. This applies to goodwill purchased by means of a trade and assets purchase, not a share acquisition or internally generated goodwill.</p>

Appendix table 5.3.2: Summary of annual depreciation rates (selected assets) — OECD-10 (continued)

Country	Equipment (approximately eight-year life)	Buildings	Computers	Intangibles
United States	<p>Generally depreciated over a five-year period utilising a double declining balance rate for property, switching to straight-line over the remaining depreciable life when that results in a greater annual depreciation amount than the double declining balance method. The taxpayer, however, may choose an allowable alternative method and a prescribed longer depreciation period.</p> <p>Note: Most equipment would have a class life of ten to fifteen years, which would result in a seven-year period utilising a double declining balance rate, again switching to straight-line over the remaining depreciable life when that results in a greater annual depreciation amount than the double declining balance method (see note).</p> <p>Note: Unless an exception applies, depreciable personal property is generally considered to be placed in service in the middle of the tax year (the 'mid-year convention'), so depreciation deductions are actually claimed, for example, in eight taxable years. A similar 'mid-month convention' applies to depreciable real property.</p>	<p>Residential rental buildings usually depreciated over 27.5 years, other buildings usually depreciated over a 39-year (see note) recovery period, in both cases using straight-line.</p> <p>Note: recovery period is 31.5 years if placed in service before 13 May 1993.</p>	<p>Generally depreciated over a five-year period utilising a double declining balance rate for property, switching to straight-line over the remaining depreciable life when that results in a greater annual depreciation amount than the double declining balance method. The taxpayer, however, may choose alternative methods.</p>	<p>Subject to certain restrictions, purchased goodwill may be amortised over fifteen years on a straight-line basis.</p>

Source: Various, see Chapter 1 (1.4.1).

APPENDIX 5.4: TREATMENT OF LOSSES — OECD-10

Appendix table 5.4.1: Treatment of losses — OECD-10

Country	Treatment of tax losses	Transfer (including conditions)
Australia	Carry forward indefinitely, subject to the 'continuity of ownership' test or (for companies with a turnover of less than A\$100 million) the 'same business' test applies. No carry back.	Only available for consolidated groups.
Canada	Losses may be carried back, usually three years, subject to limitations. Losses may be carried forward for 10 years if carrying on same business with a view to profit.	There is no method of setting off losses of one corporation within a group of controlled companies against profits of another.
Ireland	Trading losses can be utilised in current year on a value basis. Carry forward of trading losses until change of ownership or business. Carry forward not allowed if there is a change of business or if the volume of trade has become negligible and subsequently becomes profitable. Manufacturing losses, carry forward only against 10 per cent income in each subsequent year. Carry back of trading losses against profits before charges, with limit applied according to proportion of income (for example 10 per cent loss in year two offsets up to 10 per cent income in year one). Terminal loss relief — a loss incurred in the final year of trading can be carried back against income from the same trade in the three years preceding those last 12 months.	Yes, for common ownership of at least 75 per cent.
Japan	Carry forward for seven years for: <ul style="list-style-type: none"> • a corporation filing a blue form tax return; and • losses stemming from inventory, fixed assets or certain deferred assets caused by natural disaster without filing a blue form tax return. Carry back for one year. The carry back was suspended for fiscal years ending from 1 April 1992 through to 31 March 2006 (note that the suspension is expected to extend through to 31 March 2008 under the draft 2006 Tax Reform), except for certain small and medium-sized companies and those in liquidation.	Generally, net operating losses are not transferable between group companies unless they are part of a tax consolidated group.

Appendix table 5.4.1: Treatment of losses — OECD-10 (continued)

Country	Treatment of tax losses	Transfer (including conditions)
Netherlands	<p>Carry forward indefinitely with special rules for holding companies.</p> <p>Carry back for three years.</p> <p>(Please note carry forward most probably limited in time (eight years) as of 2007.)</p>	<p>Yes, within consolidated group (fiscal unity). The conditions for fiscal unity include that:</p> <ul style="list-style-type: none"> • the parent company owns at least 95 per cent of the beneficial and legal ownership of the shares in the subsidiary; • the taxpayers have matching financial years; • the taxpayers are subject to the same tax regime; and • both taxpayers have their tax residence in the Netherlands.
New Zealand	<p>Trading losses may be carried forward indefinitely, subject to continuity of ownership.</p> <p>A 'continuity of ownership' test of 49 per cent (based on aggregate minimum voting interest) is applied in order for losses to be carried forward.</p> <p>No carry back allowed.</p>	<p>Where common ownership is 66 per cent or more, losses may be offset against other group company profits either by election or subvention. No requirement to be a member of a consolidated group.</p>
Spain	<p>Carry forward for 15 tax years. For newly established enterprises, the 15-year period begins in their first profitable year for tax purposes.</p> <p>If there is a change in ownership then a restriction on the carry forward of losses applies in particular circumstances, mainly where the company has not had activity in the previous six months.</p> <p>No distinction between ordinary and capital losses.</p> <p>No carry back.</p>	<p>Yes, for consolidated groups (75 per cent ownership).</p>
Switzerland	<p>For national tax purposes, tax losses can be carried forward by seven years.</p> <p>No carry back is allowed. The carry-forward period varies among the cantons but it is generally seven years.</p> <p>Losses incurred by a foreign permanent establishment are deductible from taxable income. Still if a foreign permanent establishment of a Swiss company realises profits in the seven years following the year of a loss and if the permanent establishment can offset the loss against such profits in the foreign jurisdiction, the Swiss company must add the amount of losses offset in the country of the permanent establishment to its Swiss taxable income.</p>	<p>Tax losses of previous years can be transferred to the acquiring company in the course of a reorganisation under the Swiss Merger Act as long as the following conditions are met:</p> <ul style="list-style-type: none"> • the acquiring company remains liable to the Swiss tax regime; and • there is no tax avoidance.
United Kingdom	<p>Trading losses can be set against the other profits and capital gains of the company for the same accounting period.</p> <p>Trading losses can be carried forward indefinitely against future profits arising from the same trade.</p> <p>Trading losses can be carried back for one year and set against the profits and capital gains of the company for the previous accounting period.</p> <p>Trading losses being carried forward can become extinguished where there is a change in the ownership of the company and within a period of three years there is also a major change in the nature or conduct of a trade.</p>	<p>Trading losses can be surrendered by United Kingdom resident companies who are within the same corporate group or consortium for the same accounting period.</p> <p>Following the European Court of Justice case of Marks and Spencer v Halsey, it may be possible in limited circumstances for trading losses generated by a company tax resident in another European Union member state to be surrendered to a United Kingdom resident company within the same corporate group. The final outcome of this case requires ratification in the United Kingdom courts.</p>

Appendix table 5.4.1: Treatment of losses — OECD-10 (continued)

Country	Treatment of tax losses	Transfer (including conditions)
United States	<p>In general, losses can be carried back two years and forward 20 years to offset taxable income in those years.</p> <p>Continuity of majority ownership must be satisfied; otherwise the amount of losses that can be utilised in a given tax year is subject to an annual limitation. In most cases, there is no requirement for continuity of business enterprise.</p>	<p>For a corporate group filing a consolidated United States federal income tax return, the group's taxable income is calculated across the entire group, effectively netting losses against the income of other group members. Note that the United States does not allow 'multiple entry consolidations'; the ultimate parent of a group filing a consolidated United States federal income tax return must be a United States' corporation, and 80 per cent or more of the shares of includible United States' subsidiaries must be owned by United States' corporations included in the group.</p>

Source: Various, see Chapter 1 (1.4.1).

APPENDIX 5.5: CORPORATE TAX CONCESSIONS

Appendix table 5.5.1: Corporate tax concessions

Country	Research and Development (R&D)	Others
Australia	<p>If the annual amount of expenditure on R&D exceeds A\$20,000, expenditure deductible at the rate of 125 per cent.</p> <p>125 per cent of the normal write-off rate for qualifying plants for R&D activities may be claimed if the R&D expenditure threshold is met.</p>	<p>Various preferences for mining and quarrying industry — full deduction of exploration expenditure, allowable capital expenditure, transport facilities expenditure, and rehabilitation expenditure.</p> <p>Capital allowances such as 100 per cent tax deduction for capital investment in initial copyright of certain Australian films, tax rebate for interest on infrastructure borrowings (up to a limit).</p>
Canada	<p>Investment tax credits and special deductions allowed for current or capital R&D expenditures.</p>	<p>Investment tax credits for fixed assets acquired in economically disadvantaged areas. Special deduction (within limits) for certain capital exploration, development, property expenses from exploration for oil, gas and minerals in Canada and exploration and development expenses outside Canada. The 7 per cent tax credit for manufacturing and processing companies is being phased out.</p>
Ireland	<p>100 per cent capital allowance for capital expenditures by trading company; non-capital expenditures expensed currently.</p> <p>The 2004 <i>Finance Act</i> introduced a corporation tax credit of 20 per cent for incremental qualifying R&D expenditure incurred by companies for R&D activities carried on in the European Economic Area (EEA). This is in addition to existing capital allowance for R&D.</p>	<p>10 per cent tax rate for much of manufacturing up to 2010. Accelerated depreciation (from 25 to 50 per cent) for buildings in designated areas. Ten-year double deduction of rent paid under qualified lease in designated areas.</p>
Japan	<p>Non-capital expenditures expensed currently, capital expenditures amortised over beneficial period.</p> <p>A corporation has two options for claiming tax credits for R&D.</p> <p>Under the draft 2006 Tax Reform, the existing R&D expense credit system will be expanded and an additional 5 per cent tax credit will be allowed for the portion of R&D expenses that exceeds 'comparative' R&D expenses (that is the average of those in prior years). This is a limited measure that will apply for two years, from fiscal years beginning during the period from 1 April 2006 to 31 March 2008.</p>	<p>Investment tax credit</p> <p>Certain small or medium-sized corporations that acquire or produce certain machinery or equipment may receive a credit against their corporation tax liability. The credit generally equals 7 per cent of cost or 20 per cent of the corporation tax, whichever is less.</p> <p>Under the draft 2006 Tax Reform, a special depreciation equivalent to 50 per cent or a tax credit equivalent to 10 per cent of the acquisition cost will be allowed for the acquisition of certain listed facilities that boost industrial competitiveness and promote the strengthening of the information systems, if the facilities are provided for domestic operations.</p> <p>Corporations with capital of ¥100 million or less will also be eligible for a tax credit on leasing investments, and a 10 per cent tax credit will be allowed on an amount equivalent to 60 per cent of total standard lease expenses. The tax credit will have a ceiling of 20 per cent of corporation tax, and it will be possible to carry forward excess credits for one year.</p>

Appendix table 5.5.1: Corporate tax concessions (continued)

Research and Development (R&D)		Others
Netherlands	Non-capital expenditures expensed according to sound business practice principle. Capital expenditures amortised over the useful life taking into account the residual value.	<p>Small business deduction For employed and self-employed people there is an employment rebate of up to €1,213 (more for people in the age range 57 — 64, up to €1,935 less for 65 plus).</p> <p>Environmental investment deduction If you invest money in a recognised so-called 'green fund' you are entitled to a tax credit for socially responsible investments. The credit is 1.3 per cent of the average amount you invested during the year in a socially responsible way. In 2006, the maximum exempt amount per taxpayer is € 52,579.</p> <p>Energy investment deduction Since 1999, there are also tax incentives, an Energy Investment Deductions scheme, regulating energy tax and free depreciation of renewable energy installations via the Accelerated Depreciation on Environmental Investment Scheme.</p>
New Zealand	Non-capital expenditures expensed currently, capital expenditures depreciable for tax purposes at applicable published rates.	Accelerated depreciation for all assets other than buildings. Mineral mining exploration and development costs 100 per cent deductible including for planned expenditure up to two years in advance of expenditure. Most forestry expenditure immediately deductible.
Spain	A tax credit equal to 30 per cent of expenditure on R&D incurred in the tax year is available. Where the expenses incurred exceed the average amount of expenses in the preceding two years, the rate of 30 per cent applies to an amount equal to the average, while a rate of 50 per cent applies to the excess. R&D activities may also benefit from a credit equal to 20 per cent of the costs relating to payroll and 10 per cent of the costs relating to investments in tangible (other than immovable property) and intangible assets used in the project.	<p>A tax credit is available equal to 25 per cent of the investments made to set up foreign permanent establishments, or to acquire at least 25 per cent of the capital in existing foreign companies or in newly created foreign subsidiaries, provided the business activities of such permanent establishments, companies or subsidiaries are directly related to the export activities (other than finance and insurance activities) of the Spanish investor.</p> <p>Credits are also available for the costs of investment in cultural assets registered as national heritage, the costs of environmental protection, and expenses incurred in training personnel.</p> <p>Tax incentives, such as accelerated depreciation and a reduced tax rate, are available for small to medium-sized companies.</p>
Switzerland	Tax provisions for costs of future R&D assignments to third-party contractors can be accounted for up to a maximum of 10 per cent of the taxable profit or CHF1 million.	<p>Incentives for newly established corporations include full or partial exemption from sub-national taxes (and in certain cases national tax) for a period of up to 10 years after inception of business (conditions apply).</p> <p>In addition to sub-national tax holidays, tax incentives at the national level may be available to certain companies, such as holding or principal companies or to companies with sufficient economic substance in certain economical renewal areas (conditions apply).</p> <p>At the sub-national level special tax regimes (for example holding company, mixed company) may apply (rates depend on cantonal tax legislation).</p>

Appendix table 5.5.1: Corporate tax concessions (continued)

Country	Research and Development (R&D)	Others
United Kingdom	<p>R&D tax credits — small or medium-sized United Kingdom companies.</p> <p>150 per cent of qualifying revenue-type expenditure on R&D is allowed for tax purposes in the accounting period the expenditure is incurred.</p> <p>A small or medium-sized company may be able to surrender the tax credits for a lesser cash amount from Her Majesty's Revenue and Customs if they have losses in the accounting period.</p> <p>R&D tax credits — large United Kingdom companies.</p> <p>125 per cent of qualifying revenue-type expenditure on R&D is allowed for tax purposes.</p>	<p>Reduced tax rates for small business.</p> <p>First-year allowances are available for expenditure on plant and machinery incurred by small and medium-sized enterprises at a rate of 50 per cent (from April 2006, currently 40 per cent); expenditure on water-efficient technology assets, certain expenditure on energy-saving plant and machinery at a rate of 100 per cent; and expenditure on industrial buildings in qualifying enterprise zones at a rate of 100 per cent.</p>
United States	<p>Expenditures either expensed currently or capitalised for amortisation over 60 months (minimum). Tax credit for qualified expenditures, to the extent they have increased over a base period amount, limited to tax liability of that year. Excess credit carry back one year and carry forward 20 years.</p>	<p>Deduction or amortisation (over 10 years) for certain domestic exploration expenses.</p> <p>Foreign mining exploration and development amortisable over 10 years.</p>

Source: Various, see Chapter 1 (1.4.1).

APPENDIX 5.6: ALTERNATIVE MEASURES OF THE CORPORATE TAX BURDEN

TAX TO GDP RATIOS

Tax to GDP ratios are a commonly used approach for comparing the level of taxation across countries. These measures can be calculated for taxes paid by particular industries or revenue heads and are calculated as total taxation revenue as a percentage of gross domestic product. Alternatively, they can be based on total corporate profits or income from national accounts.

$$Tax\ to\ GDP = \frac{Tax\ revenue}{GDP}$$

Tax to GDP ratios are a backward-looking measure of the tax burden. They provide an estimate of taxes paid on existing capital. To the extent that the taxation arrangements for new investment are different from the arrangements for existing investments, the measure may be limited in terms of estimating incentive effects.

Tax to GDP ratios typically do not take account of company and personal income tax integration. For example, they do not adjust for the tax benefit an imputation system provides to resident shareholders for company tax paid. Also, they do not account for foreign taxes paid.

Differences in tax to GDP ratios across time or across countries may not reflect differences in the tax burden. For example in the case of corporate income tax, the tax to GDP ratio can be expressed as follows:

$$\begin{aligned} Tax\ to\ GDP &= \frac{CIT}{\Pi} \times \frac{\Pi}{GDP} \\ &= \tau \times \frac{\Pi}{GDP} \end{aligned}$$

where CIT is corporate income tax paid, Π is profit and τ is the effective tax burden on economic profits. As the equation shows, variations in the tax to GDP ratio can actually reflect variations in the ratio of profit to GDP rather than differences in the effective tax burden.

In addition, taxes paid and GDP may not be related to the same year because of carried-forward losses. Such losses will tend to reduce tax paid in the period. Tax expenditures will also result in a reduction of the tax burden relative to an equivalent outlay.

In summary, tax to GDP ratios do not provide a reliable guide for measuring the tax burden and or providing information about incentives to invest.

STATUTORY TAX RATE

The statutory tax rate is the most basic and often used measure of for comparing tax arrangements across countries.

This measure is significantly limited as the effective rate faced by an investor is likely to be lower than the statutory rate. This is because taxable income generally does not correspond to economic income or accounting profits due to carried-forward losses and tax expenditures which reduce the tax base (for example income tax exemptions, statutory effective life caps and accelerated depreciation).

Comparisons of statutory tax rates can be unreliable for measuring the tax burden and provide limited information on incentives to invest.

EFFECTIVE CORPORATE TAX RATES

As noted earlier, there are many factors that create a difference between statutory and effective corporate tax rates. This means that the amount of tax actually paid may be significantly different from the amount of tax implied by applying the statutory tax rate to assessable income (taxable income equals assessable income less deductions).

Effective tax rates defined

An effective tax rate measures actual tax payable against actual income either for a historical or hypothetical set of circumstances and can be either backward-looking or forward-looking depending on the measure used. The problem with effective tax rates is they require researchers to make various assumptions and employ different methods to generate representative effective corporate tax rates, with the result that rankings of countries can vary depending on the assumptions/methods used.

Historically-based effective tax rate measures suffer from limited and sometimes inadequate data while effective tax rates for hypothetical investments are very stylised and cannot include all of the details of the relevant tax provisions (Kelly and Graziani 2004, p 29).

A United States' Congressional Budget Office (CBO) study, however, argues that it is possible to calculate meaningful effective corporate tax rates by focusing on the two factors (the tax treatments of depreciation and of different investment financing sources) that predominantly account for the divergence of statutory and effective corporate tax rates and for the variation among countries (Congressional Budget Office 2005, pp 15-16).

Average tax rate

Average tax rates (ATRs) are a commonly used approach to measure the taxation of capital income. This approach is based on micro data and expresses the effective tax burden as a percentage of tax liabilities relative to an income measure such as profits from annual accounts or total income from tax returns.

$$ATR_i = \frac{tax_i}{profit_i}$$

ATRs incorporate most aspects of the tax system such as variations in tax rates, tax deductions and tax offsets. ATRs also implicitly take into account impacts of tax planning, evasion and minimisation due to onerous or lax tax laws.

ATRs are also backward-looking. But given they are calculated using micro data they can be useful in determining the take-up rates of particular tax concessions. The measure may be limited in estimating incentive effects to the extent that the taxation arrangements applying to old and new capital may be different.

ATRs typically do not take account of company and personal income tax integration. For example, they do not adjust for the tax benefit an imputation system provides to resident shareholders for company tax paid. Also they do not account for foreign taxes paid.

ATRs are limited in their usefulness for evaluating incentives to invest as they are backward-looking but provide a good estimate of the tax burden if calculated correctly.

Effective marginal tax rate

The conventional approach to measuring an effective corporate tax rate is to calculate an effective marginal tax rate (EMTR), which sets the present value of a marginal investment's income stream equal to the present value of its cost. The EMTR concept stems from the theoretical approach of Jorgensen (1963), which calculates the effect of taxes on the cost of capital (the necessary real rate of return in pre-tax terms for an investment to break even). King and Fullerton (1984) used this approach in building measures of the EMTR which sought to measure the tax wedge between the rate of return to the investor and the rate of return to the saver.

The EMTR measures the tax on a marginal investment project and is defined as the difference between the pre-tax return (\tilde{p}) to the investor and the post-tax return (r) to the saver of the project divided by the pre-tax return (r can also be thought of as the cost of capital).

$$EMTR = \frac{\tilde{p} - r}{\tilde{p}}$$

A marginal investment is one where the investor is indifferent towards investing or not, that is, where the expected net present value of the investment is zero.

The EMTR is a forward-looking methodology, measuring the tax burden on a hypothetical investment. As such, the EMTR can be used to estimate incentive effects arising from the tax system.

Appendix table 5.6.1: Impact of EMTR on investment

Estimate of EMTR	Impact on investment
EMTR < 0	Investment is encouraged
EMTR = 0	No impact — that is, neutral
EMTR > 0	Investment is discouraged

EMTRs can be calculated at an asset, company or industry level. They can be calculated for all types of assets including intangibles, buildings, machinery, inventories and financial assets; and for all types of financing arrangements including new equity capital, profit retention, debt financing and leasing. The EMTR for a whole industry is simply the weighted average of separate EMTRs reflecting a particular combination of assets, financing and savers.

EMTRs can incorporate the effect of taxation on savers including individual shareholders, parent companies, financial intermediaries or tax exempt institutions.

EMTRs are an internationally accepted measure of the tax burden on capital income, but they are best suited to estimating incentive effects as they relate to a marginal project.

Effective average tax rate

Devereux and Griffith (1999) developed an alternative measure of the effective tax rate on investment projects, termed an effective average tax rate (EATR), which extended the conventional approach described above to calculate an average rate with respect to investments earning economic profit. The EATR is calculated with respect to the net present value of an investment's income stream for a given pre-tax rate of return. The net present value of the economic profit earned by such an investment is the difference between the present value of the income stream and the present value of the investment's cost.

In theory, the EATR can be calculated as the proportionate difference between the pre- and post-tax economic profit for a given pre-tax rate of return. But as Devereux and Griffith point out, this measure is undefined for a pre-tax marginal investment with zero economic profit (Devereux and Griffith 1999, p 6). They recommend a replacement EATR measure with the desirable feature that it is equal to the EMTR for a marginal investment.

More importantly from a policy viewpoint, EATRs may be a better marker of the tax incentives a multinational corporation confronts in deciding on a country for locating a large, discrete investment project, especially where the corporation has a strong expectation that it will earn economic profit due to a patent or similar source of market power. EMTRs, which relate to an investment just breaking even, may be more significant for deciding the level of investment once the country location decision has been made (Kelly and Graziani 2004, p 30).

The boxed section discusses in a technical manner the derivation of the EATR formula and its relationship to the EMTR.

Box 5.6.1: Effective marginal and effective average tax rates

To assist in understanding the development of the effective average tax rate (EATR) measure, it is constructive to commence with a tax inclusive effective marginal tax rate (EMTR) as

$$(1) \quad EMTR = \frac{\tilde{p} - r}{\tilde{p}}$$

where \tilde{p} is the marginal pre-tax rate of return and r is the cost of capital (Devereux and Griffith 2003, p 111).

The EATR is defined for $p \geq \tilde{p}$. Devereux and Griffith look at two measures of an EATR. Each is founded on the difference between the present value (R^*) of an investment that earns a pre-tax rate of return in excess of the normal rate of return and the present value when taxes are imposed (R). This difference between the value of an investment pre- and post-tax calculated as a proportion of the pre-tax value gives the first measure of the EATR as (Devereux and Griffith 2003, p 112):

$$(2) \quad EATR (First\ measure) = \frac{R^* - R}{R^*}$$

$$\text{with } R^* = \frac{p - r}{1 + r}$$

The problem with this first measure of the EATR is that it is undefined for an investment that is marginal before tax because the denominator in the formula would be zero. Devereux and Griffith resolve this issue by substituting in the denominator the net present value of the pre-tax total income stream, less depreciation, $p/(1+r)$, where p is the financial rate of return and r is the discount factor (real interest rate); and the investment is for one period only for simplicity in writing the formula (Devereux and Griffith 2003, p 112):

$$(3) \quad EATR (Adjusted\ measure) = \frac{R^* - R}{p / (1 + r)}$$

One advantage of using the adjusted EATR formula is that it can be manipulated to demonstrate its relationship to the EMTR. To illustrate this, it is helpful to express R using the cost of capital as:

$$(4) \quad R = (p - \tilde{p}) \gamma (1 - \tau) \frac{(1 + \pi)}{(1 + \rho)}$$

with γ being a measure of the tax advantage between new equity and distributions; τ being the statutory corporate tax rate; π being the rate of inflation; and ρ being the shareholders' discount rate (Devereux and Griffith 2003, p 112).

Using equations (1), and (4) and the equation for R^* at the end of equation (2), the EATR can

be expressed as a weighted average of the EMTR and an 'adjusted statutory tax rate,' T (Devereux and Griffith 2003, p. 112):

$$(5) \quad EATR = \left(\frac{\tilde{p}}{p} \right) EMTR + \left(1 - \frac{\tilde{p}}{p} \right) T$$

where

$$(6) \quad T = 1 - \gamma (1 - \tau) \frac{(1 + r)(1 + \pi)}{1 + \rho}$$

It can be seen from the equation (5) that for a marginal investment since $R=0$ and $p=\tilde{p}$ (from equation (4)) then $EATR=EMTR$. On the other hand, for a highly profitable investment since $R^* \rightarrow \infty$ so $p \rightarrow \infty$ then $EATR \rightarrow T$ (Devereux and Griffith 2003, p. 112).

SUMMARY

In summary, there is no general effective tax rate concept for the purpose of measuring the tax burden and incentive effects of the tax system. The most appropriate measure will depend on the objective of the measurement.

For assessing allocative efficiency and tax incentives, the EMTR would be the most appropriate measure to use. If the aim of the tax burden comparison is to measure the impact of taxation on location decisions of large corporations, the EATR would be the more relevant approach.

The best indicators for analysing the impact of taxation on investment behaviour are forward-looking measures such as the EMTR and the EATR. The results for the EMTR and the EATR, however, are derived from models. As the assumptions underpinning any model are never fully representative, the impact of taxation on investment cannot be measured by these methods alone. Consequently, survey-based models such as the average tax rate can be used to provide additional insights into the tax burden on capital income.

INCIDENCE OF CORPORATE TAX

The debate over the most suitable measure of the corporate tax burden is mirrored by an unresolved debate over the economic incidence of corporate income tax. A United States' Congressional Budget Office study of the literature on the incidence of corporate income tax made the following tentative conclusions (Congressional Budget Office 1996, p 27).

- In the short term, the incidence of corporate tax is borne by shareholders and investors generally but not equally because some investments are more heavily taxed than others.
- The results of most models suggest that in a closed economy the long-term incidence of corporate tax is borne by capital in general, given reasonable assumptions.

- In an open economy, the burden of corporate tax in the long term may be moved to immobile factors but that transference is limited by the degree of substitutability of the capital and outputs of different countries.
- In the very long run, the burden of corporate tax is likely to be transferred to labour if the tax restricts capital accumulation.
- Most studies of the economic incidence of corporate taxation have overlooked the possibility of transferring the incidence through the effects on the relative prices of products, that is, transferring the burden to consumers.

APPENDIX 5.7: CORPORATE CAPITAL GAINS TAXATION — OECD-10

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
Australia	<p>Resident corporations are taxable on their worldwide capital gains.</p> <p>But resident corporations are exempt on gains from the sale of a foreign non-portfolio interest to the extent that the foreign interest has an underlying active business.</p> <p>Non-resident corporations are taxable on assets that have the necessary connection with Australia. (The 2005-06 Budget announced that non-residents would only be subject to tax on their real property and the business assets of their Australian branches. The Budget also included an interposed entities rule applying capital gains tax to non-portfolio interests in interposed entities where the value of such an entity is wholly or principally attributable to Australian real property.)</p> <p>There is an exit capital gains tax on corporations that cease to be resident in Australia.</p>	<p>Net capital gains are taxed at the corporate rate of 30 per cent.</p>	<p>Capital losses can only be offset against capital gains.</p> <p>Carry forward of capital losses is allowable but there are restrictions based on a continuity of ownership test and (for companies with a turnover of less than A\$100 million) a same business test.</p> <p>Transfer of losses only possible within a consolidated group.</p>	<p>There are a range of rollovers and exemptions directed at small businesses.</p> <p>A wide range of replacement asset and same asset rollovers exist (including demerger and scrip-for-scrip) subject to various conditions being satisfied.</p>
Canada	<p>Resident corporations are taxed on their worldwide capital gains.</p> <p>Non-residents taxable on capital gains from 'taxable Canadian property', which is typically restricted by tax treaties. Depreciation recapture is included in the base.</p> <p>There is an exit capital gains tax on corporations that cease to be resident in Canada.</p>	<p>In general only half the capital gain is included in income and is then taxed at the usual rate of company tax, which ranges from 31 to 39 per cent depending on which province taxes the income (36.1 per cent for the representative combined rate).</p>	<p>Capital losses can only be used to reduce capital gains not ordinary income, unless the loss is attributable to shares or debt of a 'small business corporation'. The deductible portion of the capital loss is decreased by the inclusion rate. Carry forward indefinitely but only three years carry back.</p> <p>To stop corporations from trading in corporations with net capital losses or accrued losses, the corporation's taxation year is treated as though it ceased immediately before the change in ownership.</p>	<p>Certain same asset and replacement asset rollovers are allowed.</p> <p>Scrip-for-scrip rollover available if both companies are Canadian and prescribed rules are met.</p>

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10 (continued)

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
Ireland	<p>Resident corporations are taxed on their worldwide capital gains. A schedular system operates with the principal types of income being subdivided into categories and sub-categories with differing rules determining the identification and calculation of income in each category.</p> <p>Non-resident companies are subject to corporate tax on capital gains on assets purchased or held for the purpose of carrying on a trade in Ireland through a branch or agency.</p> <p>Non-resident companies are subject to Irish capital gains tax on the disposal of Irish specified assets.</p> <p>The purchasing cost is indexed for inflation in calculating the capital gain. For sales of assets after 3 December 2002, indexation relief is available only for the period of holding the asset up to 31 December 2002.</p> <p>Capital gains arising from sales of substantial shareholdings are not subject to tax in particular circumstances.</p>	<p>The normal corporate tax rate for trading income is 12.5 per cent. Although the capital gains of resident companies are subject to corporate tax, they are taxed at the capital gains tax rate of 20 per cent. This is effected by taxing a notional amount of income at the corporation tax rate. Gains on certain sales of development land are taxed under a separate capital gains tax.</p>	<p>Capital losses can only be used against capital gains and can only be carried forward. Losses arising from the sale of development land are quarantined from other capital losses.</p>	<p>There is an effective rollover of the gain if a capital asset is transferred between members of the same capital gains group. A rollover may also be permitted for the purchase of shares or business assets in a merger or acquisition of a business.</p>
Japan	<p>Capital gains are added together with other income (meaning they are not taxed separately). Taxation of the domestic sourced income of foreign firms operating in Japan depends on what the firm is doing in Japan and on whether the firm has a permanent establishment in Japan.</p>	<p>For companies with capital not greater than ¥100 million, the corporate tax rate is 22 per cent on the first ¥8 million of taxable income and 30 per cent on any excess.</p> <p>For corporations with capital greater than ¥100 million the national corporate tax rate is 30 per cent.</p> <p>Local income taxes, which are comprised of local inhabitant tax and enterprise tax, are also imposed on corporate income. The resulting effective corporate income tax rate for corporations with capital greater than ¥100 million is approximately 40.69 per cent if the head office is located in Tokyo.</p>	<p>Current net operating losses ('NOLs') incurred by a corporation filing a blue form tax return may be carried forward for seven years and carried back for one year, and can be used to offset otherwise taxable income. Currently, the NOLs carry back rule is temporarily suspended, except for certain small and medium-sized companies subject to certain conditions.</p> <p>For corporations filing a white return, losses stemming from inventory, fixed assets or certain deferred assets caused by natural disaster can be carried forward for seven years. Other NOLs cannot be carried forward.</p>	<p>Where one company moves its assets and liabilities to another corporation as part of a reorganisation, no gain or loss arises from the movement if the reorganisation is a tax-qualified reorganisation.</p>

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10 (continued)

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
Netherlands	<p>Resident corporations are taxed on their worldwide capital gains. Realised capital gains are treated as regular business profits whereas capital losses may be deducted when they can be reasonably anticipated. Capital gains and losses from qualifying shareholdings are exempt (non-deductible) under the participation exemption regime (see Appendix 5.2 for a list of conditions for participation relief to apply).</p> <p>For non-residents capital gains realised on the disposal of a permanent establishment asset or realised on immovable property are taxable if from a Netherland's source.</p> <p>If the non-resident shareholder has a substantial interest (more than or equal to 5 per cent) in a Dutch company the capital gains on a loan to the Dutch company will be taxable.</p>	<p>The corporate income tax rate is 25.5 per cent on the first €22,689 and 29.6 per cent on any balance.</p>	<p>Capital losses are deductible from tax base.</p> <p>There are restrictions on loss carry over where there is more than a 30 per cent change in ownership.</p> <p>Compensation of losses incurred in years during which a company's activities consisted exclusively or almost exclusively (at least 90 per cent) of holding and financing activities, with profits derived from newly acquired activities. Such losses can only be offset with profits of years during which the company's activities also consist exclusively or almost exclusively of holding or financing activities.</p> <p>Compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding losses, during the financial year in which a profit has been realised, exceed that balance in the financial year the losses were incurred.</p> <p>Consolidated groups (fiscal unity) can offset losses of one company against the income of another company in a particular year.</p>	<p>Gains arising from the disposal of business assets may be deferred if put in a reinvestment reserve for replacing or repairing business assets within three years.</p> <p>Equalisation reserve enables recurring but not annual costs to be spread more equally over time.</p>
New Zealand	<p>Capital gains are generally not taxed.</p>	<p>Capital gains associated with disposal of patent rights and property held on revenue account are deemed to be income and taxed at the standard corporate rate of 33 per cent.</p>	<p>n/a</p>	<p>n/a</p>
Spain	<p>Capital gains are generally taxed as ordinary income. Resident companies are generally taxable on their worldwide capital gains. Capital gains of a resident company obtained from the sale of shares in a non-resident company are exempt where the requirements of the affiliation privilege are satisfied, although the exemption may be limited in specific circumstances.</p>	<p>The general company tax rate is 35 per cent. Corporations with yearly net sales not greater than €8 million pay a 30 per cent rate on the first €120,202.41 of annual profits, with any excess taxed at 35 per cent.</p> <p>A surcharge of between 0.01 per cent and 0.75 per cent applies to corporate income tax due and is deductible for corporate income tax purposes.</p> <p>If particular reinvestment conditions are satisfied, capital gains may attract a tax credit decreasing the corporate tax rate to 15 per cent.</p>	<p>Capital losses are treated the same as ordinary losses. Losses may be carried forward 15 years but no carry back is allowed.</p> <p>If there is a change in ownership then a restriction on the carry forward of losses applies in particular circumstances.</p>	

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10 (continued)

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
Spain (continued)	<p>The capital gains derived by a permanent establishment of a non-resident company are given differing treatment according to their source. Domestic capital gains are treated under the general rules for taxing capital gains. Foreign capital gains may benefit from the exemption under the affiliation privilege. The capital gains of non-resident companies not having a permanent establishment are subject to the same tax rules that apply to resident companies and are taxed at the corporate income tax rate unless they fall into one of the categories of exempt gains.</p> <p>Indexation of the acquisition cost is permitted only for sales of immovable property.</p> <p>Capital gains arising from the disposal of participations in resident entities are exempt from tax in particular circumstances but it applies only to that part of the net capital gain attributed to non-distributed profits.</p> <p>Alternatively, a 20 per cent tax credit is given for sales of minimum participations, reinvested capital gains or transfers of particular assets if certain conditions are met:</p> <ol style="list-style-type: none"> (1) the gain arises from a transfer of tangible or intangible fixed assets or from a minimum participation interest of 5 per cent held for at least one year; (2) all the proceeds are reinvested in similar types of assets within four years (from one year before the transfer to three years afterwards); and (3) the new assets are kept for at least three years (five years for immovable property), unless their useful life is shorter. <p>Capital gains arising from donations to qualifying entities are exempt.</p>			<p>Deferral available on capital gains arising due to a corporate restructuring.</p>

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10 (continued)

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
Switzerland	<p>National</p> <p>Capital gains arising from the sale of movable and immovable business property are taxable.</p> <p>Resident companies are taxed on offshore capital gains, apart from gains on immovable property and gains on movable property of an enterprise or permanent establishment situated abroad. The cantons use the same approach.</p> <p>Non-resident companies are taxable on capital gains arising from Swiss businesses, permanent establishments or immovable property.</p> <p>There is capital gains relief on gains where the seller has a substantial participation in a resident or non-resident company and certain conditions are met. The cantons adhere to the same practice.</p> <p>Gains deriving from the sale of real estate are not subject to a special real estate gains tax at the national level, that is such gains are subject to the ordinary federal tax.</p> <p>Cantonal</p> <p>At the cantonal level, capital gains on movable property are taxed while gains on immovable business property may be taxed under either the corporate income tax (dualistic system) or the real estate gains tax (monistic system) depending on the canton in which the property is situated. The canton of Zurich uses the monistic approach.</p>	<p>The corporate tax rate is an aggregate of national, cantonal and municipal components.</p> <p>National</p> <p>The national rate is levied at 8.5 per cent but the national tax liability is deductible, yielding an effective rate of 7.83 per cent.</p> <p>Cantonal</p> <p>The cantonal rate depends on the cantonal tax legislation. At the cantonal and municipal level, the so called tax tariff consists of the tax rate and a cantonal and municipal multiplier. In the City of Zurich the overall effective tax rate for cantonal and municipal taxes amounts to approximately 16 per cent.</p> <p>Rates of the real estate gains tax (monistic system) are fixed by the cantons and depend on two factors in nearly every canton, that is the amount of the respective gain on the sale of real estate and ownership period. So, the tax rate decreases as the period of ownership increases.</p> <p>In the canton of Zurich, gains subject to the real estate gains tax are exempt for the first CHF5,000. After CHF5,000 progressive rates apply ranging from 10 per cent on the first CHF4,000 to 40 per cent on any balance greater than CHF100,000. The tax is increased by 50 per cent if the asset is owned for less than one year and by 25 per cent for periods less than two years. Where the asset has been owned for at least five years, the tax is decreased by 5 per cent and for each additional year by three per cent with the highest decrease permitted being 50 per cent.</p>	<p>Capital losses realised on the sale of movable property are subject to the normal loss rules.</p> <p>At the national and cantonal levels, losses may be carried forward for up to seven years.</p> <p>Generally there is no carry back of losses except in the canton of Thurgau where they can be carried back one year.</p> <p>Under the dualistic system, losses on the sale of immovable property may generally be offset against other income and gains.</p> <p>Under the monistic system, capital losses on the sale of immovable property may not be used against gains realised on the disposition of real estate because the real estate tax relates to the sold assets and not to total income.</p> <p>Several cantons do not follow this approach and permit the offset of monistic losses under particular conditions.</p> <p>Zurich allows a loss on the sale of a portion of immovable property to be offset against a gain on the sale of another portion of the same property.</p>	<p>Rollover relief is available for the replacement of fixed assets in Switzerland.</p> <p>There is a deferral of tax on capital gains on hidden reserves resulting from a merger, division or transformation if certain conditions are met.</p> <p>Deferral of tax on hidden reserves on participations is allowed in all cantons where the modification due to the new Merger Law is implemented (by 1 July 2007 the latest), where there is a substantial participation in a resident or non-resident company (20 per cent), and where ownership period was at least one year.</p>

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10 (continued)

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers												
United Kingdom	<p>United Kingdom tax resident companies are taxed on their worldwide capital gains which are subject to company tax at the usual rates.</p> <p>Where all the conditions are met, a capital gain arising on the sale of shares in a trading subsidiary can be exempt under the Substantial Shareholdings Exemption. In very broad terms this involves both the investor and investee company meeting the definition of a qualifying trading company before and after the disposal, a minimum share ownership and minimum period of ownership.</p> <p>Non-United Kingdom tax resident companies are subject to tax on their capital gains only where such gains are attributable to a United Kingdom permanent establishment unless exempt under a double taxation treaty.</p> <p>Where United Kingdom tax resident companies seek to emigrate from the United Kingdom there is a capital gains tax exit charge based on a deemed sale and reacquisition of its assets on departure.</p>	<p>The current rates of corporate tax in the United Kingdom are either 0 per cent or 19 per cent for small companies and 30 per cent for large companies (with the effective marginal rates of tax between the bandings, to bring average rates up to the 19 per cent and 30 per cent rates, shown below). Bandings are reduced proportionately where a company has associated companies.</p> <table border="1"> <tr> <td>Taxable profits</td> <td></td> </tr> <tr> <td>Up to 10,000</td> <td>0</td> </tr> <tr> <td>10,001 to 50,000</td> <td>23.75</td> </tr> <tr> <td>50,001 to 300,000</td> <td>19</td> </tr> <tr> <td>300,001 to 1,500,000</td> <td>32.75</td> </tr> <tr> <td>Over 1,500,000</td> <td>30</td> </tr> </table> <p>Small companies in the 0 per cent band are taxed at the 19 per cent rate on profits they pay out to non-corporate shareholders under the non-corporate distribution rate.</p> <p>It has been announced that the <i>Finance Act 2006</i> will abolish the 0 per cent rate and also the non-corporate distribution rate. This will result in the corporation tax rates of 19 per cent and 30 per cent remaining (with marginal relief between the bandings).</p>	Taxable profits		Up to 10,000	0	10,001 to 50,000	23.75	50,001 to 300,000	19	300,001 to 1,500,000	32.75	Over 1,500,000	30	<p>Corporate capital losses can only be offset against capital gains in the same or subsequent accounting periods.</p> <p>Excess capital losses may be carried forward indefinitely.</p> <p>In general, capital losses generated by a company before it is acquired can only be used in very limited circumstances by a new owner. This also applies to capital losses inherent in assets acquired by way of a share acquisition.</p>	<p>A form of rollover relief is available for certain (share-for-share) corporate reorganisations undertaken for bona fide commercial reasons. There is an advance clearance procedure to provide comfort that a reorganisation will not result in a disposal for capital gains tax purposes.</p> <p>Another form of rollover relief applies to companies realising capital gains where the proceeds from the disposal are used to acquire qualifying replacement assets.</p> <p>Transfers of assets between United Kingdom resident companies within a corporate group are undertaken on a no gain/no loss basis. The gain will however crystallise where the transferor or transferee ceases to be part of the same corporate group within six years of the transfer.</p>
Taxable profits																
Up to 10,000	0															
10,001 to 50,000	23.75															
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Over 1,500,000	30															

Appendix table 5.7.1: Corporate Capital Gains Taxation — OECD-10 (continued)

Country	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
United States	<p>Resident corporations are taxed on their worldwide capital gains at the same rates as for ordinary income.</p> <p>Foreign corporations are subject to tax on capital gains where such gains are effectively connected to a United States trade or business. For a corporate group filing a consolidated United States national income tax return, the net capital gain is calculated across the entire group.</p> <p>Certain qualifying scrip-for-scrip or scrip-for-asset exchanges may be exempt from tax.</p>	<p>Up to 15</p> <p>50,001 25</p> <p>75,001 34</p> <p>100,001 39</p> <p>335,001 34</p> <p>10,000,000 35</p> <p>15,000,001 38</p> <p>Over 35</p> <p>Note that the average rate is never higher than 35 per cent; the purpose of the 38 per cent and 39 per cent brackets is to eliminate the benefit of low rates on the lower brackets for higher-income taxpayers.</p>	<p>Corporate capital losses can only be offset against capital gains. Excess capital losses may be carried back three years and carried forward five years.</p> <p>Note that all dispositions of business property for a year are netted. If there is an overall net gain, it is treated as a capital gain. If there is an overall net loss, it is treated as an ordinary loss, and so not subject to the limits on capital losses.</p>	<p>Rollover relief is available for certain incorporation, liquidation and reorganisation transactions.</p> <p>Rollover relief may also be available in certain situations for business or investment property that is exchanged for similar property and for certain compulsory conversions of property.</p>

Source: Various, see Chapter 1 (1.4.1).

