kpmg

KPMG's International Corporate Tax Rate Survey 2002

Corporate tax rate survey - January 2002

The KPMG International Tax and Legal Center is pleased to present its annual survey of corporate tax rates. The survey (incepted in 1993) now covers 68 countries, including the 30 member countries of the Organisation for Economic Co-operation and Development (OECD), and many countries in the Asia Pacific and Latin American regions. Local KPMG tax offices located in these countries have contributed to this survey.

Produced by the KPMG International Tax and Legal Centre based in Amsterdam, supplied by Dr. Pierre-Olivier Gehriger, Tax Partner, KPMG Zurich.

Findings[1]

Tax rates continue to fall worldwide, EU and OECD still leading the way

Several EU member countries have made tax rate reductions and, in particular, Luxembourg cut its rate by nearly 19% to 30.38% (the 2001 rate was 37.45%). As expected, Ireland reduced its rate again from 20% to 16% bringing the Irish government that much closer to fulfilling its promise of a tax rate of 12.5% by 2003.

Other European countries such as France, Greece, Netherlands and Portugal have also made tax cuts which contributed to an average rate for the EU of 32.53% in 2002 (the 2001 average was 33.68%[2]).

For a second year, no OECD countries raised their corporate income tax rates and twelve members decided to cut their corporate tax rates.

Asia Pacific region and Latin America follow suit

Countries in the Asia Pacific region and Latin America also generally continue to levy lower tax rates on corporate income. While the 16 countries within Latin America that form part of this survey have an average rate for 2002 of 30.2% (representing a slight increase on the 2001 average rate, which was 30.14% (as restated) due to a rate increase by the Chilean government), the Mexican government has recently announced plans to cut the corporate tax rate from 35% to 32% over the next three years.

With respect to the Asia Pacific region, the average rate is 31.05% for 2002 as compared to 31.28% (as restated) for 2001.

Corporate tax rates only part of the equation

Although the survey shows an interesting "snap shot" of the corporate tax rates around the world, it should be remembered that a low tax rate does not necessarily

[1] Due to the slight differences in the countries surveyed, 2001 comparison averages have been adjusted. It should also be noted that the information contained within this survey was obtained during December 2001 and January 2002.

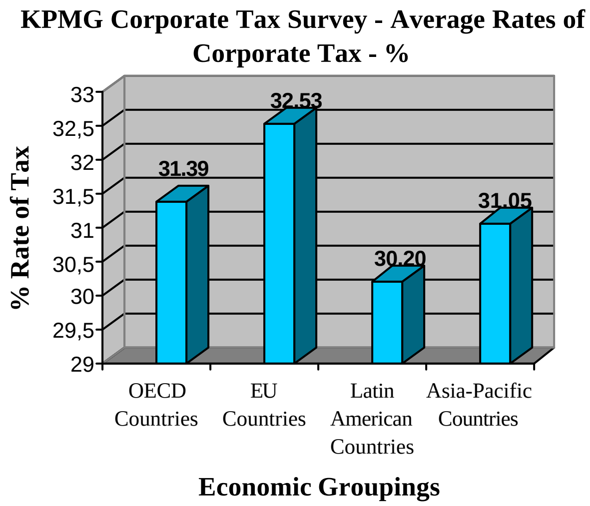
[2] The 2001 average tax rate for the EU has been restated from 33.75% to 33.68% due to an adjustment to the German tax rate from 39.36% to 38.36% to reflect updated information in respect of the average multiplier required to calculate trade taxes.

mean a low tax burden. For individual countries, the tax rate must be applied to the tax base in order to measure tax burdens, and in order to secure tax revenues, a cut in one tax often leads to an increase in others. That said, in the absence of harmonized tax bases, a comparison of tax rates can give a useful impression of international corporate tax burdens.

Other factors to consider when comparing tax burdens include:

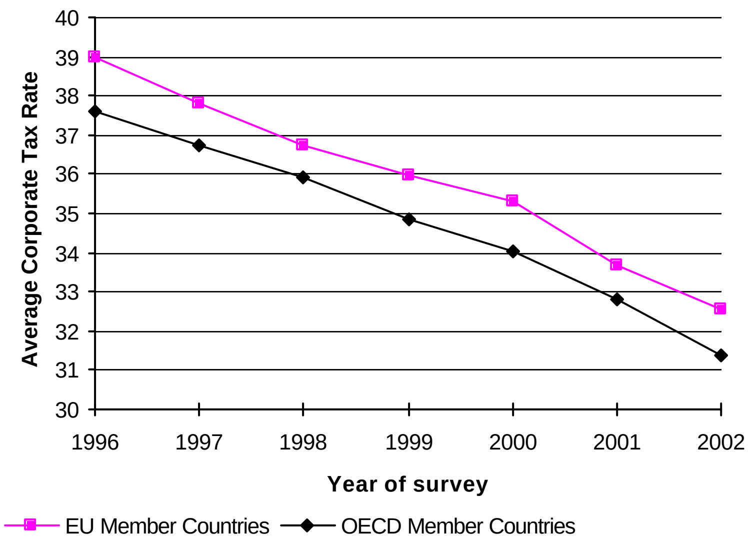
- indirect taxes;
- other financial inducements for domestic investment; and
- the sophistication of the tax law.

Table 1 — Average Corporate Tax Rates at 1 January 2002



kpmg

Table 2 — OECD and EU Average Corporate Tax Rates – 1996-2002



KPMG's Corporate Tax Rates Survey — January 2002

OECD ◆	EU ◆	Asia Pacific ◆	Latin America ◆	Country	1 Jan 2001 (%)	1 Jan 2002 (%)		Notes
			◆	**Argentina**	35	35		1
◆		◆		**Australia**	34	30	↓	2
◆	◆			**Austria**	34	34		3
		◆		**Bangladesh**	35	35		4
◆	◆			**Belgium**	40.17	40.17		5
			◆	**Belize**	25	25		6
			◆	**Bolivia**	25	25		7
			◆	**Brazil**	34	34		8
◆				**Canada**	42.1	38.6	↓	9
			◆	**Chile**	15	16	↑	10
		◆		**China**	33	33		11
			◆	**Colombia**	35	35		12
				Croatia	20	20		13
				Cyprus	23/28	23/28		14
◆				**Czech Republic**	31	31		
◆	◆			**Denmark**	30	30		15
				Dominican Republic	25	25		
			◆	**Ecuador**	36.25	36.25		16
			◆	**El Salvador**	25	25		17
		◆		**Fiji**	34	32	↓	18
◆	◆			**Finland**	29	29		
◆	◆			**France**	35.33	34.33	↓	19
◆	◆			**Germany**	38.36	38.36		20
◆	◆			**Greece**	25/35/37.5	25/35	↓	21
			◆	**Guatemala**	31	31		22
			◆	**Honduras**	25	25		23
		◆		**Hong Kong**	16	16		24
◆				**Hungary**	18	18		25
◆				**Iceland**	30	18	↓	26
		◆		**India**	39.55	35.7	↓	27
		◆		**Indonesia**	30	30		28
◆	◆			**Ireland**	20	16	↓	29
				Israel	36	36		30
◆	◆			**Italy**	40.25	40.25		31
◆		◆		**Japan**	42	42		32
◆		◆		**Korea, Republic of**	30.8	29.7	↓	33
◆	◆			**Luxembourg**	37.45	30.38	↓	34
		◆		**Malaysia**	28	28		35
◆			◆	**Mexico**	35	35		36
◆	◆			**Netherlands**	30/35	29/34.5	↓	37
◆		◆		**New Zealand**	33	33		38
◆				**Norway**	28	28		39
		◆		**Pakistan**	34.65	35	↑	40
			◆	**Panama**	37	37		41

		◆		Papua New Guinea	25	25		42
		Asia	Latin					
OECD	EU	Pacific	America	Country	1 Jan 2001	1 Jan 2002		Notes
◆	◆	◆	◆		(%)	(%)		
			◆	Paraguay	30	30		43
			◆	Peru	30	30		44
		◆		Philippines	32	32		45
◆				Poland	28	28		46
◆	◆			Portugal	35.2	33	↓	47
				Romania	25	25		48
				Russia	35/43	24	↓	49
		◆		Singapore	25.5	24.5	↓	50
◆				Slovak Republic	29	25	↓	
				South Africa	37.8	37.8		51
◆	◆			Spain	35	35		52
		◆		Sri Lanka	35	42	↑	53
◆	◆			Sweden	28	28		54
◆				Switzerland	24.7	24.5	↓	55
		◆		Taiwan	25	25		56
		◆		Thailand	30	30		57
◆				Turkey	33	33		58
				Ukraine	30	30		59
◆	◆			United Kingdom	30	30		60
◆				United States	40	40		61
			◆	Uruguay	30	30		62
			◆	Venezuela	34	34		63
		◆		Vietnam	25/32	25/32		64

Note:

- A simple comparison of tax rates is not sufficient for assessing the relative tax burdens imposed by different governments. The method of computing the profits to which the tax rates will be applied ("the tax base") should also be taken into account.
- The above rates do not reflect payroll taxes, social security taxes, net wealth taxes, turnover/sales taxes and other taxes not levied on income.
- The 2001 effective tax rate for Germany has been restated from 39.36% to 38.36% to reflect updated information in respect of the average multiplier required to calculate trade taxes.
- The 2001 effective tax rate for India has been restated from 38.5% to 39.55% following a retroactive amendment by the India government.

---

1 **Argentina** *(2002 rate = 35%)*: Dividends are non-taxable if the amount distributed does not exceed the corporation's taxable income. The excess will be subject to a withholding tax of 35%. Stock dividends are not subject to withholding taxes. Corporations, including subsidiaries of foreign companies, are taxed at a flat 35% rate. There is a 1% tax on a company's assets (excluding liabilities) that serves as a presumed minimum income tax.

2 **Australia** *(2002 rate = 30%)*: The corporate income tax rate applies to income earned during the period 1 July to 30 June. If a company has approval to use a different year-end for tax

purposes, the period approved must still relate to a 30 June year-end (i.e., year ended 31 December 2002 will generally relate to the year of income in which the accounting periods ends – i.e. 30 June 2003). For the year 1 July 2001 to 30 June 2002 and later income years, the corporate income tax rate is 30%.

3 **Austria** *(2002 rate = 34%)*: Due to restrictions on the deductibility of expenses, the tax base for corporations usually differs from their financial statement profits.

4 **Bangladesh** *(2002 rate = 35%)*: Publicly traded companies are taxed at the rate of 35%. All other companies incorporated in Bangladesh, and branches of banks, financial institutions and other organizations incorporated by or under the laws of a country outside Bangladesh, are taxed at the rate of 40%. A rebate of 10% of tax payable is allowed for publicly traded companies who declare a dividend of at least 25% for the year.

5 **Belgium** *(2002 rate = 40.17%)*: A lower tax rate applies to companies that are owned more than 50% by individuals. The tax rate incorporates a "crisis" levy of 3%. On 9 October 2001, the Belgian Government announced its intention to cut the corporate income tax rate to 33% (33.99% including the "crisis levy") in the near future. However, as at 1 January 2002 no formal steps have been taken in this direction.

6 **Belize** *(2002 rate = 25%)*: A monthly business tax on gross revenues was enacted in July 1998 and at the same time the corporate income tax was abolished. For most companies, the business tax was established at the rate of 1.5%. In April 1999, corporate income tax was re-enacted at a reduced rate of 25% (previously 35%) and the business tax was reduced to 1.25%. Business tax assessed during the year is credited against the corporate income tax liability, and, at the end of the tax year, any excess corporate tax liability is cancelled provided a corporate income tax return is filed. Business tax remains as the final tax, and any excess over the corporate tax liability is claimed as an expense in the following year's corporate tax filing. Approved losses, based on corporate tax filings, can be offset against 20% of the monthly assessment to business tax.

7 **Bolivia** *(2002 rate = 25%)*: The main corporate tax levied by the central government is the annual profit tax ("IUE") currently levied at a rate of 25%. The amount settled with the authorities for this tax is considered as an on-account payment towards the subsequent year's 3% Transactions Tax. An effective tax rate of 12.5% applies to payments of income/net dividends to non-resident parent companies. Certain activities that are partly performed in Bolivia by foreign companies' branches or agencies are subject to different tax rules. Such activities include transportation, international news agencies, foreign insurance companies and distribution of movies and videotapes. An effective rate of 5.5% is applied to gross income arising from these activities. When paid or credited, the amount resulting from applying this rate is treated as follows: The amount resulting from applying 4% can be offset against any liability arising form the 3% Transactions Tax. The balance of 1.5% may not be used in this way. Where the above-mentioned activities are performed by companies established in Bolivia and these companies contract with foreign companies then a withholding tax of 2.5% will apply on remittances or credits recorded to such foreign companies.

8 **Brazil** *(2002 rate = 34%)*: The 34% rate is the sum of Corporate Income Tax and Social Contribution Tax on Profits. The corporate income tax rate is 25%, which comprises a 15% basic rate plus a surtax of 10% on annual income over BRL 240,000. There is also a Social Contribution Tax of 9% on corporate income. The Social Contribution rate is scheduled to be reduced to 8% from 1 January 2003.

9 **Canada** *(2002 rate = 38.6%)*: Includes federal tax of 26.1% (including surtax) for 2002 plus provincial tax. Depending on the province, the total effective rate for 2002 ranges from 35.2% to 43.1% (27.1% to 38.6% for manufacturers).

10 **Chile** *(2002 rate = 16%)*: During 2001, a new Corporate Tax Rates law was issued. According to this new law, the corporate tax rate will increase from 15% to 17% over a three-year period. This means that corporate income earned in 2002 will be subject to a 16% tax rate; income earned in 2003 will be subject to a 16.5% rate and income earned in 2004 and subsequent years will be subject to a 17% tax rate. The 16% rate for 2002 applies to retained profits. If profits are distributed abroad, the withholding tax rate is 35%, with a credit for the tax previously paid (16%) on undistributed profits. Profits distributed to persons in Chile are subject to a progressive rate applicable to the recipient of the distribution. Profits distributed in Chile to legal entities are not subject to additional tax (besides 16%) until either distributed abroad or to a person.

11 **China** *(2002 rate = 33%)*: This tax rate is applicable to Foreign Investment Enterprises ("FIE") and includes both the state tax rate of 30% and a local tax of 3%. Domestic enterprises are subject to a different set of tax laws and regulations. Please note that the state tax rate of 30% may be reduced to 15% or 24% if the FIE is located in one of the specially designated zones in the PRC and/or engaged in associated operations or projects. In addition, qualified FIE may be entitled to a tax exemption or reduction during a tax holiday period. The local tax of 3% may be waived or reduced by the local government.

12 **Colombia** *(2002 rate = 35%)*: Dividends transferred abroad are subject to a 7% withholding tax. However, this liability will be deferred where the dividends are reinvested in Colombia and will be cancelled completely if such a reinvestment is maintained for at least 5 years. If dividends have not already been taxed in the Colombian corporation, then a withholding of 35% will also apply when such dividends are distributed. There is also a municipal industry and commerce tax on total sales revenues. Rates range from 0.3% up to 1%. The Municipal Industry and Commerce tax is deductible for income tax purposes.

13 **Croatia** *(2002 rate = 20%)*: The Corporate Profit Tax ("CPT") rate is 20%. The CPT rate is lower (25%, 50%, 75% of the prescribed rate) in special "state care" areas and in the Vukovar city area. The CPT rate may decrease with investments (down to 7%, 3% and 0% for investments of 10, 20 and 60 million Kuna respectively) in newly founded Croatian companies. The CPT rate is lower (50% of the prescribed rate) or eliminated (if an investment higher than 1 million Kuna is made in the Free Trade Zone infrastructure) for companies operating in Free Trade Zones. The withholding tax rate is 15% and applies to a range of payments made by Croatian legal entities to foreign legal entities.

14 **Cyprus** *(2002 rate = 23%/28%)*: Sometime in 2002, the corporation tax rate and VAT may be amended and the Defence Fund Contribution abolished. The Government has proposed to reduce the corporate tax rates to a single tax rate of 10%, to abolish the Defence Fund Contribution of 3% and increase the VAT from 10% to 13%.

15 **Denmark** *(2002 rate = 30%)*: Corporations must either make prepayments of corporate tax during the income year or pay a surcharge. There are no local taxes on corporations.

16 **Ecuador** *(2002 rate = 36.25%)*: The 36.25% is the sum of the Corporate Income Tax rate of 21.25% and a 15% employees' profit sharing tax. The Corporate Income Tax rate is 25%. From 1 January 2002, the income tax rate on profits to be reinvested (in corporate assets) in the same company is 15%. The municipal tax is 0.0015% of total assets less current liabilities.

17 **El Salvador** *(2002 rate = 25%)*: A prepayment of 1.5% on gross income is made on a monthly basis. This is compared at the end of the year with the annual income tax liability. There are no other taxes levied on income before tax. Dividends are not taxable.

18 **Fiji** *(2002 rate = 32%)*: In 2002, the corporate tax rate has been reduced to 32% for companies incorporated in Fiji and also companies operating as a branch of a non-resident company. This rate will be further reduced to 30% with effect from 1 January 2003.

19 **France** *(2002 rate = 34.33%)*: For a financial year closed in 2002, the 34.33% rate is made up of the current corporate tax rate of 33.33% plus a 3% (instead of 6% as for the previous year) additional contribution of the corporate tax applicable to all companies. Moreover, a 3.3% social contribution of the corporate income tax is applicable to companies the corporation tax of which exceeds ?763,000. Companies that (i) realize a maximum turnover of ?7,630,000, and (ii) at least 75% of the share capital is continuously owned by individuals or by companies meeting the same conditions are subject to corporate tax at a specific rate of 15% on the portion of the taxable profit that does not exceed ?38,120. Such companies are also exempt from the 3.3% contribution.

20 **Germany** *(2002 rate = 38.36%)*: This rate applies to both retained profits and distributed profits. The rate includes corporate tax at 25% (plus 5.5% solidarity surcharge hereon) and trade tax on income. The trade tax varies from 12.8% to 20.48%, assuming a municipality multiplier (Hebesatz) ranging from 300% to 500% (the average multiplier for 2000 was 389%). Since the trade tax is a deductible item when calculating the corporate income tax, the corporate tax rate is based on the operating profit reduced by the trade tax of 16.28% assuming the average multiplier of 389% is applied.

21 **Greece** *(2002 rate = 25%/35%)*: The 35% rate applies to listed A.E. companies (corporations) and to E.P.E. entities (limited liability companies). The same rate applies to domestic unlisted A.E. companies, banks and credit institutions operating as co-operatives and branches of foreign entities. General Partnerships (OE) and Limited Partnerships (EE) are considered legal entities in Greece and are subject to the corporate tax rate of 25%. A discount of 2.5% is given to companies that settle their corporate tax liability in full when they file their tax returns. A 3% surcharge applies to gross rental income, but the surcharge may not exceed the primary corporate tax.

22 **Guatemala** *(2002 rate = 31%)*: There is an annual company tax for mercantile and farm enterprises that resident companies must pay quarterly. The tax may either be calculated as 3.5% on the total assets or as 2.25% on the gross annual income. Balance sheet or P&L statements of the previous fiscal year must be used for this tax calculation. This payment can be used as a tax credit for any income tax liability arising in the following year. If the company does not generate taxable income in the following year then the prior year payment of annual company tax is treated as a minimum payment of income tax.

23 **Honduras** *(2002 rate = 25%)*: Corporate income tax is levied at a rate of 15% on the first L 200, 000 of taxable income and 25% on any excess over L 200,000. In addition, there is a net assets tax of 0.25% that is calculated on the monetary value of the assets that appear on the balance sheet less the allowances for doubtful accounts and accumulated tax depreciation. The amount of the income tax paid during the previous fiscal year is recognized as a credit against this tax.

24 **Hong Kong** *(2002 rate = 16%)*: The 16% rate applies to Hong Kong sourced profits that are derived by companies carrying-on a business in Hong Kong. Profits derived from qualifying debt instruments, or profits derived from the business of reinsurance of offshore risks as a result of the carrying-on of a business as a professional reinsurer, are subject to 8%, which is one half of the standard rate of 16%. Hong Kong is a special administrative region of the People's Republic of China.

25 **Hungary** *(2002 rate = 18%)*: The tax rate on a corporation's taxable profits is 18%. A local business tax of 2%, based on turnover, is deductible from the corporation's tax base. A 20% withholding tax is imposed on dividends paid to foreign companies unless the recipients re-invest the dividends directly in a Hungarian company. However, most of Hungary's tax treaties reduce the domestic withholding tax to between 5% and 15%. Dividends paid to Hungarian companies are not subject to withholding tax. An 18% withholding tax is imposed on interest and royalties.

26 **Iceland** *(2002 rate = 18%)*: This rate applies to limited liability companies. The rate for partnerships registered as taxable entities has been reduced from 38% to 26%.

27 **India** *(2002 rate = 35.7%)*: A minimum alternate tax is levied at the rate of 7.5% (plus surcharge of 2% of the tax) of the adjusted profits of those companies where the tax payable is less than 7.5% of their book profits (making the effective tax rate 7.65%). Companies paying dividends pay additional income tax at 10% of the amount of the dividend (now 10.2% after surcharge). Foreign companies are taxed at 48%. Non-residents and foreign companies engaged in shipping, air transport, and oil and gas and turnkey power projects are taxed on a deemed profit basis of 7.5%, 5% and 10% respectively (i.e., the effective tax rate for these companies is 3.6%, 2.4% and 4.8% respectively). The surcharge on income tax is payable only by domestic companies. Foreign companies are not required to pay this surcharge.

28 **Indonesia** *(2002 rate = 30%)*: This rate applies to a resident's income over IDR 100 million. Income between IDR 0 - 50 million is taxed at 10%, and income between IDR 50 - 100 million is taxed at 15%. Certain income received by non-residents is taxed at 20%. An additional 20% branch profits tax is imposed on the after-tax profits of a permanent establishment (subject to treaty relief).

29 **Ireland** *(2002 rate = 16%)*: The corporate tax rate of 16% is the standard rate applying to trading income. Under current law, this standard rate will fall to 12.5% from 1 January 2003. A 25% rate applies to passive income and income from certain land dealing activities, mining and petroleum activities. A 12.5% rate is applicable for companies whose total trading income for an accounting period does not exceed ?254,000. Marginal relief will apply where the total of such income is between ?254,000 and ?317,000. These limits will be proportionately reduced where a company has one or more associated companies and/or an accounting period of less than 12 months in duration. A rate of 12.5% also applies to certain shipping operations. A special 10% rate applies to manufacturing companies and qualifying income of IFSC (International Financial Services Centre) and Shannon companies. This special rate will expire between 2003 and 2010 (depending on the type of company in question and when it received approval for the 10% rate) and will be replaced by the then standard rate of 12.5%. Finally, capital gains are taxed at 20%. An adjustment is made to the gain in question in order to take account of the difference in the standard corporate tax rate (16% for the year 2002) and the rate of 20% applying to capital gains.

30 **Israel** *(2002 rate = 36%)*: Financial institutions are subject to a profits tax at the rate of 17% and a payroll tax at the rate of 17%, both of which are deductible for income tax purposes. The effective rate of tax on such corporations is 45.3%. Companies with an "approved enterprise" enjoy reduced rates of tax that vary depending on the national priority zone in which the company is located, the type of incentive scheme applied for and the level of foreign ownership in the company.

31 **Italy** *(2002 rate = 40.25%)*: This rate is comprised of the 36% corporate income tax rate (IRPEG) and the basic 4.25% regional tax (IRAP). IRAP is applied on a different (wider) tax basis from that utilized for the calculation of the corporate income tax (consequently, the effective rate can be higher than the one indicated above). The Italian regions have the right to vary (either increasing or decreasing) the aforesaid 4.25% IRAP rate by up to 1%. The basic IRAP rate for banks and insurance companies will be 4.75% in 2002. In addition, in order to correctly calculate the tax burden for IRPEG purposes, it is necessary to consider the positive consequences of any tax incentives available to the Italian enterprises (e.g. "Legge Tremonti-bis" - temporary tax relief). As to possible changes in the tax rates, it must be noted that according to a new draft bill recently issued, the Italian Government should be granted the power to significantly cut the Italian corporate income tax rates in the next few years. According to the bill, this must be accomplished by reducing the corporate income tax rate (IRPEG) from 36% to 33% and abolishing IRAP (4.25%). Once these rate changes

are enforced (the exact timing is unpredictable at this stage), the total corporate tax rate in Italy will fall from 40.25% to 33%.

32 **Japan** *(2002 rate = 42%)*: Includes corporate income tax (30%), business, prefectural and municipal taxes. The rate shown is the effective tax rate after taking into account the deduction for business tax.

33 **Korea, Republic of** *(2002 rate = 29.7%)*: With effect from 1 January 2002, the corporate income tax rate was reduced by 1% as part of the Korean government's measures to stimulate corporate investment in Korea. Therefore, where taxable income exceeds KRW 100 million then a tax rate of 29.7% (previously 30.8%) will apply (inclusive of resident surtax). For taxable income up to and including KRW 100 million a tax rate of 16.5% (previously 17.6%) will apply (inclusive of resident surtax). In addition, the special surtax on capital gains from the sale of real estate has been abolished with effect from 1 January 2002. An additional 15% tax also used to apply on excessive earnings accumulated by unlisted companies with a net worth of over KRW 10 billion or on companies that were part of a conglomerate. This tax has been eliminated with effect from 1 January 2002.

34 **Luxembourg** *(2002 rate = 30.38%)*: The rate of corporate income tax ("IRC") (including a 4% employment fund contribution) is 22.88%. The 30.38% rate includes municipal business tax at an effective rate of 7.5%, or 6.98% for business undertakings not subject to IRC (although rates vary among regions). From 2002, Municipal tax is no longer deductible for corporate tax purposes or from its own base.

35 **Malaysia** *(2002 rate = 28%)*: Profits from inward reinsurance and offshore insurance are taxed at 5%. Income from a life fund is taxed at 8%. A non-resident is taxed either on 5% of gross shipping or air transport income derived from Malaysia or on that part of the Malaysian gross income computed in the proportion of world-wide profits to world-wide gross income. Income derived by residents from the transportation of passengers or cargo on board Malaysian ships is exempt. Companies engaged in petroleum operations are subject to petroleum income tax at 38% of net profits. Leasing income received by a non-resident without a permanent establishment in Malaysia for use of movable property is taxed at 10%. If leasing income constitutes business income of a permanent establishment then it will be taxed at 28%.

36 **Mexico** *(2002 rate = 35%)*: For 2001, the income tax rate for business entities, including branches, is 35%. However, a portion of the income tax liability may be deferred provided that the earnings are reinvested. The deferred income tax is calculated as the difference between the amount arrived at by multiplying the reinvested taxed earnings account by 30% and the amount arrived by multiplying the same by 35%. The deferred income tax amount, adjusted by inflation, must be paid when dividends are distributed. The 30% rate is also applicable to monthly or quarterly estimated income tax payments and the semi-annual adjustment thereto. Even though the new Mexican Income Tax Law provides a 32% corporate tax rate, a transitory provision has stated that for 2002 the corporate tax rate will remain at 35%. The 35% corporate tax rate will gradually reduce by one percentage point each year until it reaches 32% by 2005. For 2003, the corporate tax rate will be 34%; for 2004, it will be 33% and then in 2005 it will be reduced to 32%. Furthermore, this new law eliminates the option to defer a portion of the corporate tax when dividends are not distributed. Additionally, this new law also eliminates the 5% withholding tax on dividend distributions.

37 **Netherlands** *(2002 rate = 29%/34.5%)*: A 34.5% corporate tax rate will apply from 1 January 2002. However, on the first ? 22,689 (NLG 50,000) of taxable profit a reduced rate of 29% will apply.

38 **New Zealand** *(2002 rate = 33%)*: The corporate income tax rate applies to a year of income 1 April to 31 March. If a company has approval to use a different year-end for tax

purposes the period approved will still relate to a 31 March year-end (i.e., a balance date from 1 October to 30 September is in lieu of the 31 March in the middle of that period. 31 December is in lieu of the following 31 March). Distributions to resident shareholders can be imputed to the extent tax has been paid. Non-resident shareholders pay no more than 33% if the dividend is fully imputed. Although New Zealand has a withholding tax of 15% on dividends, this is effectively removed to the extent the New Zealand company paying the dividend attaches imputation credits. New Zealand levies NRWT (Non-resident withholding tax) on all interest and royalties derived by non-residents, although the tax on interest can be reduced to 2% if it is paid as a non-creditable levy. A withholding tax of 15% (that can be reduced to nil in certain circumstances, e.g., if there is no permanent establishment in New Zealand) applies to the use of machinery, plant and equipment and some services provided by non-residents. A flat tax of 3.3% applies to general insurance premiums and film hire taxes paid to non-residents.

39 **Norway** *(2002 rate = 28%)*: For 2002, the rate comprises a 28% corporate tax. The effective tax rate for dividends received by resident shareholders from resident companies is 0% for the year 2002.

40 **Pakistan** *(2002 rate = 35%)*: The corporate tax rates apply to income of an "assessment year" which corresponds to the "income year" of the taxpayer (e.g., a taxpayer who has income for the year January to December 2000 and another taxpayer who has income for the year July to June 2001 will both have the same assessment year i.e. 2001/2002).

41 **Panama** *(2002 rate = 37%)*: This rate includes a dividend tax at a rate of 10%. Over the last couple of years, the Government has been studying the possibility of a tax reform that may change the basis on which certain taxes are calculated and the percentage. However, the Government has postponed any further discussions regarding this issue.

42 **Papua New Guinea** *(2002 rate = 25%)*: Mining and gas companies pay tax at 30%. Existing Petroleum projects pay tax at 50% whilst new petroleum projects are taxed at 45%. Non-resident mining companies pay tax at 48%. A branch of a foreign company is also taxed at 48%. Non-residents are taxed on a deemed profit basis (shipping: 5%, i.e., an effective tax rate of 2.4% of gross income; insurance: 10%, i.e., an effective tax rate of 4.8% of gross income). Foreign contractors can elect to be taxed on a deemed profit basis of 25% (i.e., an effective tax rate of 12% of gross income).

43 **Paraguay** *(2002 rate = 30%)*: Since Paraguay does not levy personal income tax, certain payments to non-taxpayers are not fully deductible for corporate income tax purposes. As such, the effective rate is higher than 30%. Profits remitted to non-resident shareholders are subject to an additional 5% rate of tax. Special tax rates exist which range from 0.5% to 10% depending on a company's activities.

44 **Peru** *(2002 rate = 30%)*: If no profits are distributed then a lower rate of 27% will apply.

45 **Philippines** *(2002 rate = 32%)*: Domestic corporations and resident foreign corporations on the fourth year immediately following the year in which they started business operations (reckoned from the year they registered with the Bureau of Internal Revenue) are subject to the 2% minimum corporate income tax (MCIT) based on gross income if the MCIT is greater than the normal corporate income tax. A 10% Improperly Accumulated Earnings Tax (IAET), subject to certain exceptions, is also imposed on undistributed earnings of closely-held corporations, which are corporations in which at least 50% in value of its outstanding capital stock or at least 50% of the total combined voting power of all classes of stock entitled to vote is owned directly or indirectly by 20 individuals or less. Foreign corporations with Philippine branches pay 15% branch profits remittance tax (PEZA – registered corporations are exempt) unless the applicable tax treaty provides otherwise. There are also several other special tax regimes for certain types of activity.

46 **Poland** *(2002 rate = 28%)*: Income from dividends are taxed at 15%, interest and royalties due to foreign companies are taxed at 20% and certain transportation services provided by foreign companies are taxed at 10%. The above rates are applicable unless overruled by the relevant double tax treaty.

47 **Portugal** *(2002 rate = 33%)*: This rate includes municipal tax at 3%. Municipal tax at a maximum of 10% of the national tax rate is levied in most municipalities.

48 **Romania** *(2002 rate = 25%)*: The rate of 25% applies to income from regular activities. A special reduced tax rate of 6% (5% in 2001) is applicable to qualifying export earnings. From 1 August to 31 December 2001, companies carrying out export related activities were required to pay an additional contribution of 1% of qualifying export earnings to what is called the Romania Fund. Although not clear, this contribution was considered to be deductible for purposes of calculating corporate profit tax. "Micro-enterprises" are subject to corporate profit tax on total gross revenues at a rate of 1.5%. A micro-enterprise is defined as a legal entity having less than nine employees, revenues of no more than EUR 100,000 and entirely private capital.

49 **Russia** *(2002 rate = 24%)*: This tax is established by federal authorities, but the payments are split between the federal budget (7.5%), regional budgets (14.5% - with the right to reduce it to 10.5%) and local budgets (2%). A withholding tax is levied on income of foreign legal entities at a rate of 20%. Where dividends are paid to non-residents, the withholding tax rate is 15%. Freight income is taxed at 10%. Interest income on state securities is taxed at 15% or 0%.

50 **Singapore** *(2002 rate = 24.5%)*: A partial tax exemption is granted on the first S$100,000 of chargeable income as follows: 75% up to the first S$10,000 of chargeable income and 50% on the next S$90,000. In addition, a corporate tax rebate of 5% is granted on tax payable for the Year of Assessment 2002. The partial tax exemption is not applicable to Singapore dividends, income subject to tax at the concessionary tax rate and income (such as interest, rent and royalty) derived by non-resident companies that is subject to a final withholding tax. Similarly, the rebate of 5% cannot apply to Singapore dividends and income derived by non-resident companies which is subject to a final withholding tax. A concessionary tax rate of 10% applies to entities engaged in certain offshore activities including offshore banking, offshore leasing, offshore insurance and reinsurance, offshore international trading, international art and antique dealers, credit rating agency, cyber trading, finance and treasury centers and operational headquarters companies. Shipping enterprises transporting outbound passengers, mail, livestock or goods from Singapore are exempt from tax. Furthermore, it should also be noted that a tax rebate was announced on 12 October 2001 affecting the 2001 corporate tax rate. A rebate is now granted on 50% of the first S$25,500 of tax payable and 5% of the tax payable in excess of S$25,500. The rebate cannot apply to Singapore dividends and income (such as interest, rent and royalty) derived by non-resident companies which is subject to a final withholding tax.

51 **South Africa** *(2002 rate = 37.8%)*: The corporate tax rate applicable to companies is currently 30%. However South Africa imposes an additional 'Secondary Tax on Companies' at the rate of 12.5% on any net dividends declared. The effect of this additional tax is that if a company distributes 100% of its retained earnings as a dividend, then an effective tax rate of 37.78% will apply. This does not apply to gold mining companies, which are taxed on a formula basis.

52 **Spain** *(2002 rate = 35%)*: Companies whose turnover in the immediately preceding tax period was less than five million Euros are taxed at 30% for the part of the taxable base between 0 and ? 90,151, and at the general tax rate of 35% for the rest of the taxable base. Taxable income obtained on the sale of fixed assets is taxed at a rate of 18% if the sale proceeds are reinvested. This reduced rate is obtained by deducting from the gross tax 17% of the taxable income obtained on the sale or transfer of fixed tangible and intangible assets

as well as certain financial investments. Consequently, once the taxable income has been taxed at the general Corporate Income Tax rate of 35%, application of the 17% deduction leads to an overall effective tax rate of 18%.

53 **Sri Lanka** *(2002 rate = 42%)*: The corporate income tax rate applies to a year of assessment, which runs from 1 April to 31 March. If a company has approval to use a different year-end for tax purposes the period approved must still relate to a year of assessment (i.e., year ended 31 December 2001 will generally relate to the year of assessment in which the accounting period ends – i.e., 2001/2002). For the year of assessment 1 April 2001 to 31 March 2002, the effective corporate income tax rate is 42%. This is on account of a surcharge on income tax levied at 20% of the income tax payable by a company. It is not clear whether the applicability of the surcharge will be extended beyond this period. Exporters or deemed exporters (other than those dealing with traditional products), the tourism and agricultural industry and construction activity carried on by resident companies enjoy a concessionary tax rate of 15% (an effective rate of 18% for the year of assessment 2001/2002 when the 20% surcharge is included). Listed companies with a specified number of shareholders are entitled to a tax credit computed as 5% on statutory income from business or taxable income, whichever is the lower amount. Remittance of profits by a non-resident company attracts a remittance tax of 33.33% (subject to a maximum of 11.11% of taxable income) in the fiscal year in which the remittance is made.

54 **Sweden** *(2002 rate = 28%)*: An optional provision for untaxed income is available. The provision must not exceed 25% of the tax base and must be dissolved within the following six years.

55 **Switzerland** *(2002 rate = 24.5%)*: The effective corporate tax rate comprises federal, cantonal and municipal taxes. The rate shown is applicable for a company in the city of Zurich. This rate is fairly typical. The effective tax rate, based on pre-tax income, is lower than the statutory rate and amounts to 24.5%. Some cantonal income tax rates are progressive, which is determined on the basis of the ratio of income to the company's equity.

56 **Taiwan** *(2002 rate = 25%)*: The corporate tax rate of 25% is the maximum rate in a progressive rate structure. The rate is applicable on income in excess of TW$100,000.

57 **Thailand** *(2002 rate = 30%)*: A 20% or 25% tax rate applies to certain companies listed on the Market for Alternative Investment ("MAI") or the Stock Exchange of Thailand ("SET"). Foreign companies are subject to tax on the remittance of profits out of Thailand at the rate of 10%. Foreign companies carrying on the business of international transport in Thailand are subject to tax on income from such business at the rate of 3% on the fares, fees and other benefits collectible in Thailand in respect of the carriage of passengers, and at the rate of 3% on the freight, fees and any other benefits collectible whether in Thailand or elsewhere in respect of the transport of goods from Thailand. The net profits derived by a company from the operation of an international banking facility are subject to income tax at the rate of 10%. Companies that are granted a concession to explore for and produce petroleum are subject to petroleum income tax at the rate of 50% of net profits. A company may be granted exemption from corporate income tax under the investment promotion privileges granted by the Board of Investment. Exemptions also apply to certain Asset Management Companies ("AMC"), which are majority owned by financial institutions, to the extent of dividends paid to the financial institutions. It is proposed that a 10% tax rate will apply to prescribed income of qualifying Regional Operating Headquarter companies from 2002.

58 **Turkey** *(2002 rate = 33%)*: The effective corporate tax rate is 33%, which is comprised of a 30% corporate tax plus a 10% surcharge on such corporate tax. If there are incomes exempted from corporate tax, some exemptions will be subject to income withholding tax

irrespective of whether they are distributed or retained. The withholding taxes on such income ranges from zero to 19.8%, including a 10% surcharge.

59 **Ukraine** *(2002 rate = 30%)*: The basic corporate tax rate is 30%. Special tax rates may vary according to enterprise activities. The special tax rates are effectively in the range of 9% (e.g., for mining enterprises) to 45% (e.g., for gambling enterprises). Tax incentives can reduce the rate below 30%. A 15% withholding tax is imposed on non-Ukrainian resident companies on income from Ukrainian sources.

60 **United Kingdom** *(2002 rate = 30%)*: A 10% rate applies to companies with taxable profits up to GBP 10,000, with marginal relief up to GBP 50,000. Companies with profits between GBP 50,000 and GBP 300,000 pay tax at a 20% rate. Marginal relief applies on profits up to GBP 1,500,000. All these limits are reduced where there are associated companies.

Bermuda, Gibraltar, Guernsey, Isle of Man and Jersey

These countries are Dependent Territories or Crown Dependencies of the United Kingdom, which has formally confirmed that the OECD Convention applies to these countries. Details of their corporate tax rates are provided here, but these countries are not included in calculating the averages and ranges indicated above.

Bermuda: Bermuda levies no tax on profits, dividends or income, nor is there any withholding tax, capital gains tax, gift tax, or any personal tax. Exempt companies can apply for legal protection against the possibility of future taxes up to the year 2016.

Gibraltar: Resident companies are subject to corporate tax at the rate of 35%. Special rules apply to qualifying and exempt companies. Qualifying companies pay corporate tax at a fixed rate agreed with the tax authorities, which may be between 0% and 35%. Exempt companies are liable to a fixed payment of GBP 225 per annum if resident, and GBP 200 if non-resident.

Guernsey: Resident companies are subject to the standard income tax rate of 20%. Special rules apply to banks, fund managers and certain other entities that may pay tax at rates as low as 2%. Investment funds and certain companies, including captive insurance companies, may also become exempt and pay only GBP 600 per annum. International Companies may agree a rate of tax from just above 0% to 30%.

Isle of Man: Resident trading companies are now taxed at only 12% on the first GBP 500,000 of income and 18% on the balance. Banks that carry on "international loan business" are taxed at an effective rate of 2% on the profits from such business. Insurance companies that do not insure local (i.e., IOM) risks qualify for complete exemption, as do "managed banks", and managers of IOM regulated funds (except exempt schemes) qualify for an effective 0% rate. The tax exemption fee (for companies wholly owned by non-residents which carry on no local business and are not regulated activities) is GBP 430 per annum, and the international company tax (qualifying conditions broadly the same as for exempt companies) is a minimum of GBP 1,200 and a maximum of 35%.

Jersey: Resident companies are subject to the standard rate of income tax of 20%. Certain companies may also become exempt or gain the status of “International Business Company” (IBC). Exempt companies pay GBP 600 per annum. IBCs pay tax at 2% or less on profits from international activities, and 30% on Jersey-source income.

61 **United States** *(2002 rate = 40%)*: The federal tax rate is 35%. State and local income tax rates generally range from less than 1% to 12%. A corporation may deduct its state and local income tax expense when computing its federal taxable income, generally resulting in an effective rate of approximately 40%. The effective rate may vary significantly depending on the locality in which a corporation conducts business.

60 **Uruguay** *(2002 rate = 30%)*: Corporate income tax is not deductible from taxable profits for the purposes of applying the 30% rate.

63 **Venezuela** *(2002 rate = 34%)*: The effective tax rate depends on the application of investment tax credits for investments in fixed assets, which are currently 10% for corporations (except corporations in the hydrocarbons industries). Corporations engaged in the exploitation of hydrocarbons and related activities are generally subject to a 67.7% (50% starting in 2002) rate of tax on their income, including income from other sources. The rate indicated does not include municipal business taxes which apply at rates ranging from 0.3% - 9.4% of gross income, depending on the district and the business activity. VAT, corporate registration fees and a 1% business asset tax also apply.

64 **Vietnam** *(2002 rate = 25/32%)*: The 25% tax rate applies to resident foreign invested companies (including, joint ventures, 100% foreign-owned companies, and business co-operation contracts). However, incentive rates (10%, 15%, 20%) will apply to encouraged projects. The 32% rate applies to local companies and branches of foreign companies, banks, and law firms. Again, incentives and tax holidays are available for encouraged projects. A 50% rate only applies to oil and gas exploration companies.