Chapter 6

Capital income taxation

Contents

6. CAPITAL INCOME TAXATION

SUMMARY

The capital income of individuals is taxed in many different ways around the world. In recent years, there has been a particular focus on the method of integration of the corporate and personal levels of taxation. Many European countries have tended to move away from full imputation, to systems where dividends are taxed at lower rates at the personal level.

Australia is one of only a small number of OECD-30 countries that have a dividend imputation system (where the credit depends on company tax paid). Unlike most of the other OECD countries with an imputation system, Australia's system refunds excess imputation credits eliminating the double taxation of dividends. Most OECD countries use a credit system (where the credit does not depend on company tax paid) or have a modified classical system with a reduced rate on dividends to relieve the double taxation of dividend income.

Australia has the third lowest top overall tax rate of the OECD-10 on dividend income, taking account of tax at both the company and the shareholder level.

Australia has the second lowest overall tax rate of the OECD-10 on dividend income for an individual earning the average wage, taking account of tax at both the company and the shareholder level.

All of the OECD-10 countries, including Australia, provide some form of concessional treatment for capital gains.

Australia has the third highest top capital gains tax rate for shares held between one and two years, and the second highest top capital gains tax rate for shares held for ten years, of the OECD-10. Two countries in the OECD-10 exempt capital gains on shares (New Zealand and Switzerland) while four countries provide a capital gains allowance (Canada, Ireland, Japan and the United Kingdom).

Most countries in the OECD-10 have a lower tax rate on interest income compared with the tax rate on wage and salary income. In many cases, this is because social security contributions do not apply to capital income.

Australia has the highest top marginal personal tax rate on interest income of the OECD-10, and is around 11 percentage points above the OECD-10 average (37.1 per cent). A number of the comparator countries also provide exemptions for certain interest income.

This chapter also examines the extent of the difference between tax rates on wages and salaries and the tax rates on corporate income. Of the 30 OECD countries, only one, the Slovak Republic, has aligned its top marginal personal tax rate and full statutory corporate tax rate.

Australia's difference (18.5 percentage points) is only slightly above the OECD-30 average (17.8 percentage points). Australia has the fourth highest difference across the OECD-10 and is around four percentage points above the OECD-10 average (14.9 percentage points).

6.1 Introduction

The accumulation and efficient allocation of capital is pivotal to the growth of every economy. As such, the taxation of capital income raises important issues concerning its effect on incentives to save and invest, on resource allocation, on risk taking and on entrepreneurship.

This chapter examines the taxation of domestically-sourced capital income of domestic individual taxpayers amongst the OECD-10. It considers taxes paid on:

- dividend income — including the integration of the personal and corporate tax systems;
- capital gains; and
- interest income.

Taxes on property (rent), royalties and capital deductions such as depreciation and interest expense are not covered, while the taxation of retirement savings and foreign source income are covered in Chapters 7 and 10.

Despite the importance of capital taxation, most cross-country analysis is focused on corporate taxation. Given the limited comparative information available on capital income taxes at the personal level, this chapter is largely based on OECD estimates of the top tax rate applying to the three types of capital income noted above. While this provides an interesting comparison, it has three key limitations:

- the actual tax rate faced by the investor is likely to be lower because most countries have preferential tax arrangements applying to specific types of capital income;
- the estimate ignores the taxation of lower income individuals; and
- the estimate does not represent the true tax burden faced by the investor, because the effective rate of tax may be significantly different.

Estimates of effective marginal tax rates (EMTRs) for investments are potentially more useful. EMTRs measure the tax burden faced by an individual investor as the fraction of the pre-tax rate of return on a new investment that is collected as tax. Such measures are complex and comparative studies are generally limited to investments made by companies in physical assets and exclude taxation at the shareholder level (see Chapter 5). As a result EMTRs are not presented.

This chapter also examines the extent of the difference between tax rates on wages and salaries (Chapter 4), and the tax rates on corporate income (Chapter 5).

6.2 CAPITAL TAXATION

Capital income is taxed in many different ways around the world. Even within the OECD-10 approaches vary significantly.

The two general approaches to taxing capital income are to:

- treat capital income as ordinary income, which is taxed at personal income tax rates (similar to the approach of Australia, Canada and New Zealand); or
- separate capital income from ordinary income, and tax it at different rates — so-called schedular taxation (similar to the approach of the Netherlands, see Box 6.1).

Most countries use combinations of the two depending on the source of the capital income.

In addition to these broad differences there are also significant differences between: the calculation of taxable capital gains; systems of shareholder relief; and the treatment of capital gains (the later two are covered in detail below).

In relation to the calculation of taxable capital income, most of the OECD-10 tax realised capital income. The one exception is the Netherlands, where most taxable capital income is calculated based on a deemed rate of return on all capital producing assets held by the taxpayer (see Box 6.1).

Many countries also have tax preferred savings accounts outside of retirement savings. Tax preferred savings accounts depart from comprehensive income taxation (where deposits and earnings are taxed and withdrawals are not), with earnings exempt and withdrawals either exempt or taxed at a lower rate.

Box 6.1: Schedular taxation — the Netherlands' box system

Of the OECD-10, the Netherlands has the closest tax system to a pure schedular arrangement.

The Netherlands introduced its current schedular (or box) system as part of the 2001 tax reform. Under this system an individual's income is classified into one of three boxes. The income of each box is calculated separately with a different tax rate applying to the income for each box.

- Box 1: includes wages and salaries, social security payments and pensions and income from owner-occupied dwellings (based on a deemed rental value) less allowable deductions. Net income is taxed at progressive rates ranging from 34.4 per cent to 52 per cent (including social security contributions).
- Box 2: includes capital gains and other income from substantial shareholdings. This includes dividends and capital gains where the shareholder controls at least 5 per cent of the company. Net income for substantial shareholdings is taxed at a flat rate of 25 per cent.
- Box 3: is the taxation of capital income, including income from non-substantial shareholdings. Instead of taxing realised capital income, income-producing assets of the taxpayer are deemed to produce a yield of 4 per cent, which is taxed at a flat rate of 30 per cent. This is equivalent to a 1.2 per cent wealth tax (30 per cent x 4 per cent).

The effect of this type of schedular taxation is that capital income is taxed at lower rates than wages and salaries, while income and losses cannot be transferred across boxes.

6.3 DIVIDEND INCOME

Policy interest in the taxation of dividends has increased across OECD countries in recent years. In particular, there has been a focus towards reconsidering the relative advantages and disadvantages of integrating the corporate and personal levels of taxation on distributed profits. Many European countries have tended to move away from full imputation systems to systems where dividends are taxed at lower rates at the personal level. Australia has a full imputation system.

The following section provides a brief overview of the various shareholder relief systems. This is followed by a comparison of tax rates applying to dividends across the OECD-10.

6.3.1 The taxation of dividend income: classical versus shareholder relief systems

Classical system

Under a pure classical system, companies and shareholders are treated as separate entities with profits being taxed first at the company level. The post-tax profits are then taxed at the shareholder level when distributed, resulting in full economic double taxation of the income.

Economic efficiency considerations lie behind arguments for eliminating the double taxation of dividends, with taxation influencing at least three kinds of decisions:

- the corporate financing decision between debt and equity;
- the choice to hold or distribute profits; and
- whether or not to incorporate an enterprise (OECD 1991, p 168).

Shareholder relief systems

Shareholder relief systems aim to reduce the full economic double taxation that applies under a pure classical system. Shareholder relief systems may be implemented at either the company or shareholder level or both. Table 6.1 lists the general types of shareholder relief systems and Appendix 6.1 provides details of the shareholder relief systems and the degree of integration of company and individual taxation for the OECD-10.

Table 6.1: General types of shareholder relief systems

Company level		Shareholder level	
Type of relief	Comment	Type of relief	Comment
Dividend deduction	Provide a full or partial deduction for distributed profits.	Dividend exclusion	A proportion of dividend income is excluded from taxation.
Credit	Provide a full or partial credit to the company for distributed profits.	Credit	Provide a full or partial credit to the taxpayer for dividends received.
Reduced rate	Reduce the tax rate for distributed profits.	Reduced rate	Reduce the tax rate for dividends received.

The credit and reduced rate shareholder relief systems can be designed to eliminate fully the economic double taxation of corporate income that applies under the pure classical system. The reduced rate system can only ever partially eliminate the economic double taxation of corporate income unless the rate is reduced to zero.

Australia's imputation system is a very pure form of credit relief at the shareholder level where the credit is related to the amount of Australian tax that has been paid at the corporate level and is fully refundable in the hands of the company's shareholders. The Australian system almost fully removes the double taxation of domestic income of domestic shareholders.[1]

The Australian imputation system is relatively neutral with respect to the corporate financing decision but raises issues concerning Australian companies earning foreign source income and their shareholders, who do not obtain imputation credits for foreign corporate tax paid by a branch or subsidiary of an Australian resident company. However, Australia's approach is consistent with the national neutrality benchmark.

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1 The only double taxation that could remain for such shareholders relates to the capital gains they realise in an Australian company that held undistributed profits that had been subject to Australian tax. If the market price of the shares reflected the company's franking account balance all double taxation would be eliminated. To the extent that the market price did not reflect the franking account balance then some double taxation could remain. This aspect of double taxation on retained corporate income is common with most other shareholder relief systems.

Other forms of credit and shareholder relief systems provide relief regardless of whether home country tax has been paid. This reduces or eliminates the non-neutrality between domestic and foreign source income for domestic companies and their shareholders.

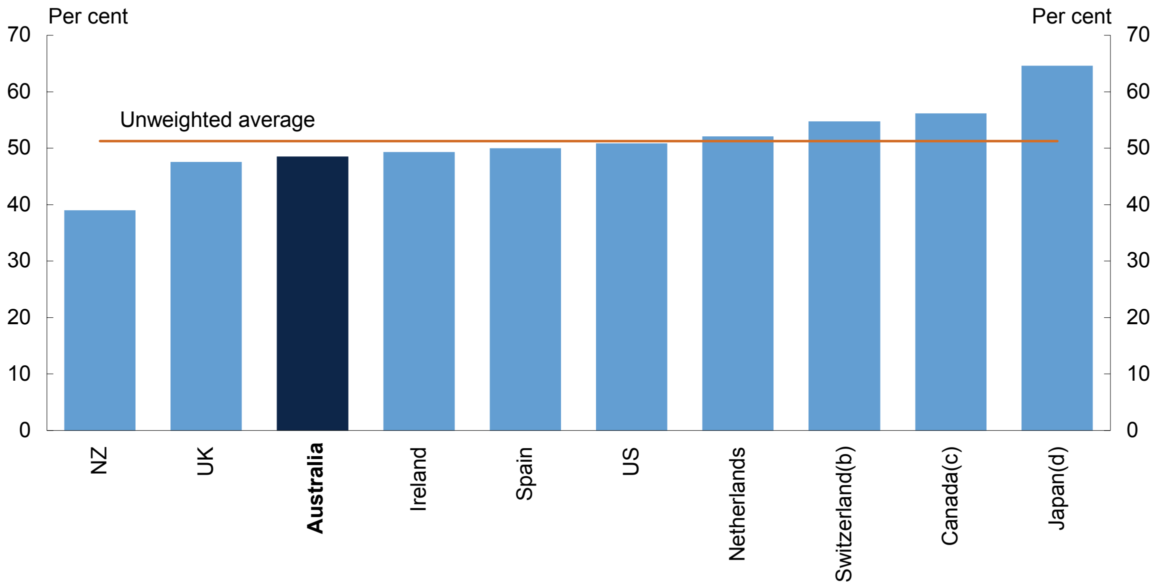
6.3.2 Tax rates applying to dividend income

Chart 6.1 illustrates the top overall statutory tax rates on distributions of domestic source income to a resident individual shareholder, including corporate income tax, personal income tax and any type of integration or relief to reduce the effects of double taxation. The chart shows that Australia's top overall tax rate on dividends sourced from domestic profits (48.5 per cent) is the third lowest of the OECD-10 and is around three percentage points below the average (51.2 per cent) of those countries.

The top overall tax rate on dividends is equal to the top marginal personal tax rate on labour income in Australia, the Netherlands and New Zealand. [2] For Australia and New Zealand, this highlights the use of a full imputation system (where the credit depends on company tax paid), while for the Netherlands it is a feature of their schedular taxation arrangement. For the remaining countries, the top overall tax rate on dividends is greater than the top marginal personal tax rate, which primarily reflects their integration systems only providing partial relief of the double taxation of dividend income.

2 The top marginal personal tax rate is the all-in top marginal tax rate as calculated by the OECD. The all-in top marginal tax rate includes national and sub-national government personal income tax, plus employee social security contributions (as well as the impact of deductibility of social security contributions from national government taxes), resulting from a unit increase in gross wages.

Chart 6.1: Top overall statutory tax rates on domestic source dividend income[(a)]
OECD-10, 2005

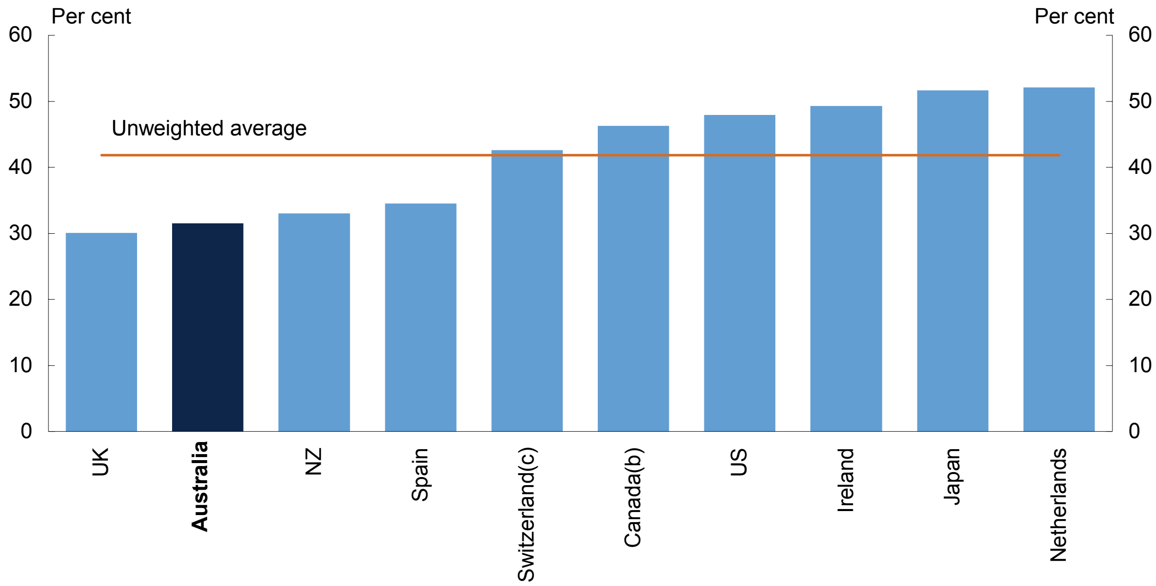


(a) Overall statutory tax rates on distributions of domestic source income to a resident individual shareholder, incorporating corporate income tax, personal income tax and any type of shareholder relief.
(b) The corporate income tax rate includes the church tax, while the personal income tax rates excludes it.
(c) Canada recently announced a reduction in personal income taxes on eligible dividends. See http://www.fin.gc.ca/news05/data/05-082_1e.html for further details.
(d) The 2005 rate for Japan was not available; the 2004 rate is presented.
Source: OECD Tax Database.

Chart 6.2 illustrates the overall statutory tax rates on distributions of domestic source income to a resident individual shareholder earning the average wage, including corporate income tax, personal income tax and any type of integration or relief to reduce the effects of double taxation.[3] The chart shows that Australia's overall tax rate on dividend income for an individual on the average wage (31.5 per cent) is the second lowest of the OECD-10 and is around 10 percentage points below the average (41.9 per cent) of those countries.

3 For Australia, the average wage is $51,169.

Chart 6.2: Overall statutory tax rates on domestic source dividend income — average production worker[(a)]
OECD-10, 2005



(a) Overall statutory tax rates on distributions of domestic source income to a resident individual shareholder, incorporating corporate income tax, personal income tax and any type of shareholder relief. OECD estimates for Japan, Spain and Switzerland were not confirmed by the responsible agency in each country.
(b) The corporate income tax rate includes the church tax, while the personal income tax rate excludes it.
(c) Canada recently announced a reduction in personal income taxes on eligible dividends.
See http://www.fin.gc.ca/news05/data/05-082_1e.html for further details.
Source: OECD estimates (unpublished).

6.4 Capital gains

Typically capital gains are taxed on a realisation basis rather than an accruals basis. This introduces a deferral tax advantage to the asset holder but, depending on the particular system of capital gains tax (CGT), the asset holder may be taxed on nominal rather than real capital gains on sale of the asset.

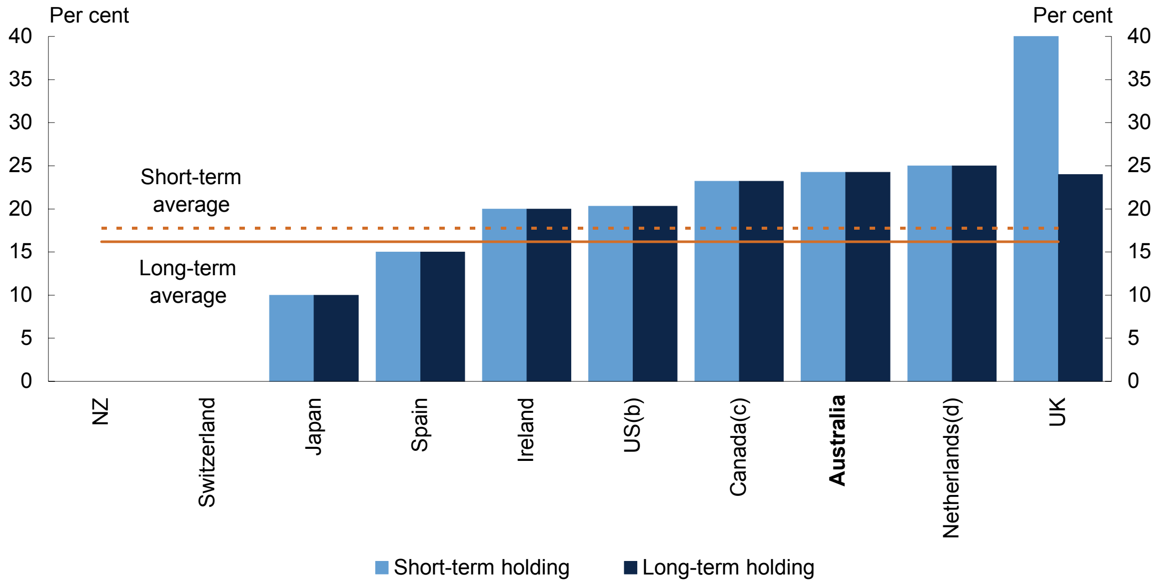
Capital gains are taxed in many different ways around the world. New Zealand does not impose CGT and of those that have a CGT regime some have a stepped rate (as the holding period increases the tax rate decreases), some have a flat rate and others (such as Australia and Canada) use a discount system for taxing capital gains (only a proportion of the gain is taxable).

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). Examples of this include gains on the sale of personal property if the taxpayer is a trader in such property; gains from the disposal of land where the intention at the time of purchase was to sell it; and gains on domestic corporate bonds that are accruals taxed (OECD 2004, p 6).

Chart 6.3 provides either the top marginal tax rate or the flat rate, whichever is applicable on capital gains derived by the sale of shares. In the first scenario (short-term) the shares have been held for more than one year but less than two years before sale; while in the second scenario (long-term) the shares have been held for ten years before sale. The tax rates are nominal not effective.

For the short-term holding period, Australia's top marginal tax rate (24.3 per cent) is the third highest of the OECD-10 while for the long-term holding period Australia's rate (24.3 per cent) is the second highest. The comparator country average for the short-term holding period is 17.8 per cent, while the corresponding figure for the long-term holding period is 16.2 per cent. These averages are low because two of the OECD-10 (New Zealand and Switzerland) do not tax capital gains on the sale of particular forms of shares.

Chart 6.3: Top marginal tax rate on capital gains on shares[(a)]
OECD-10, 2005-06



(a) Where relevant based on top marginal income tax rates, short-term holdings are greater than one year but less than two years, long-term holdings are where the shares have been held for 10 years.
(b) The rate includes federal, state and city taxes with the last two being based on Michigan and Detroit.
(c) Cumulative life-time capital gains exemption (C$500,000) under certain conditions. Rate includes national and sub-national taxes, the latter being based on the representative Province of Ontario.
(d) For substantial shareholders (direct or indirect ownership of more than 5 per cent); otherwise exempt.
Source: various, see Chapter 1 (1.4.1).

Some OECD-10 countries provide a capital gains allowance: Canada has a cumulative lifetime capital gains allowance; Ireland and the United Kingdom provide a yearly capital gains allowance; and Japan offers a capital gains allowance depending on the type of asset.

Switzerland does not tax capital gains on shares and the Netherlands only does so for gains on substantial shareholdings (greater than five per cent ownership).

Table 6.2 provides the same comparison for the OECD-30. The results should be treated with care as they only present the capital gains tax treatment on shares and not the taxation of dividends. It shows that for the short-term holding period, Australia's marginal tax rate (24.3 per cent) is the eight highest of the OECD-30 while for the long-term holding period Australia's rate (24.3 per cent) is the seventh highest. The OECD-30 average for the short-term holding period is 15.2 per cent, while the corresponding figure for the long-term holding period is 14.0 per cent. These averages are low because ten of the OECD-30 exempt from taxation capital gains on the sale of particular forms of shares and, as noted earlier, New Zealand does not have a general CGT system.

Of the OECD-30, only two countries (Denmark and the United Kingdom), have a reduced rate for gains on assets held for 10 years compared with assets held for between two to three years. However, the top long-term rate in Australia is significantly lower than the rate applying in Denmark (43.0 per cent) and is only slightly above the rate applying in the United Kingdom (24.0 per cent).

Table 6.2: Top marginal tax rate on capital gains on shares — OECD-30, 2005-06[(a)]

Country	MTR (held more than one year but less than two years)	MTR (held more than 10 years)
Australia	24.3	24.3
Austria	0.0	0.0
Belgium	0.0	0.0
Canada[(b)]	23.2	23.2
Czech Republic	0.0	0.0
Denmark	62.9	43.0
Finland[(c)]	29.0	29.0
France[(d)]	27.0	27.0
Germany	0.0	0.0
Greece	0.0	0.0
Hungary	20.0	20.0
Iceland	10.0	10.0
Ireland	20.0	20.0
Italy[(e)]	12.5	12.5
Japan	10.0	10.0
Korea[(f)]	20.0	20.0
Luxembourg	0.0	0.0
Mexico[(g)]	0.0	0.0
Netherlands[(h)]	25.0	25.0
New Zealand	0.0	0.0
Norway	28.0	28.0
Poland	19.0	19.0
Portugal	0.0	0.0
Slovak Republic	19.0	19.0
Spain	15.0	15.0
Sweden	30.0	30.0
Switzerland	0.0	0.0
Turkey	0.0	0.0
United Kingdom	40.0	24.0
United States[(i)]	20.3	20.3
Average	15.2	14.0

(a) Where relevant based on top marginal income tax rates.
(b) Cumulative life-time capital gains exemption (C$500,000) under certain conditions. Rate includes federal and provincial taxes, the latter being based on the representative Province of Ontario.
(c) The taxpayer may use a maximum presumed acquisition cost of 20 per cent (50 per cent for assets held for 10 years or longer) of the sale price.
(d) There are special exemptions for gains on an interest in a qualifying 'innovative new company'.
(e) Qualified/substantial shareholding in listed company; 40 per cent inclusion in 'other income' taxed at marginal personal income tax rates.
(f) For substantial shareholding of quoted shares and non-substantial holding of unquoted shares.
(g) For quoted shares.
(h) For substantial shareholders (direct or indirect ownership of more than 5 per cent); otherwise exempt.
(i) The rate includes federal, state and city taxes with the last two being based on Michigan and Detroit.
Source: various, see Chapter 1 (1.4.1).

6.4.1 Capital losses and rollover relief

Most of the OECD-10 provide carry forward of capital losses and several allow carry back of capital losses, although in most cases with restrictions (Canada, Ireland, the Netherlands and the United Kingdom). Several countries also allow capital losses to be set off against ordinary income (Canada, the Netherlands, Spain and the United States) but typically only in certain circumstances. Japan allows capital losses to be set off against total income over the next three years but only on the sale of residential property with some restrictions.

Most OECD-10 countries (except Japan and the United States) provide an exemption/rollover (sometimes subject to conditions) from CGT for a capital gain derived from the sale of a principal residence. The United States only taxes gains above US$250,000 (individual taxpayer) and offers deductions for home mortgage interest subject to particular limits.

More generally, all the OECD-10 provide replacement asset and same asset rollover with the exception of Spain, which only provides the former, and New Zealand, which does not have a CGT regime.

Appendix 6.2 provides more detailed information on the taxation of capital gains in the OECD-10 countries.

6.5 INTEREST

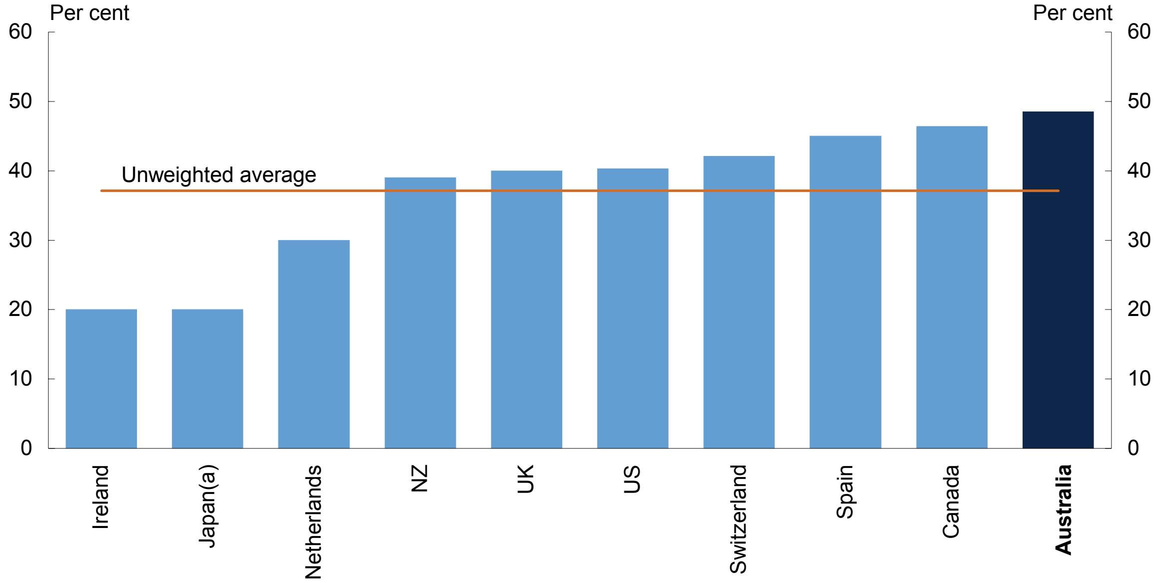
Over half of the OECD-10 treat interest income as ordinary personal income for taxation purposes, namely: Australia, Canada, New Zealand, Spain, Switzerland, the United Kingdom and the United States.[4] Japan and Ireland impose final withholding taxes on interest at source while the Netherlands, which uses a schedular tax system, taxes an imputed return on deposits.

Chart 6.4 shows that Australia's top overall tax rate on interest income from ordinary bank accounts (48.5 per cent) is the highest of the OECD-10 and is around 11 percentage points above the average (37.1 per cent) of the OECD-10.

Many countries in the OECD-10 have a lower tax rate on interest income compared to the personal tax rate on wages and salaries (the exceptions are for example, Australia and New Zealand). This generally arises because social security contributions apply to wage and salary income and not to capital income. For the Netherlands a lower tax rate on capital income is a key feature of their schedular approach to taxation (see Box 6.1), while as noted above Ireland and Japan use a final withholding tax arrangement for interest.

4 In the United Kingdom 'income from savings, including interest arising to a UK-resident individual on an account with a UK bank or building society is normally paid with tax deducted at the lower rate of tax. Basic rate taxpayers do not have to pay additional tax, but higher rates of tax are assessed if applicable on the gross interest' (CCH Tax Handbook 2005-06, pp 9,011).

Chart 6.4: Top marginal tax rate on interest from ordinary bank accounts
OECD-10, 2005



(a) Japan provides an exemption for interest accrued from current bank deposits, however interest from other deposits is taxable.
Source: various, see Chapter 1 (1.4.1).

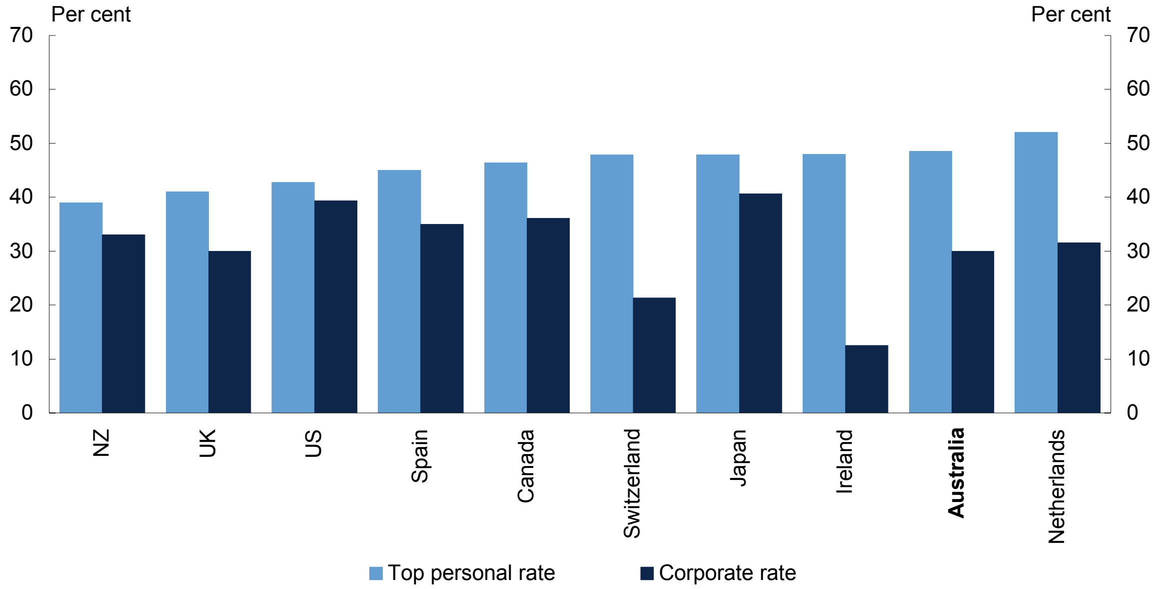
Many of the OECD-10 countries provide exemptions for different types of interest income. For example, the United States provides an exemption for interest earned on bonds issued by US states and municipalities for qualified purposes; Ireland provides an exemption for interest earned on savings certificates issued by the Minister for Finance; the United Kingdom provides an exemption for interest earned in certain qualified savings accounts; and Japan provides an exemption for interest accrued from current bank deposits.

6.6 TOP PERSONAL TAX RATE MEASURED AGAINST CORPORATE TAX RATE

Chart 6.5 illustrates the top marginal personal tax rate for the OECD-10 against the corporate tax rate. None of the OECD-10 have aligned their top marginal personal tax rate with the full statutory corporate tax rate, and all have their top marginal personal tax rate above the full statutory corporate tax rate.

It is important to remember that this is purely a comparison of the marginal tax rate. It is difficult to compare the tax burden as the two systems differ markedly in their tax base and credit system. Further, different rates can apply to corporate income depending on the size of the company and the industry in which it operates.

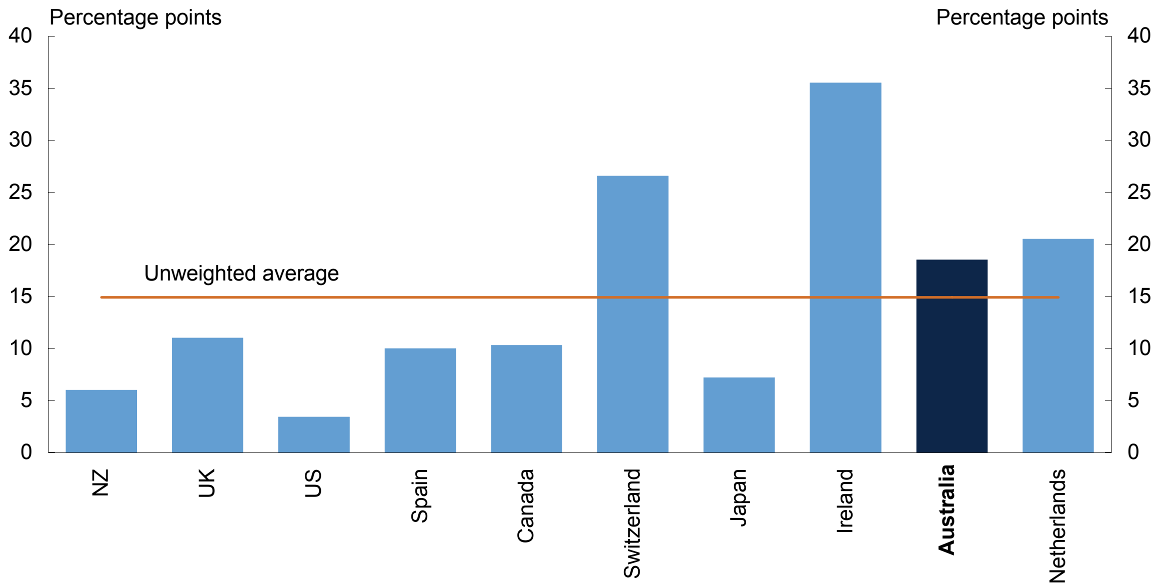
Chart 6.5: Top marginal personal tax rate and full statutory corporate tax rate
OECD-10, 2005



Source: OECD Tax Database (preliminary data); KPMG (various); Deloitte (2006); various country websites.

Chart 6.6 shows the difference between the top marginal personal tax rate and the full statutory corporate tax rate for the OECD-10. Australia has the fourth largest difference (18.5 percentage points) and is around four percentage points above the average (14.9 percentage points) of the OECD-10. The United States has the smallest difference (3.4 percentage points), while Ireland has the largest difference (35.5 percentage points), (see Box 11.1).

Chart 6.6: Difference between top marginal personal tax rate and full statutory corporate tax rate
OECD-10, 2005



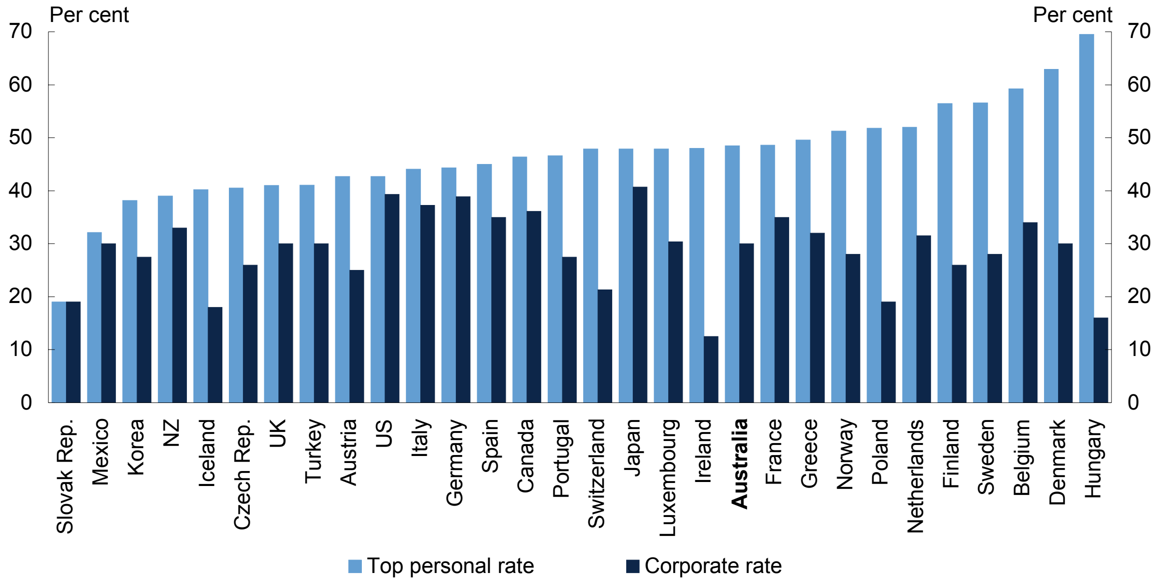
Source: OECD Tax Database (preliminary data); KPMG (various); Deloitte (2006); various country websites.

Chart 6.7 illustrates the top marginal personal tax rate for the OECD-30 against the full statutory corporate tax rate.

Of the 30 OECD countries only one, the Slovak Republic, has aligned its top marginal personal tax rate and full statutory corporate tax rate, although Norway, which has adopted a schedular taxation arrangement, has aligned its corporate tax rate with the tax rate on personal capital income. With the exception of the Slovak Republic, all OECD countries have their top marginal personal tax rate above the full statutory corporate tax rate.

Chart 6.7: Top marginal personal tax rate and full statutory corporate tax rate

OECD-30, 2005

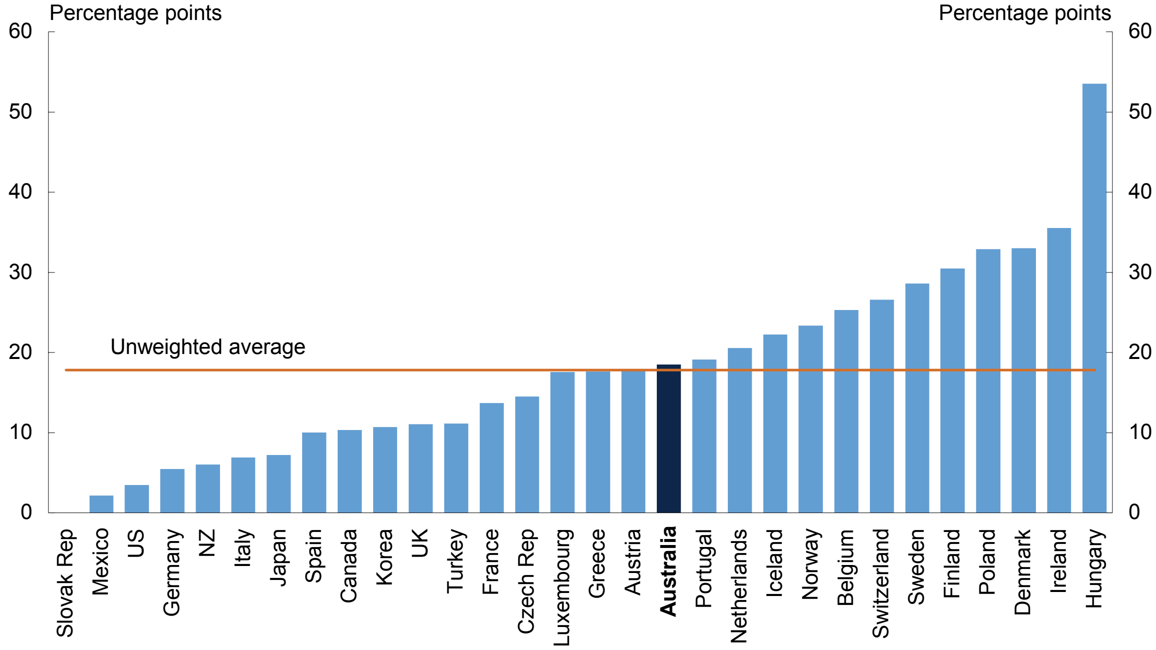


Source: OECD Tax Database (preliminary data); KPMG (various); Deloitte (2006); various country websites.

As shown in Chart 6.8 the average difference between the top marginal tax rate and the corporate tax rate across the OECD-30 is 17.8 percentage points, only slightly below that of Australia (18.5 per cent).

Chart 6.8: Difference between top marginal personal tax rate and full statutory corporate tax rate

OECD-30, 2005



Source: OECD Tax Database (preliminary data); KPMG (various); Deloitte (2006); various country websites.

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APPENDIX 6.1: INTEGRATION OF COMPANY AND INDIVIDUAL TAXATION

Appendix table 6.1.1: Integration of company and individual taxation — OECD-10

Country	Treatment of domestic tax paid by company, at company level	Treatment at individual resident shareholder level
Australia (Full credit system)	Unfranked dividends paid out of foreign source income cannot generally be franked, which means that imputation credits cannot be attached to the dividends to effectively offset tax payable. At the domestic level, however, franked dividends are grossed up and carry imputation credits. Therefore, currently, there is a disincentive to invest offshore through Australian companies.	Unfranked dividends paid out of foreign source income cannot generally be franked, which means that imputation credits cannot be attached to the dividends to effectively offset tax payable. At the domestic level, however, franked dividends are grossed up and carry imputation credits. Therefore, currently, there is a disincentive to invest offshore through Australian companies.
Canada (Credit system)	There is no specific attaching or tracking of credits. Credits at shareholder level are intended to approximate tax that arises at the company level.	Dividends received from taxable Canadian companies are grossed up by 25 per cent of the dividend and a credit is then given for two-thirds of the grossed up amount (or 13.33 per cent of the gross taxable dividend). This is intended to approximate the amount of tax previously paid by the distributing company. No refund or carry-forward of credits is available. Dividends from the accumulated tax free portion of capital gains may be distributed tax free. This attempts to maintain the tax benefit that would be available on a direct investment.
Ireland (Classical system)	Dividends are exempt from tax in the hands of the recipient. There is neither a withholding tax nor a credit system. No capital gains on individual level.	Dividend withholding tax of 20 per cent applies, subject to a broad range of exemptions.
Japan (Classical/reduced rate)	Dividends received from consolidated (wholly-owned) subsidiaries or affiliated corporations are effectively offset by a 'dividends received' deduction equivalent to 100 per cent of the dividends received. A deduction for only 50 per cent of the dividends received is available when dividends are received from non-affiliated corporations. The dividends received deduction is reduced for interest expenses attributable to the acquisition and holding of shares, other than shares in consolidated subsidiaries. In effect, interest expenses attributable to the acquisition and holding of shares are not deductible for corporate income tax purposes.	Generally, dividends from Japanese corporations are subject to Japanese withholding tax of 20 per cent. However, the withholding tax rate applied to dividends from listed Japanese corporations paid by a Japanese paying agent (securities company or trustee company in Japan) is currently reduced to 10 per cent (the rate of 10 per cent is applicable for dividends paid until 31 March 2008). For dividends paid on or after 1 April 2008, the rate of 20 per cent (including local tax) would be applied where the recipient is an individual who does not own 5 per cent or more of the issued shares of such a listed Japanese corporation. Dividends from unlisted shares and dividends for shareholders who own 5 per cent or more of listed shares are included in taxable income and taxed at progressive rates (maximum of 50 per cent including local tax). In such cases, withholding taxes assessed on dividends are creditable against income tax liabilities. In addition, taxpayers may credit 12.8 per cent (including local tax) on the first ¥10 million of dividends received and 6.4 per cent (including local tax) on any excess as a special dividend credit. Interest on borrowings for the acquisition of shares on which dividends were paid may be deducted from the gross amount of dividends.

Appendix table 6.1.1: Integration of company and individual taxation — OECD-10 (continued)

Country	Treatment of domestic tax paid by company, at company level	Treatment at individual resident shareholder level
Netherlands (Classical/imputed rate)	Dividends distributed to resident shareholders are subject to a withholding tax of 25 per cent (or exempt if participation exemption applies).	Dividends fully taxable to resident individual shareholders at progressive tax rates up to 52 per cent, when the shareholding belongs to the enterprise of the individual. A flat tax rate of 25 per cent applies if the individual owns a substantial interest (5 per cent or more) in the distributing company. An annual net rate of 1.2 per cent on the value of the shares, where applicable related debt(s) may be offset against the value, applies if the shares held by the individual resident are characterised as regular personal assets and not as business assets or part of a substantial interest. This imputed return method applies irrespective of the income realised on the shares. Withholding tax levied on distributions is creditable against tax payable. Excess withholding tax is refundable.
New Zealand (Credit system)	In broad terms, imputation credits arise for company tax paid and for imputation credits attached to dividends received by the company (such as standard imputation credits and credits for foreign dividend withholding which is payable at the time a foreign source dividend is received). A 'top up' withholding tax is levied if dividends paid to resident individuals are not fully imputed.	Taxable dividends are grossed up to include credits attached. Credits may be used to offset the taxpayer's tax liability. Excess imputation credits are non-refundable and are carried forward by individual shareholders and converted to losses in the case of trustee or corporate shareholders. Other credits (for example in respect of foreign dividend withholding tax) and the 'top up' withholding tax are refundable.
Spain (Credit system)	When a company's income includes dividends from Spanish resident companies, 50 per cent will be deducted from the gross tax due corresponding to the dividends. The tax credit is 100 per cent when the dividends come from entities in which the interest is at least 5 per cent owned uninterruptedly in the year prior to the distribution date. Withholding on dividends applied when the tax credit is 50 per cent. No withholding when the tax credit is 100 per cent.	Dividends to resident individual shareholders are taxable, depending on the tax rate of the personal circumstances of the shareholder.
Switzerland (Classical/reduced rate)	There is no integration relief with regard to domestic tax paid at company level.	Basically, dividends received are taxable as ordinary income. Some cantons such as Appenzell Innerrhoden, Obwalden, Nidwalden, Lucerne and Schaffhausen provide a reduced tax rate for income deriving from a substantial participation in a resident company.
United Kingdom (Credit)	United Kingdom resident companies pay corporation tax by reference to their corporation tax self-assessment tax returns. Large companies are required to pay corporation tax by means of quarterly instalments where the first instalment is due 6 months and 13 days after the start of the accounting period. Smaller companies pay tax 9 months and 1 day after the end of the relevant accounting period.	Dividends paid by the United Kingdom resident companies are paid with a 10 per cent non-refundable tax credit. No withholding tax applies to dividends paid from a United Kingdom tax resident company. The United Kingdom tax resident individual shareholder is then taxed on the grossed up dividend (being the dividend received multiplied by 100 over 90) at either 32.5 per cent (less the 10 per cent notional tax credit, giving an effective rate of 25 per cent) or 10 per cent (less the 10 per cent notional credit, resulting in no further liability) depending on the individual's level of total income.
United States (Reduced rate)	No credits for tax paid at the company level can be imputed to shareholders. No domestic withholding tax on dividends paid.	Qualifying dividends taxed at the same rate as long-term capital gains (currently 15 per cent — see note). Other dividends fully taxable to resident individual shareholders at marginal rates. Note: Under current law, the preferential rate of qualifying dividends ends for years beginning in 2009.

Source: various, see Chapter 1 (1.4.1).

APPENDIX 6.2: TAXATION OF CAPITAL GAINS

Appendix table 6.2.1: Taxation of capital gains — OECD-10

Country	Treatment of gains	Capital losses	Rollover relief
Australia Personal income tax Separate taxation No capital gains allowance	**Shares** For shares held less than one year capital gain is included in assessable income, and for shares held more than one year a discounted capital gain (50 per cent) is included. Taxed at marginal tax rate. **Corporate bonds** Same treatment as shares. **Principal residence** Exempt (partial capital gains inclusion to the extent used for business or rent). **Business assets** Non-depreciable assets held greater than one year receive a 50 per cent discount and are included in assessable income. There are also four small business concessions: total exemption for gains on small business assets held for at least 15 years if taxpayer is at least 55 years old and retiring, or permanently incapacitated; the 50 per cent active asset reduction which provides a 50 per cent reduction of a capital gain; retirement exemption (A$500,000 lifetime limit) available for gains on small business assets; small business rollover which provides a deferral of a capital gain if a replacement asset is acquired. Depreciable assets are included in business income and taxed at marginal (personal) rates. Gains or losses resulting from the sale of such assets (depreciation recapture) are taxed at marginal (personal) rates. Building depreciation is the exception to the above recapture and reduces the cost base of the land/building with the subsequent gain or loss on disposal treated as a capital gain or capital loss.	Capital losses on collectables can only be deductible from capital gains on collectables. No capital losses on personal use assets. Losses other than capital losses cannot be deducted against capital gains. Capital losses may be carried forwards indefinitely but cannot be carried backwards.	**Same asset rollover** Rollover relief is available on asset transfer between spouses in the event of a marriage breakdown. **Replacement asset rollover** Rollover relief is available for the exchange of shares in an original company for shares in the new company in the event of a merger or takeover. Rollover relief is available for ‘business asset for business asset transactions’ for: small business replacement assets; assets compulsorily acquired, lost or destroyed; strata title conversions; scrip for scrip exchanges; and renewal or surrender of statutory licences. Rollover relief is provided where assets of a sole trader (or partnership) business are transferred to a company wholly owned by the sole trader.

Appendix table 6.2.1: Taxation of capital gains — OECD-10 (continued)

Country	Treatment of gains	Capital losses	Rollover relief
Canada Personal income tax Separate taxation Cumulative life-time capital gains allowance of C$500,000 for gains on: (1) qualified small business shares, or (2) qualifying farm property.	**Shares** Half (50 per cent) inclusion in net taxable capital gains and taxed at marginal (personal) rates. **Corporate bonds** Same treatment as shares. **Principal residence** Exempt **Business assets** For depreciable assets, excluding recapture, and non-depreciable assets, half (50 per cent) inclusion in net taxable capital gains and taxed at marginal (personal) rates. Full inclusion in business income of recapture amount is taxed at marginal (personal) rates.	Capital losses on listed personal property are deductible only against capital gains on listed personal property. Fifty per cent of capital losses on shares and/or debt of a qualifying small business corporation can be deductible against capital gains and taxable income from any source ('allowable business investment loss' rules). Ordinary business losses can be deductible against income from any source, including taxable capital gains. Capital losses may be carried forwards indefinitely and carried backwards for three years.	**Same asset rollover** Rollover relief is available on share asset transfer between spouses. **Replacement asset rollover** Rollover relief and deferral is available under certain conditions where proceeds from the sale of a small business corporation are invested in another eligible small business corporation. Rollover relief is available for dispositions of real property held for business purposes, if proceeds are reinvested in replacement property within the specified timeframe. Rollover relief is available for 'business asset for share' exchanges if the taxpayer receives shares, cash or other property, in exchange for business assets.
Ireland Capital gains tax Joint or separate taxation Capital gains allowance of €1,270 against net capital gains.	**Shares** Included in net capital gains and taxed separately at 20 per cent flat rate. Special 40 per cent rate applies to gains on shares deriving their value from certain land developments. **Corporate bonds** Included in net capital gains and taxed separately at 20 per cent flat rate. **Principal residence** Exempt, but gains on residence tied to development of the property are taxed at 20 per cent flat rate. **Business assets** Included in net capital gains, taxed at 20 per cent flat rate. Recapture of depreciation allowances is disregarded unless a loss is incurred (in which case recapture lowers the allowable loss). Exemption of up to €500,000 where business is sold upon retirement of owner (if aged at least 55) and includes gains on land, plant, machinery used in the business if sold at same time and to same person.	Capital gains on certain disposals of development land (subject to separate capital gains tax at 40 per cent rate) are ring-fenced from other capital losses. Otherwise, there is pooling of capital gains and capital losses. Capital losses cannot be deducted against other forms of income or gains. (Capital losses deducted only against capital gains.) Losses other than capital losses cannot be deducted against capital gains. Capital losses may be carried forwards indefinitely and if a capital loss arises in the fiscal year in which a taxpayer dies, the capital loss may be carried back three years (on a LIFO basis).	**Same asset rollover** Rollover relief is available on asset transfer between spouses. **Replacement asset rollover** Rollover relief is available on 'share for share' exchanges in a business reorganisation. Rollover relief is available on transfer of a business to a company in exchange for shares.

Appendix table 6.2.1: Taxation of capital gains — OECD-10 (continued)

Country	Treatment of gains	Capital losses	Rollover relief
Japan Personal income tax Separate taxation Various capital gains allowance depending on type of asset.	**Shares** Unquoted shares are taxed separately at 20 per cent flat rate and quoted shares may be taxed separately at 20 per cent flat rate (special tax rate of 7 per cent, to 2007) or withholding at 1.05 per cent flat rate applied to gross proceeds. **Corporate bonds** Separate taxation at 20 per cent flat rate. **Principal residence** If held greater than ten years, first ¥60 million gain taxed at 10 per cent flat rate and the excess taxed at 15 per cent flat rate. If held greater than five years (but less than ten), separate taxation at 20 per cent flat rate on gains not greater than ¥40 million, 25 per cent rate for gains in excess of ¥40 million.	There is separate pooling of capital gains and capital losses on securities (taxed separately at flat rate), real property held 'short and long-term', and other assets. Capital losses cannot be deducted against other forms of income or gains, except capital losses on the sale of residential property may be deducted from total income of next three years (limited to years in which total income is not greater than ¥30 million) under certain conditions. Non-capital losses may be set off against net capital gains on assets other than securities and real property. Capital losses cannot be carried forwards or backwards on securities, land or buildings, but in certain cases may be carried forwards on quoted shares to offset gains on quoted shares.	**Replacement asset rollover** Rollover relief is available on 'share for share' exchanges, for corporate acquisitions, if shares of acquiring company are recorded at the same book value as shares of acquired company given in exchange. Rollover relief is available on 'business asset for business asset' transactions, for exchange of land, buildings, machinery and equipment, ships, owned not less than one year, in return for similar asset held by other person not less than one year.
Netherlands Personal income tax Separate taxation No capital gains allowance	**Shares** Exempt, except for a 25 per cent flat rate on substantial shareholding (direct or indirect ownership of 5 per cent or more of the total issued share capital, or 5 per cent or more of capital of a particular class of shares). **Corporate bonds** Not taxed, except for gains held as part of a substantial shareholding. **Principal residence** Exempt, provided the residence is not used as business asset. **Business assets** Gains from the sale of business property are taxed as business income at marginal (personal) rates.	There are no restrictions on capital losses against capital gains. Capital gains and capital losses can be aggregated on substantial shareholdings (included in Box 2). Capital losses on substantial shareholdings may be deducted against any other income from a substantial shareholding (for example interest, dividends). Twenty-five per cent of excess capital losses on substantial shareholdings may be deducted against tax on employment income. Residual excess capital losses may be carried backwards or forwards. Box 2 investment losses may be deducted against Box 2 capital gains. Capital losses of substantial shareholdings may be carried forwards indefinitely or carried backwards for three years.	**Same asset rollover** Rollover relief is available when business assets are sold to an employee or member of the same partnership. **Replacement asset rollover** Rollover relief is available, under certain conditions, for gains on substantial shareholdings. Rollover relief is available if the proceeds from the sale of a business asset are invested within three years in another business asset. Rollover relief is available on the transfer of a business asset to a corporation in exchange for newly issued shares.

Appendix table 6.2.1: Taxation of capital gains — OECD-10 (continued)

Country	Treatment of gains	Capital losses	Rollover relief
New Zealand Personal income tax Separate taxation No capital gains allowance	**Shares** Not taxed. **Corporate bonds** Accrual taxation at marginal (personal) rates. (Expected gains taxed on accrual basis, while unanticipated gains/losses taxed on realisation.) **Principal residence** Not taxed. **Business assets** Not taxed, except for certain business assets that are held for resale (for example land, personal property acquired with intention of resale). Note: New Zealand does not have a capital gains tax regime but it taxes some income akin to capital gains under the normal income tax provisions.	There are no restrictions on capital losses against capital gains. All corporate bonds are treated equivalently under accrual rules (no separate pooling of capital gains and capital losses). Losses on bonds are fully deductible against current income. Net capital gains taxed as part of personal income may be offset by other losses. Capital losses may be carried forwards indefinitely.	None
Spain Personal income tax Joint or separate taxation No capital gains allowance	**Shares** Shares held less than one year are included in net taxable capital gains and taxed at marginal (personal) rates, and shares held for at least one year are taxed separately at 15 per cent flat rate. **Corporate bonds** Same treatment as shares. **Principal residence** Exempt, if owner is at least 65 years of age. Rollover if proceeds invested in new primary house (partial relief for partial reinvestment). **Business assets** Capital gains/losses realised on business assets are included in ordinary business income, taxed at marginal (personal) rates. Recapture of depreciation with reference to either actual depreciation deductions or minimum depreciation allowances.	Separate treatment of short-term capital gains and capital losses (on securities held less than one year), and long-term capital gains/capital losses. Short-term capital losses may only be set off against short-term capital gains of the same year and long-term capital losses may only be set off against long-term capital gains of the same year. Excess short-term capital losses, after set-off against short-term capital gains, may be deducted against 10 per cent of other net income excluding long-term capital gains. Business losses are deductible against net short-term capital gains and taxed as ordinary income. Unused short-term capital losses may be carried for four years to be set off against short-term capital gains or 10 per cent of other net income excluding long-term capital gains. Unused long-term capital losses may be carried for four years to be set off against long-term capital gains.	**Replacement asset rollover** Rollover relief is available for gains on participation in a qualifying collective investment institution if reinvested in similar participation.

Appendix table 6.2.1: Taxation of capital gains — OECD-10 (continued)

Country	Treatment of gains	Capital losses	Rollover relief
Switzerland Capital gains tax Joint taxation No capital gains allowance	**Shares** Exempt **Corporate bonds** Exempt **Principal residence** Exempt **Business assets** Movable business property is included as ordinary business income, taxed at the marginal (personal) rates. Immovable business property is taxed by certain cantons as extraordinary business income at marginal cantonal (personal) rates. Recapture of depreciation by cantons following monistic system and no recapture by cantons following dualistic system.	No federal capital gains tax on private movable or immovable property (federal tax only on capital gains or losses on business assets). Capital gains tax on private immovable property at the cantonal level. In some cantons, business losses may be set off against capital gains on private immovable property.	**Same asset rollover** Joint taxation is available for spouses. **Replacement asset rollover** Rollover relief is available to 'business asset for business asset' transactions. Rollover relief is available for 'business or business asset for share' exchanges.
United Kingdom Capital gains tax Separate taxation Capital gains allowance of £8,200 (applied against total net taxable capital gains). Note: In the 2006 Budget, the United Kingdom Government announced it would increase the capital gains allowance for individuals and most trustees.	**Shares** Included in total net taxable capital gains taxed at top marginal personal rate on savings income (10 per cent/20 per cent/40 per cent). Total chargeable capital gains for non-business assets equals total taxable capital gains on non-business assets, less taper relief, giving maximum exemption (40 per cent) for non-business assets held more than ten years. **Corporate bonds** Same treatment as shares. **Principal residence** Exempt (subject to conditions). **Business assets** Included in total net taxable capital gains and taxed at top marginal personal rates on saving income (10 per cent/20 per cent/40 per cent). Total chargeable capital gains for business assets equal total taxable capital gains on business assets, less taper relief for business assets. Taper relief provides a maximum exemption of 75 per cent for business assets held longer than two years.	There are generally no restrictions on capital losses against capital gains. Capital gains and capital losses can be aggregated. However, capital losses on disposal to a 'connected person' may be set off only against capital gains on disposal to the same person. Capital losses generally cannot be deducted against other forms of income or gains. However, capital losses on shares in an unlisted trading company may be set off against income of the current tax year or proceeding tax year. Excess income losses (which cannot be set off against income) may be set off against any capital gains, subject to conditions. Capital losses may be carried forwards indefinitely but cannot be carried backwards, except where capital losses arise in year when a taxpayer dies, or in a year where a mineral lease ends.	**Same asset rollover** Rollover relief is available for asset transfers between spouses. **Replacement asset rollover** Rollover relief is available for gains on shares and debentures exchanged under certain reorganisations (including takeovers) to the extent that shares in, or debentures of, the relevant company are received in exchange. Special deferral rule to 'hold-over' gains invested in new shares of qualifying unlisted trading companies. Rollover relief is available for gains on certain business assets (primarily business premises and goodwill) if the proceeds are reinvested in replacement qualifying business assets. Rollover relief is available for gains on incorporation of a business to the extent that consideration comprises shares in the receiving (that is newly incorporated) company.

Appendix table 6.2.1: Taxation of capital gains — OECD-10 (continued)

Country	Treatment of gains	Capital losses	Rollover relief
United States Personal income tax Joint or separate taxation Capital gains exempt amount of US$250,000 (US$500,000 for married persons filing jointly) for gains on principal residence if owned and occupied by taxpayer as principal residence for greater than two years over prior five years.	**Shares** Shares held for not more than one year are included in net short-term capital gains and are taxed at marginal (personal) rates. Shares held longer than one year are included in net long-term capital gains and taxed separately at flat 15 per cent tax rate (currently reduced to 5 per cent for taxpayers with marginal personal rate of 10 per cent or 15 per cent for ordinary tax purposes). **Corporate bonds** Same treatment as shares. **Principal residence** Taxable at marginal (personal) rates. **Business assets** Subject to some exceptions, part of gain/loss measured from depreciable personal property, excluding recapture, is included in net capital gains taxed at lower capital gains tax rate. Subject to some exceptions, the total gain/loss measured from depreciable real property, without recapture, is included in ordinary business income taxed at marginal (personal) rates. Recapture of past depreciation allowances claimed is included in ordinary business income, taxed at marginal (personal) rates.	No restrictions on capital losses against capital gains. Capital gains and capital losses can be aggregated. Excess capital losses on securities held for not more than one year may be set off against net capital gains on securities held longer than one year; excess capital losses on securities held more than one year may be set off against net capital gains on securities held for not more than one year. Excess capital losses (which cannot be setoff against capital gains) of up to US$3,000 may be set off against ordinary income. Losses other than capital losses cannot be deducted against capital gains. Capital losses may be carried forwards indefinitely.	**Same asset rollover** Joint taxation is available for spouses. **Replacement asset rollover** Rollover relief is available for gains on certain small business stock rolled over into purchases of other eligible small business stock. Rollover relief is available for gains on business assets exchanged for like-kind assets. (This rollover relief also applies to gains on real property (land) held for investment purposes, but not to gains on corporate shares/securities.)

Source: various, see Chapter 1 (1.4.1).