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Annex IX

Database on effective corporate tax rates – Detailed requirements

Provision of effective tax rates in the context of an enlarged European Union and related supporting services

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1. METHODOLOGY

The database shall be constituted on the basis of the commonly used King and Fullerton approach as extended by Devereux and Griffith. It shall include costs of capital, marginal tax rates and average tax rates computed according to the methodology annexed to these technical specifications[1].

2. COVERAGE

Time series of corporate effective tax rates should be made available for the EU27, for the period 1998-2016.

Time series of corporate effective tax rates should be made available for the candidate countries for the years 2007-2016. The study should include the candidate countries (Croatia, FYROM and Turkey) as well as Switzerland, Norway, USA, Canada and Japan for the period 2005-2016.

Two kinds of corporations shall be considered: large corporations and incorporated SMEs. The database shall cover particular rates and regimes for SMEs, however an analysis of special tax incentives is not required. With respect to SMEs, the data to be provided are limited to domestic effective tax rates.

3. DOMESTIC INVESTMENT

Effective tax rates shall be made available both at the level of the company and at the level of the shareholder. Costs of capital, marginal and average tax rates will be made available both without and with taking into account the personal taxation of the shareholder. The marginal rate shall be based on the so-called fixed r-case (uniform after tax rate of return). Sensitivity analysis is required in order to investigate the impact of the assumptions and of some elements of the tax systems on the results.

The effective tax rates shall respect the following assumptions and restrictions:

a) Assumptions about industry, assets, financing and shareholders:

- Sectors: manufacturing and sensitivity analysis for service sectors.
- Types of assets: intangibles, industrial building, machinery, financial assets, inventories.
- Source of finance: new equity, retained earnings, debt (only bond issues).
- Categories of shareholders: qualified top-rate taxpayer, zero taxpayer. (applies to the domestic case only)
- Weights for assets, and modes of financing in the base case identical for all countries.

[1] See Annex VIII Devereux/Griffith 1999: The taxation of discrete investment choices

- True economic depreciation for intangibles, buildings and machinery, where no year is specified: the same for all countries.

Inflation rate: the latest available average annual rate for the EU27.

b) Tax variables

1. Corporation tax:
   - Statutory tax rates
   - Tax system: tax credit for corporation tax (in the case of an imputation system).
2. Local profit taxes: national averages for the base scenario and sensitivity analysis.
3. Non-profit taxes, real estate and property taxes.
4. Taxation of individuals (applies to the domestic case only)
   - Income taxation of dividends, interest and capital gains upon the disposal of shares (maximum shareholder tax rate to be considered).

c) Elements of the tax base

1. Depreciation rules (buildings, intangibles, machinery) taking into account the first year convention (special depreciation incentive for new investments).
2. Valuation of inventories FIFO, LIFO or weighted average

From the assumptions about the types of assets, the source finance, and the tax position of the suppliers of finance, there are 30 possible combinations of assets, financing and shareholders. In this case, 30 rates have to be presented per Member State. In addition, keeping the comparison of the effective rates for all countries manageable, means (weighted averages) for each type of asset, each source of finance, each type of shareholder, and an overall mean considering all combinations will be presented.

4. CROSS-BORDER INVESTMENT

As in the domestic case, the effective tax burden shall be presented at the level of the company, but not at the level of the shareholder. The database shall include costs of capital, marginal and average indicators.

The case is that of a parent company making an investment in a subsidiary. The parent owns 100% of the subsidiary. There is complete repatriation of the profit of the subsidiary to the parent. Under these assumptions, profits resulting from the investment may be taxed at two different levels: the level of the subsidiary and that of the parent.

Both the subsidiary and the parent may be financed by new equity, retained earnings and debt and all financing combinations need to be covered.

The cross-border effective rates shall be based on the same investment definition and shall be presented in a similar way as for the domestic case, i.e. with a breakdown for each type of asset, each source of finance, and an overall mean considering all combinations.

Concerning the tax variables and the tax bases, the underlying model shall include the national provisions for the taxation of foreign sources of income as well as the relevant provisions of the double tax treaties (withholding taxes, tax credits, equalisation taxes, double taxation on dividends and interests, etc.).

For the cross-border case, the underlying model shall examine the tax effects of investment projects carried out by a subsidiary in a different tax jurisdiction from the parent company. In these cases, the underlying model shall take into account the fact that payments of dividends and interest from the subsidiary to the parent may be subject to withholding taxes levied by the country in which the subsidiary is located and receipts of dividends and interest from foreign subsidiaries may be subject to further taxation in the country where the parent is located. Also bilateral tax treaties between two countries may apply. The model should specify and calculate the cross-border rates taking into account withholding taxes, foreign tax relief systems (exemption, deduction, credit) and tax treaty clauses that apply in each country-pair.