Corporate taxation in Europe;

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Corporate Taxation in Europe
INTRODUCTION

Deloitte Haskins & Sells prepared this booklet to provide, in concise form, the current information executives need to maintain an effective familiarity with corporate taxation in Western European countries. The booklet answers the more common and important questions that arise from multinational taxation of international business. This brief synopsis cannot serve as a substitute for technical reference to a particular country's law to resolve specific questions. However, because the booklet condenses in a standardized format the type of information most business executives need, it is an effective tool for maintaining a working understanding of corporate taxation in Europe.

Rules governing taxation are subject to change and reinterpretation, in many cases with little or no advance notice. The information in this booklet is based on material available to Deloitte Haskins & Sells as of February 1982.
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**AUSTRIA**

**Principal Business Entities**

The two principal forms of limited liability organization are the public corporation *Aktiengesellschaft* (AG) and the private corporation *Gesellschaft mit beschränkter Haftung* (*Ges mbH*). Other types of businesses include three types of general or limited partnership, branches of foreign companies, and cooperatives.

**Residence**

Resident companies are those either registered or managed and controlled in Austria.

**Corporate Tax Rates**

Resident corporations are taxed on undistributed income at the rates shown below. (Note that these rates are applied to total undistributed income, not just to each layer of undistributed profits.)

<table>
<thead>
<tr>
<th>Retained Income (Austrian Schillings — AS)</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 200,000</td>
<td>30%</td>
</tr>
<tr>
<td>200,100 to 250,000</td>
<td>30% of entire income, plus 50% of income over 200,000</td>
</tr>
<tr>
<td>250,100 to 400,000</td>
<td>40%</td>
</tr>
<tr>
<td>400,100 to 500,000</td>
<td>40% of entire income, plus 50% of income over 400,000</td>
</tr>
<tr>
<td>500,100 to 1,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>1,000,100 to 1,142,800</td>
<td>50% of entire income, plus 40% of income over 1,000,000</td>
</tr>
<tr>
<td>Over 1,142,800</td>
<td>55%</td>
</tr>
</tbody>
</table>

Distributed profits of a resident corporation are taxed at one-half of the rates shown above.

Nonresident companies are subject to tax at the rates applicable to the undistributed income of a resident corporation.

**Double-Taxation Relief**

Foreign tax on income may not be deducted as an expense nor may it be credited against Austrian tax, except where specifically provided by a tax treaty. No unilateral relief provisions exist.
The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

**Taxable Income**

Resident corporations are subject to tax on their worldwide income, including business profits, rents, dividends, royalties, and interest. Most normal business expenses recorded for financial-statement purposes are allowed as deductions. Beginning in 1978, allowable car expenses were drastically reduced and allocations to pension accruals were limited.

Nonresident companies are subject to corporation tax on income from:

1. a permanent establishment in Austria,
2. immovable property located in Austria,
3. commercial or industrial consulting or providing labor for domestic use,
4. loans secured by immovable Austrian property, and
5. leasing certain property (including patent royalties) in Austria.

**Dividends.** Dividends received from resident or non-resident companies are normally included in taxable income of the recipient. A capital yields tax of 20% is withheld at source from domestic dividends, but an Austrian resident can claim credit for this tax. Dividends received by a resident corporation from its 25%-or-more-owned subsidiary (either resident or nonresident) are excluded from taxable income. No capital yields tax is levied against such dividends.

**Depreciation.** Depreciation may be calculated on either the straight-line or the declining-balance method, although the latter may not be used if accelerated first-year depreciation or investment allowances are claimed or if an investment reserve is used for the purchase of an asset. Rates of depreciation depend upon the type of asset and its anticipated life. Examples of straight-line rates include: buildings, (5%); movable assets costing less than AS 5,000 (100% first year); and other movable assets (10% to 20%). Alternative declining-balance rates for movable assets, based on the anticipated life in years, are: 5 years (44%); 10 years (30%); 20 years (18%); and 25 years (15%).
If the straight-line method is used, business assets (other than most real property and motor vehicles) are eligible for an additional first-year writeoff of 40%. Accelerated first-year depreciation at 60% of the cost is allowed for environmental-protection assets and for assets used to develop or improve economically important inventions, or for energy production.

As an alternative to additional first-year depreciation allowances, Austria grants an investment allowance of 20% of the cost of certain depreciable business assets, provided they remain in the business for at least five years. This allowance reduces taxable income, but does not reduce the depreciable basis of the asset. If these assets are disposed of within the five-year period, the amount of the allowance already granted is included in taxable income.

Intangibles, such as patent rights, that produce income and have a limited life are amortizable.

Inventories. Inventories are valued at the lower of cost or market value. Average cost may be used where costs vary during the reporting year. Last-in, first-out (LIFO) and first-in, first-out (FIFO) methods also may be used if the company can demonstrate that either is appropriate to the circumstances of the business.

Special Adjustments. Up to 25% of taxable profits, reduced by accelerated depreciation or investment allowances, may be placed in a tax-free reserve to be used for the acquisition of depreciable business assets. An unused balance in the reserve may be restored to taxable income in any year, but must be brought back by the end of the fourth year after the reserve was created. The amount restored to income is increased by a surcharge of 5% in each year, up to a maximum of 20%. No deduction is allowed for remuneration paid to supervisory directors, or for corporation income and net-worth taxes.

Losses

Net operating losses of a resident company may be carried forward for five years. A nonresident company is not allowed to carry forward net losses, except in those situations where a nondiscrimination tax treaty clause applies.

Capital Gains

Capital gains on the disposal of business assets are sub-
Austria

ject to tax. Tax on a gain from selling real property held for at least 15 years or tangible business assets held for at least seven years may be deferred by deducting the gain from the basis of any fixed assets acquired in the year of disposal or the next two years. These time limits (15 or seven years) do not apply to gains realized on involuntary conversions.

Assessment and Payment

The tax year ends on December 31. A company that maintains its records on a fiscal-year basis computes taxable income for its accounting year ending during the tax year. Tax returns are generally due March 31, but a taxpayer can obtain an extension of time on request.

Advance payments of tax must be made during the tax year. This is achieved in part by deducting tax at source from dividends and other distributions of profit received. For other types of income, estimated tax payments must be made in four equal instalments on March 10, June 10, September 10, and December 10, based on the prior year’s tax. Any balance of tax payable is due one month after the assessment date.

Other Taxes

A business tax is levied locally, based on a combination of income, net worth, and (usually) payroll. Rates vary by municipality, but usually are about 15%, 0.3%, and 2%, respectively. The business tax is a deductible expense in computing taxable income for both corporation tax purposes and business tax purposes.

A value added tax is imposed on the sale of goods and services at the standard rate of 18%, with reduced rates of 13% for energy and 8% for sales of food, farm products, and certain other items. Luxury items are taxed at a rate of 30%.

There are also various land taxes, transfer taxes, and duties. Capital duty on the issuance of corporate shares is 2%.

There is a separate annual net worth tax of 1% based on total net assets. In addition, companies pay a 0.5% tax based on taxable net worth, excluding that part of a corporation’s net worth that is owned by resident individuals, provided such shareholdings exceed 10% of issued capital.

Various social security payroll taxes are imposed on
employers. Rates and payroll ceilings vary with classification of workers and types of benefits covered. The maximum contributions payable amount to AS 3,748 per month for white collar workers and AS 4,556 per month for other workers. Employees contribute at a lower rate. Employers also contribute 4.6% of payroll to a family burdens equalization fund.

**Consolidated Returns**

An Austrian parent company and its controlled domestic subsidiaries may be taxed as a single unit (Organschaft). This enables losses in one company to be offset against profits in another for tax purposes. Control generally requires at least 50% financial control, together with organizational control and business affiliation. Also, the companies must enter into a contract for profit and loss absorption.

**Investment Incentives**

In addition to the investment allowance and investment reserves discussed above, a remission of payroll tax may be granted to a newly established business. The remission is determined on a local level by communities seeking industrial development.

**Branch-Subsidiary Comparison**

If a foreign company plans to operate a permanent establishment in Austria and repatriate aftertax profits, an Austrian subsidiary will generally produce a greater aftertax return than a branch. This is because, unlike a branch, a subsidiary resident in Austria pays a reduced income tax on distributed earnings. Even the Austrian withholding tax on dividends would not generally raise the total Austrian tax on a resident subsidiary to the level paid by an Austrian branch. Where losses are expected in some years, a resident subsidiary has the advantage of being able to carry forward net loss deductions.

If Austrian profits are to be indefinitely reinvested in Austria, the tax burden would be the same for a branch and a subsidiary.

**Withholding on Payments to Nonresidents**

Austria requires withholding of a 20% tax on dividends and royalties paid to nonresidents. No withholding tax applies to payments of branch profits or to interest. (Interest on loans secured by Austrian property is sub-
Austria

ject to the regular corporation income tax.) Tax treaties may reduce or eliminate the tax on these payments. Withholding rates on payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to:</th>
<th>Dividends</th>
<th>Interest(e)</th>
<th>Royalties(g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>5(a)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Denmark</td>
<td>10</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>France</td>
<td>15</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Germany</td>
<td>20</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Greece</td>
<td>20</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Ireland</td>
<td>-(b)</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Italy</td>
<td>20</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5(c)(h)</td>
<td>-</td>
<td>-(f)(h)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10(c)</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Norway</td>
<td>15</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Portugal</td>
<td>15</td>
<td>-</td>
<td>5(f)</td>
</tr>
<tr>
<td>Spain</td>
<td>10(d)</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Sweden</td>
<td>10</td>
<td>-</td>
<td>-(f)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10(c)</td>
<td>-</td>
<td>-(f)</td>
</tr>
</tbody>
</table>

Notes

(a) If recipient has no branch located in Austria and owns at least 95% of payer’s stock, and not over 25% of payer’s income is from dividends and interest other than from its own subsidiaries. Otherwise 10%.
(b) 25% holding required; otherwise 10%.
(c) 25% holding required; otherwise 15%.
(d) 50% holding required; otherwise 15%.
(e) Covers only normal business interest on which no withholding tax is levied. Tax imposed on other forms of interest paid to nonresidents at disparate rates.
(f) If recipient owns more than 50% of payer, rate is 10%.
(g) There is also an 8% turnover tax and, in some cases, a net worth tax is assessed at 1% of patent value.
(h) If payee is a holding company, rate is 20%.
BELGIUM

Principal Business Entities

The two corporate forms available in Belgium are the public company, Société Anonyme (SA), and the private company, Société de Personnes à Responsabilité Limitée (SPRL). Only individuals may be shareholders in an SPRL.

Three forms of partnership, one form of cooperative, and branches of foreign companies are recognized as legal entities.

Residence

Companies are resident in Belgium if they are registered, managed, and controlled there, or if their principal place of business is in Belgium.

Corporate Tax Rates

Resident companies are taxed at 45%. Companies (other than investment holding companies or subsidiaries of Belgian or foreign corporations) with total profits below 14,400,000 Belgian francs are taxed at the following reduced rates:

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Maximum Profit</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First BF</td>
<td>1,000,000</td>
<td>31%</td>
</tr>
<tr>
<td>Next BF</td>
<td>2,600,000</td>
<td>40%</td>
</tr>
<tr>
<td>(Effective rate on BF 3,600,000 is 37.5%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Next BF</td>
<td>10,800,000</td>
<td>47.5%</td>
</tr>
<tr>
<td>Next BF</td>
<td>12,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>(Effective rate on BF 14,400,000 is 45%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess over BF 14,400,000</td>
<td></td>
<td>45%</td>
</tr>
</tbody>
</table>

Branch earnings of a nonresident corporation are taxed at 50% or lower treaty rate. Under the Belgium-U.S. treaty, the tax imposed on a U.S.-owned branch in Belgium cannot exceed the tax rate imposed on a Belgian resident corporation. For the taxable year 1982-83, the difference between the previous corporate tax rates for resident companies (48%) and nonresident companies (54%), and the new rates (45% and 50%, respectively) should be recorded in an “undistributable reserve account.”
Double-Taxation Relief

Belgium provides three types of relief from double taxation of international income:

1. A deduction against foreign earnings is allowed to resident corporations for foreign taxes paid on business operations in another country.

2. Foreign income from operations taxed in another country is taxed at one-fourth the regular Belgian rate, and

3. Resident corporations are granted a 15% foreign-tax credit for taxes paid to another country on interest and royalties.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

Resident corporations are subject to tax on their worldwide income, including business profits, rents, dividends, royalties, and interest. Most normal business expenses are deductible, provided they are recorded as such in the financial statements.

Nonresidents are subject to the nonresident tax on business income derived from a branch or other permanent establishment in Belgium. In addition, income from tangible personal and real property located in Belgium is specifically subject to the nonresident tax.

Dividends. Resident recipients of dividends from Belgian corporations can exclude from taxable income 95% of the total dividend. The total dividend includes a "gross up" of 20% for the dividend withholding tax. Foreign dividend income is "grossed up" by a refundable tax credit of 5%, and 95% of the result is excluded from taxable income. Financial investment companies may exclude only 90% of the dividend. To qualify for these exclusions, the shares must have been held throughout the accounting year.

Depreciation. Depreciation is normally calculated on the straight-line method. Rates are usually agreed upon by the taxpayer and the tax authorities, in which case the amounts recorded in the books are allowed for tax purposes. The following depreciation rates are generally
Belgium

acceptable: office buildings (3%), industrial buildings (5%), machinery (10%), office equipment (12.5% to 15%), and vehicles (20% to 25%). Declining-balance depreciation at up to twice the straight-line rate is allowed for tangible and intangible depreciable property acquired after 1976. Previously, only assets with a life of from six to 19 years were eligible.

New assets purchased or assembled for the purpose of scientific research in Belgium may be depreciated up to 110% of their cost.

Energy saving assets may be — under certain conditions — depreciated at will.

Accelerated depreciation is also allowable in certain exceptional circumstances (e.g., small enterprises or special development areas).

Inventories. Inventory values must be determined on the basis of the lower of cost or market value. Allowable cost methods include: FIFO, LIFO, weighted average, and individual identification. The base-stock method is permitted only for inventories having a negligible value. Special provisions allow for sudden, large fluctuations in world prices.

Special Adjustments. A deduction from income is permitted for two types of reserves: (a) for probable losses, including bad debts and (b) for future expenditures. Provisions for general contingencies are not deductible. Payments to company directors are not deductible, except when in the form of compensation for actual services rendered.

Belgium permits assets to be revalued. The resultant unrealized gains are not taxed as long as they are accounted for as a balance-sheet reserve. If the writeup is treated as income for book purposes, it is also treated as income for tax purposes.

Losses

Generally, operating losses may be carried forward and deducted against taxable income of the next five taxable years. No carryback is allowed. Most newly formed corporations are allowed to carry over, without time limit, the operating losses incurred during the first five years of operations. The portion of net losses attributable to depreciation may be carried forward without time limit.
Belgium

Capital Gains

Generally, capital gains are taxed as ordinary income; however, there are two exceptions:

1. If a capital asset has been used for business purposes for more than five years, the gain is taxed at 22.5%. The amount of the taxable gain is the excess of the selling price over the book value, reduced by a coefficient to take inflation into account.

2. Certain gains derived from the disposal of real property and machinery and equipment are exempt from tax. Such exemption applies to assets used in the business for more than five years. To be exempt, the proceeds must be reinvested in qualified assets within three years and the gain must be qualified as an “undistributable” reserve.

Assessment and Payment

The tax year ends on December 31. A company reports taxable income on the basis of its accounting year ending during the tax year. If the accounting year ends on December 31, taxable income is based on the preceding accounting year.

Annual income tax returns are information returns only; tax officials compute the actual tax liability. Tax returns must be filed within 30 days after the shareholders approve the financial statements, but not more than six months after the end of the accounting year.

Estimated tax prepayments are due on April 10, July 10, October 10, and December 20. Corresponding payment dates exist for fiscal-year taxpayers. Any excess of tax liability over prepayments is determined by the tax authorities when the annual return is filed. They issue assessments for the balance due, which is payable within 60 days after receipt by the taxpayer.

Other Taxes

A 17% value added tax is imposed on deliveries of goods, services, and imports. There is a reduced 6% rate for food. Motor vehicles and luxuries are taxed at 25%, with an additional 8% luxury tax on certain luxuries.

Various social security taxes are imposed on employers. Payments by the employer can be up to 25% of payroll.

A 1% duty is assessed on the issuance of capital stock.
Consolidated Returns

Belgium does not permit the filing of consolidated tax returns.

Investment Incentives

Special tax incentives include:

1. Dividends (not over 5% of capital) paid by a corporation that was formed, or that increased its capital, between March 1, 1977 and December 31, 1983 may be tax exempt. Dividends paid during a five-year period following such formation or capital increase are exempt, provided the capital stock was issued for cash.

2. Interest paid on loans contracted abroad by a resident corporation between March 1, 1977 and December 31, 1978 may be exempt from withholding tax, provided the loan is used in Belgium to increase productivity or employment.

A tax deductible transfer to a reserve may be made amounting to 5% of the pretax profits of the period, plus 28% of retained earnings during the period (30%, in some cases). This incentive is granted on the condition that an amount equivalent to the tax-free reserve is invested in new assets within three years from the beginning of the period in which the transfer is made. Some investments and companies are excluded (e.g., leasing companies and investments in vehicles).

Branch-Subsidiary Comparison

Because no Belgian withholding tax is imposed on branch remittances to a foreign head office, a Belgian branch generally bears a smaller tax burden on distributed profits than a Belgian subsidiary. Unless treaty provisions apply, a branch pays a higher income tax than a resident subsidiary (50% compared with 45%), but the withholding tax on a subsidiary’s dividend payments generally will exceed the difference in tax rates.

Withholding on Payments to Nonresidents

A withholding tax of 20% is normally imposed on investment-type income paid to a resident or nonresident. Investment-type income includes interest, dividends, and royalties. There is no withholding tax on remittance of branch profits. Where tax treaties apply, withholding tax rates are generally reduced for payments to nonresidents.
Withholding rates on payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to:</th>
<th>Dividends</th>
<th>Interest(c)</th>
<th>Royalties(g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Austria</td>
<td>15</td>
<td>15</td>
<td>-(f)</td>
</tr>
<tr>
<td>Denmark</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>10(a)</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>15</td>
<td>-(d)</td>
<td>-</td>
</tr>
<tr>
<td>Greece</td>
<td>15</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Ireland</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>10(b)</td>
<td>-(d)</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5(b)</td>
<td>-(e)</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Portugal</td>
<td>15</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Spain</td>
<td>15</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Sweden</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10(b)</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15</td>
<td>15</td>
<td>-</td>
</tr>
</tbody>
</table>

**Notes**

(a) 10% holding required; otherwise 15%.
(b) 25% holding required; otherwise 15%.
(c) Withholding tax is not levied on interest paid by Belgian banks or other financial institutions or on certain other special types of interest.
(d) 15% tax is withheld on interest paid to a nonresident company owning at least 25% of the paying company's shares.
(e) 10% tax is withheld if either company owns 25% or more of the other.
(f) If recipient owns more than 50% of payer, the rate is 10%.
(g) A 17% turnover tax on value added also applies.
DENMARK

Principal Business Entities

The two principal forms of limited liability organization are the joint stock company Aktieselskab (A/S) and the Anpartsselskab (ApS). The A/S corresponds to the U.S. corporation. The ApS is similar to the A/S, but is subject to less rigid regulations.

Other types of businesses include three types of general and limited partnerships, branches of foreign corporations, and cooperatives.

Residence

Resident corporations are those incorporated in Denmark.

Corporate Tax Rates

A 40% tax rate is applied to the taxable income of resident and nonresident corporations.

Double-Taxation Relief

Danish tax law permits resident corporations to claim a credit for foreign income taxes paid, limited to the lesser of the foreign tax paid or the Danish tax on the foreign income. Upon application, a company holding at least 25% of the outstanding shares of a foreign company, during the entire accounting year, for which a dividend is payable, is, according to special provisions, entitled to a tax credit. However, the tax credit is limited to the lesser of the Danish tax on the dividend received or the underlying foreign income tax paid by the foreign company with respect to the earnings distributed.

An alternative method of double-taxation relief is available with respect to foreign business operations, including a foreign branch and foreign operations carried out through subsidiaries included in a Danish consolidated tax return. Danish corporation income tax may be reduced by an amount equal to one-half of the Danish tax on the foreign income (i.e., the Danish tax multiplied by the ratio of foreign business income to total income). The 50% tax reduction is available whether or not the foreign income is subject to foreign tax and whether or not the Danish company is a subsidiary of a foreign parent company.

Danish tax treaties commonly provide relief through either an exemption from Danish corporate income tax
or a credit for foreign income taxes paid if income would otherwise be subject to both Danish and foreign tax.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among those countries.

### Taxable Income

Resident corporations are taxed on worldwide income, including dividends, interest, royalties, and business profits. Most normal business expenses recorded for financial-statement purposes are allowed as deductions.

Nonresident corporations are taxed on business income from a permanent establishment located in Denmark or rental income from Danish real estate. When there are transactions between a foreign-controlled Danish A/S, ApS, or branch office and its parent, taxable income of the A/S, ApS, or branch is adjusted to reflect the profit that it would have made, had the transaction been with an independent concern trading at arm's length.

On January 20, 1982, a bill concerning the taxation of oil- and gas-producing activities was presented to Parliament. It is expected that this bill will be passed by Parliament by June 30, 1982. The bill includes provisions which materially change the tax status of companies as well as individuals engaged in this industry within Denmark. It is expected that these provisions will be effective from January 1, 1982.

#### Dividends

Domestic dividends are normally taxed as ordinary income, and a 25% tax credit is granted for the tax paid by the distributing corporation. The tax credit is only valid for shareholders (individuals as well as corporations) fully liable to Danish tax on the dividend received. However, domestic dividends are tax free to a resident corporation that has owned at least 25% of the shares of the paying corporation for the whole year in which the dividends are received.

Foreign dividends are taxed as ordinary income. However, if the dividends are from a foreign corporation in which the shareholder owns at least a 25% interest, a credit is available for foreign taxes paid on the income from which the dividend was distributed, limited to the Danish tax on the dividend received.
**Depreciation.** Commercial buildings must be depreciated on the straight-line method. Depending on the purposes for which a building is used, the depreciation rates are either 6% for the first ten years and 2% thereafter, or 4% for the first ten years and 1% thereafter. The higher rates are granted primarily for buildings used for industrial purposes. A temporary increase from 6% to 10% for the first two years can be applied to construction commenced before the end of 1981. Office buildings are not depreciable unless they are part of an industrial facility.

Most other depreciable property is grouped together and depreciated on the declining-balance method. Rates are discretionary, but cannot exceed 30% (15% for assets acquired in the second half of the year). The depreciation rate is applied to the total net book value of depreciable assets at the beginning of the year, less proceeds from disposals, plus the cost of additions.

Depreciation is permitted for certain long-term construction contracts. If the total contract price exceeds Dkr. 700,000, 30% of the excess can be written off during the years prior to acceptance of the asset. The advance depreciation period cannot exceed four years, and the annual deduction cannot exceed 15% of the total contract price.

**Inventories.** Inventories are valued at the lower of cost or market. A reserve equal to 30% of the value of ending inventory may be deducted for tax purposes. Any similar reserve at the beginning of the year must be added back to taxable income. This reserve is optional and may be taken for the first time in a high-profit year, if desired.

**Special Adjustments.** Gains or losses from currency exchange fluctuations are taxable when realized, unless they relate to loans made before 1976.

**Losses**

A net operating loss may be carried forward and deducted from income during the succeeding five years. No carryback is allowed.

**Capital Gains**

Capital gains and losses on disposal of business assets or securities are normally treated as ordinary income or loss.
Gains from selling real estate receive special treatment. Any part of the gain attributable to depreciation claimed in prior years is recaptured as ordinary income. Any additional gain (subject to a deduction of 30%, plus approximately 10% per year of ownership of the initial cost of the property) is taxed at twice the regular rate. Losses are not deductible.

Gains or losses on dispositions of shares are normally taxed as ordinary income. However, effective July 1, 1981, gains and losses on dispositions of shares owned for more than three years are not normally taxable. Principal shareholders are subject to special rules.

Assessment and Payment

The Danish tax year begins April 1 and ends March 31. Tax is assessed on the basis of a corporation’s income for its fiscal year ending during the preceding tax year. An annual tax return is due April 30, unless the accounting year ends between January 1 and March 31, in which case the return is due May 31. The entire tax liability is payable on the following November 20; no estimated taxes are levied.

Other Taxes

Value added tax at 22% is imposed on nearly all transactions involving goods and services and on the value of imports.

Employers must contribute approximately 6% of wages to the cost of programs for social security, health, accident, disability, and unemployment compensation.

Consolidated Returns

A Danish corporation and all its wholly owned subsidiaries, both domestic and foreign, may (subject to several conditions) elect to be taxed on a group basis.

Investment Incentives

A deduction from taxable income is allowed for acquisitions of machinery and equipment (except motor vehicles) acquired during the period January 1, 1981 to December 31, 1983. The deduction is equal to 5% of the net acquisition cost and does not reduce the depreciable basis of the property. However, this investment allowance does not apply for banks, insurance companies, lawyers, auditors, and other similar enterprises and professions.
A deduction of up to 25% of taxable income (with certain adjustments) may be claimed for allocations to a reserve for future investment in machinery, equipment, ships, and depreciable buildings. Funds equivalent to one-half of the reserve allocation must be deposited in a blocked bank account. The investment fund must be used to buy qualifying assets within 12 years. The depreciable basis of such assets must be reduced by the prior deductions for the allocations to the reserve.

**Branch-Subsidiary Comparison**

The 40% corporation tax rate applies to both Danish corporations and branches of foreign companies in Denmark. Where a foreign parent company can defer taxes in its home country on the undistributed income of its Danish subsidiary, the relatively low Danish tax rate usually favors the use of a subsidiary corporation rather than a branch.

A dividend withholding tax is imposed on a Danish subsidiary’s dividends paid to a foreign parent, but not on branch remittances to a foreign head office.

**Withholding on Payments to Nonresidents**

The standard withholding tax on dividends paid to non-resident shareholders is 30%. Where tax treaties apply, withholding is generally reduced or eliminated. There is no withholding tax on payments of interest, royalties, or branch profits.

Withholding rates for payments to residents of the United States and Western European countries are listed below.
<table>
<thead>
<tr>
<th>Paid to:</th>
<th>Dividends</th>
<th>Interest(f)</th>
<th>Royalties(g)</th>
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<tr>
<td>United Kingdom</td>
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**Notes**

(a) If a U.S. company owns at least 95% of voting power and the payer derives not over 25% of its income from dividends and interest, other than dividends and interest from its own subsidiaries; otherwise 15%.

(b) 25% holding required; otherwise 15%.

(c) No treaty.

(d) 50% holding required; otherwise 15%.

(e) 10% holding required; otherwise 15%.

(f) No withholding tax levied on interest.

(g) A 20.25% turnover tax applies.
FRANCE

Principal Business Entities

The two principal forms of limited liability organization are the public corporation, Société Anonyme (SA), and the closely held corporation, Société à Responsabilité Limitée (SARL). Other types of business organization include general and limited partnerships, civil companies, joint ventures, and branches of foreign corporations.

Residence

Resident corporations are those either incorporated or managed and controlled in France.

Corporate Tax Rates

The basic tax rate for resident and nonresident corporations is 50%. Corporations that have been in existence more than three years must pay a minimum income tax of at least F 3,000 per year.

French branches of foreign corporations are subject to a 50% income tax. The aftertax branch profits are subject to a “deemed dividend” withholding tax of 25% (or lower treaty rate), but a portion of this tax may be refunded, under some circumstances, if the dividends paid by the foreign corporation are nil or less than the branch’s profits.

Double-Taxation Relief

Business income derived from a permanent establishment abroad is generally exempt from French tax until it is paid out to shareholders.

When a French company pays out its foreign business earnings to shareholders, a prélèvement is imposed. If the income was derived from a treaty country, foreign withholding taxes at treaty rates are allowed as a credit against prélèvement. In nontreaty cases, the income net of foreign taxes is the amount subject to prélèvement. When foreign earnings are paid out to a foreign shareholder in a treaty country, the prélèvement paid by the French company is reimbursable to the shareholder. The reimbursement is subject to withholding tax.

Foreign-source investment income is taxed net of foreign income and withholding taxes. In the case of investment income from treaty countries, a tax credit of 50% of taxes withheld at treaty rates is available. As a
result of such taxation, no prédécompte is payable on redistribution of foreign investment income to shareholders. (See also “Dividends,” below, for explanation of foreign-source dividends received by a French parent company.)

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as treaties among these countries.

**Taxable Income**

Resident corporations are taxed on worldwide income, except that a profit attributable to the business operations of a foreign permanent establishment is not taxed and a loss is not deductible. An agreement may be obtained for this income to be taxable in France and, in certain circumstances, this may be advantageous. Generally, foreign and domestic investment income (dividends, interest, and royalties) is taxable, but special provisions described below pertain to dividend income. In computing taxable income, most normal business expenses are allowed as deductions.

Nonresident corporations are taxed on business income derived from a permanent establishment in France. Nonresidents are also taxed on the rental value of French real estate and certain capital gains on property located in France. However, most treaty countries are exempt from arbitrary taxation based on rental value.

**Dividends.** A French shareholder qualifying as a “parent” corporation may exclude from taxable income 95% of dividends received from domestic or foreign corporations. To qualify for the exemption, the French parent must own at least 10% of the subsidiary’s stock (with certain exceptions). The minimum shareholdings must have existed since the stock was issued, or the parent must be committed to hold its interest at least two years.

Other resident shareholders receiving dividends from a domestic corporation include 150% of the dividend in income and receive a direct tax credit of 50% of the actual dividends received. Foreign dividends are taxable net of foreign income and withholding taxes. A tax credit is available for 50% of the tax withheld on dividends from treaty countries.

**Depreciation.** Depreciation may be computed using either the straight-line method or the declining-balance
France

method, except that the latter may not be used for most buildings, short-lived assets, or used property.

Normally, acceptable straight-line rates are for industrial buildings (5%); office and residential buildings (4%); machinery, equipment, and tools (10% to 20%); fixtures, fittings, and installations (10%); office equipment (10% to 20%); and vehicles (15% to 25%). Declining-balance rates are 1.5 to 2.5 times the straight-line rates, depending on the useful life of the asset.

Buildings acquired for scientific research are eligible for a 50% first-year writeoff, with the balance being subject to straight-line depreciation.

Inventories. Inventories are valued at the lower of average cost or market. The first-in, first-out (FIFO) method may be acceptable, but the last-in, first-out (LIFO) method is not allowed.

Two types of market-fluctuation reserves are allowed. Primary-stage, raw-material processors are eligible to compute a reserve based on world market price changes. Other businesses may claim a reserve for price increases in years when inventory increases by more than 10% of its cost after a period of two years. After six years, the latter price-increase reserve must be added back to taxable income.

Special Adjustments. Interest payments to stockholders are not deductible for that part of the interest rate that exceeds the rate charged by the Bank of France, plus 2%. Interest paid to controlling stockholders (other than a French parent company) is not deductible for that part of the loan exceeding 150% of the borrower’s capital.

Losses

Net losses may be carried forward against taxable income of the succeeding five years. To the extent losses are attributable to depreciation, they may be carried forward indefinitely. No loss carryback is permitted.

Capital Gains

Capital gains are considered long-term if assets were held for two years or longer; otherwise, the gains are considered short-term.

Net long-term capital gains are taxed at 15%, and the aftertax gain must be credited to a special reserve. If the
reserve is distributed to shareholders in any way, additional tax is imposed, bringing the total tax on the gain up to 50%. Long-term gains on land for construction sites are taxed at 25%, with an additional 25% tax imposed if the proceeds are paid out to shareholders. Long-term gains may be reduced by ordinary or capital losses. Long-term losses are deductible only against long-term gains of the current year and the succeeding ten years.

Short-term gains are taxed at 50%. Net short-term losses are deductible against ordinary income. Any portion of gain attributable to prior depreciation deductions is treated as short-term capital gain.

Assessment and Payment

The tax year ends on December 31; however, a corporation computes taxable income on the basis of its accounting period ending during the calendar year.

Estimated-tax payments are due quarterly and based on 90% of the prior year's taxable income. An annual return is due three months after the end of the accounting year. Any balance of tax due is payable two weeks later.

Other Taxes

The major taxes are levied in France on a national basis. However, there are certain taxes for which the rates are fixed locally, the most important of these being the business license tax. This tax is based on the rental value of all fixed assets used in the business and on salaries or turnover (for small businesses and noncommercial activities). Business investors are well advised to inquire about the local conditions before making any investment decision.

A value added tax (TVA) is levied on nearly all sales, services, and imports at the standard rate of 17.6%. Exports are exempt. A reduced rate of 7% applies to some goods such as food and to certain services such as passenger transportation. A 33.3% rate is applied to luxury goods including personal autos. Financial institutions may opt for TVA on their transactions other than interest income.

A special tax is levied at the rate of 30% on certain overhead expenses, such as gifts and entertainment. This tax is not deductible from taxable income.

A payroll tax is levied on businesses not subject to TVA. The rates vary from 4.25% to 13.6% of payroll, depend-
ing on salary levels. Businesses subject to value added tax on 90% or more of their goods and services are fully exempt from the payroll tax.

Social security and pension contributions amount to a total of about 50% of each employee's salary. The employer's share is approximately 40% of payroll, and the remainder is paid by employees.

Various registration duties are levied in France on certain types of transactions such as purchase or sale of real estate and creation or transfer of businesses. The acquisition of a controlling interest in a corporation may be subject to these taxes, so proper planning for such acquisitions is necessary.

Consolidated Returns

A group of corporations may seek permission of the Minister of Finance to be taxed on a consolidated basis, but such approval is rarely granted.

Investment Incentives

A number of grants are available for investment in target development areas. Grants are generally dependent upon the creation of new employment. Most tax incentives are designed to encourage public investment in French corporations.

Small industrial businesses created between January 1, 1982 and December 31, 1983 are subject to corporation tax on 50% of ordinary taxable income during their first five years of existence.

Newly formed corporations and those increasing their capital between January 1, 1977 and December 31, 1982 may deduct dividends paid in the following seven years, up to 7.5% of cash subscriptions made during that period, from taxable income.

Branch-Subsidiary Comparison

The effective combined income and withholding tax rates (62.5%) are the same if a French branch or French subsidiary distributes all its aftertax income to a foreign head office or parent company. Since a French branch must pay a "deemed dividend" withholding whether or not profits are remitted, a French subsidiary is better able to accumulate and reinvest earnings. As a result of tax treaties, the effective rate on earnings distributed by a subsidiary tends to be slightly lower than the rate for branch earnings.
France

Withholding on Payments to Nonresidents

The standard withholding tax rate imposed on payments to nonresidents is 25% on dividends and 33.3% on royalties. Business profits of a French branch are subject to a 25% withholding tax whether or not the profits are remitted to the foreign head office. Tax treaties may reduce or eliminate these taxes. The withholding tax on French negotiable bond interest is 25%, but is reduced to 10% for negotiable bonds held by a resident of a treaty country (12% if the bond was issued before 1965; there is no withholding tax on certain issues authorized before 1983). Other forms of interest payment are subject to 38% withholding, except that a 10% rate applies in most cases if the creditor is a financial institution located in a treaty country. Some treaties eliminate the withholding tax for all interest.

Withholding rates for payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to:</th>
<th>Dividends</th>
<th>Interest (h)</th>
<th>Royalties(l)</th>
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<tr>
<td>United Kingdom</td>
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<td>10</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes

(a) 10% holding required; otherwise 15%.
(b) Based on dividend, plus any “avoir fiscal.”
(c) 50% holding required; otherwise 15%.
(d) 25% holding required; otherwise 15%.
(e) 50% holding required; otherwise 10%.
(f) If dividend is not taxed in Sweden; otherwise 15%.
(g) It is assumed that the particular conditions in this treaty can be satisfied.
(h) Negotiable loan instruments, but see exception in note (i). No tax withheld from interest on foreign-currency deposits with French banks.
(i) No withholding tax levied on bank and other specified types of interest. Tax of 10% levied on other interest including that on loans represented by negotiable instruments.
(j) 10% if recipient owns more than 50% of payer.
(k) Treaty reduction applies, under certain conditions, where recipient is controlled by nonresidents.
(l) A 17.6% turnover tax also applies.
(m) If a U.S. company owns at least 10% of the payer and not more than 25% of the payer’s gross income consists of dividends and interest, other than dividends and interest from its subsidiaries; otherwise 15%.
(n) 10% on bank interest.
(o) 25% for Luxembourg holding companies.
GERMANY (FEDERAL REPUBLIC OF)

Principal Business Entities

The two principal forms of limited liability organizations are the public corporation, Aktiengesellschaft (AG), and the private corporation, Gesellschaft mit beschränkter Haftung (GmbH). Other common entities include general partnerships (OHG), limited partnerships (KG), limited partnerships with a limited liability company as a general partner (GmbH & Co., KG), and branches of foreign companies.

Residence

Resident corporations are those either incorporated or managed and controlled in Germany. Branches of foreign corporations are treated as independent entities resident in Germany.

Corporate Tax Rates

Corporations are taxed at a 56% rate on undistributed income. When income is paid out in the form of dividends, a refund is granted to the corporation, which reduces its tax rate to 36%.

Branches of foreign corporations are taxed at 50%, and there is no refund when profits are remitted to the head office.

Double-Taxation Relief

Resident corporations (but not branches of foreign corporations) are entitled to a foreign-tax credit for taxes imposed on foreign-source income. The credit is generally limited to the lesser of the foreign tax paid or the German tax on the foreign income.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

Resident corporations are generally subject to German tax on their worldwide income, including business profits, dividends, interest, rents, and royalties from domestic and foreign sources. Most normal business expenses are allowed as deductions.
A nonresident is taxed on income derived from a permanent establishment, from a permanent representative, and from property located in Germany. If a nonresident maintains a German branch, the taxable branch income may include both business and nonbusiness income from worldwide sources. For example, a branch may be taxed on dividends received from foreign sources on shares held by the branch.

A German branch is entitled to normal business deductions, except that charges by its foreign head office for interest, royalties, and know-how are generally not deductible.

**Dividends.** Dividends received by one resident company from another are included in the recipient’s taxable income at a grossed-up amount, which includes the payer’s 36% corporate income tax and a 25% withholding tax. Both taxes are creditable against the income tax of the resident company receiving the dividends.

Dividends received from a foreign country with which Germany has a tax treaty are usually exempt from German tax. If no treaty applies, the foreign dividends are fully taxable and a foreign-tax credit is granted.

**Depreciation.** Depreciation of most assets may be computed using either the straight-line or the declining-balance method. Buildings must be depreciated on the straight-line method.

If declining-balance depreciation is used, rates cannot exceed the higher of three times the straight-line rate or 30%.

Intangibles are usually amortizable if they have a limited life. Patents may be amortized over five years using the straight-line method.

Investments in West Berlin and eastern border regions qualify for accelerated depreciation.

The usual straight-line rates include: buildings (2% to 5%), machinery (10%), office equipment (20%), and vehicles (20% to 33.3%).

**Inventories.** Valuation is usually the lower of cost or market following generally accepted accounting principles. When actual cost is not determinable, average cost is generally used. First-in, first-out (FIFO) or last-in,
first-out (LIFO) methods are usually not permitted for tax purposes. If it can be shown that the physical movement of the goods conforms to the assumptions inherent in the last-in, first-out method, this method will be accepted for tax purposes.

An inventory reserve for price increases may be created for goods that have increased in market value by more than 10% during the taxable year. The reserve need not be reflected in the financial statements to be effective for tax purposes. The reserve must be reversed and credited to taxable income not later than six years after it was created. In case of substantial price reductions, an earlier inclusion in income may become necessary.

Special Adjustments. A taxpayer is allowed to deduct additions to reserves for certain estimated liabilities. Such reserves are usually formed for pensions, warranties, litigation, and discounts.

The principal nondeductible expenses are corporation income tax, net worth tax, and one-half the compensation paid to members of the board of directors for general supervision.

Losses

Up to DM 5 million of current operating losses may be carried back to the two preceding years. Any excess losses may be carried forward for up to five years. These provisions are available to resident corporations and to branches of foreign corporations.

Capital Gains

Generally, all gains realized upon the sale or exchange of a company’s assets are includable in its ordinary income and taxed at the normal tax rates. Capital gains realized on the sale of certain fixed assets are not taxable if replacement assets are acquired within a specified period following disposition (normally two years). Eligible property includes investments and business assets with useful lives of at least 25 years that have been owned by the corporation for six years prior to the sale. When a qualified reinvestment is made, the deferred gain reduces tax basis in the new asset.
Assessment and Payment

The tax year ends on December 31. Businesses with other fiscal years report on the basis of their fiscal year ending within the calendar year. The annual tax return is usually due by May 31. (Due dates may vary locally and from year to year.)

Quarterly payments of estimated tax based on the prior year’s tax are required. Any balance due is assessed on the basis of the annual return and is payable within one month of assessment.

Other Taxes

The “trade tax” is effectively a local income tax, although it has a capital element. It is levied on every business establishment. The tax rate varies locally, generally averaging 16% to 23% of taxable income.

A net worth tax is imposed on corporations at a rate of approximately 0.7%. Additionally, local authorities impose a 1% to 3% tax on the appraised value of real estate.

A value added tax (VAT) of 13% is imposed on the sale of most goods, services, and imports. On resale, the seller can recover any VAT paid on the original purchase. A 6.5% rate applies, for example, to food.

Social security and other payroll taxes are levied on employers and employees. The combined employer’s share approximates 17% of compensation up to various ceilings.

Consolidated Returns

Under a complex procedure (Organschaft principle), companies that are integrated financially, economically, and organizationally may be permitted to attribute the income or loss of each subsidiary to a common parent. This is somewhat similar to a consolidated return in the United States.

Investment Incentives

Special incentives are granted for investment in West Berlin and eastern border regions. In West Berlin, cash
Germany (Federal Republic of)

grants of 10% to 30% of the cost of additions to fixed assets are available, as is accelerated depreciation of up to 75% for the first four years.

Other investment aids are offered for creating or expanding a permanent establishment in designated development areas.

Branch-Subsidiary Comparison

If German profits are to be remitted to a foreign parent, a subsidiary structure usually provides a greater aftertax return than a branch. This is especially the case where a treaty reduces the withholding tax on dividends to 20% or less. The income tax on distributed income (36%), plus a reduced treaty withholding tax of 20% or less on the balance, is less than the flat 50% branch tax.

If earnings are to be retained in the German business indefinitely, the flat 50% branch tax may be more attractive than the 56% tax on a subsidiary’s undistributed income.

Withholding on Payments to Nonresidents

A 25% withholding tax applies to dividends paid by a German company to nonresident shareholders. Most German tax treaties provide for a partial refund of the withholding tax, reducing the effective rate generally to 15% on foreign shareholders who own less than 25% of the shares of the German payer. Foreign shareholders are not entitled to any refund of the underlying German income taxes paid by a German company, unless a treaty specifically provides this relief as a means of preventing higher German taxation of foreign shareholders than of German shareholders.

There is generally no withholding tax on interest. However, bond interest is subject to 25% withholding. Royalties are subject to a withholding tax of 25%, but tax treaties usually eliminate withholding or reduce it to 10%.

There is no withholding tax imposed on remittances of business profits earned by a German branch.

Withholding rates for payments to residents of the United States and Western European countries are listed on the next page.
<table>
<thead>
<tr>
<th>Paid to</th>
<th>Percentage of Withholding Taxes on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dividends</td>
</tr>
<tr>
<td>United States</td>
<td>15(a)</td>
</tr>
<tr>
<td>Austria</td>
<td>25</td>
</tr>
<tr>
<td>Belgium</td>
<td>25(b)</td>
</tr>
<tr>
<td>Denmark</td>
<td>25(b)</td>
</tr>
<tr>
<td>France</td>
<td>25(b)</td>
</tr>
<tr>
<td>Greece</td>
<td>25</td>
</tr>
<tr>
<td>Ireland</td>
<td>20(b)</td>
</tr>
<tr>
<td>Italy</td>
<td>25</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>25(b)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25(b)</td>
</tr>
<tr>
<td>Norway</td>
<td>25(b)</td>
</tr>
<tr>
<td>Portugal</td>
<td>25(c)</td>
</tr>
<tr>
<td>Spain</td>
<td>25(b)</td>
</tr>
<tr>
<td>Sweden</td>
<td>25(b)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>25(d)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>20(b)</td>
</tr>
</tbody>
</table>

**Notes**

(a) If recipient owns 10% or more of payer’s stock and dividend is reinvested, withholding is 25%.

(b) 25% holding required; otherwise 15%.

(c) No treaty.

(d) 20% holding required; otherwise 15%.

(e) Covers only normal business interest on which no withholding tax is levied. Tax is imposed on other forms of interest paid to nonresidents at varying rates.

(f) A 13% turnover tax on value added is also imposed and a 0.7% net worth tax is imposed on the value of certain patents registered in Germany.
GREECE

Principal Business Entities

The two principal forms of limited liability organization are the corporation, *Anonymos Etairia* (AE), and the limited liability company, *Etairia Periorismenis Efthynis* (EPE). The AE is commonly used for larger scale businesses and the EPE for private business ventures. Other business organizations include branches of foreign companies, general and limited partnerships, and cooperatives. Recent legislation permits creation of a shipping company that is similar to the AE, but offers certain tax advantages. It can be used only by ship-owning enterprises or companies engaged in shipping-related businesses.

Residence

Resident companies are those organizations incorporated in Greece and those which have their legal seat or place of management in Greece.

Corporate Tax Rates

Resident corporations are not taxed on income paid out to shareholders, but a dividend withholding tax (generally 38% or 47%) is applied to such distributions. Undistributed income is taxed at an effective rate of 43.4% (consisting of a 40% basic tax, plus a deductible 15% surtax). Greek manufacturing and mining corporations listed on the Athens Stock Exchange are taxed on undistributed income at an effective rate of 38.25%.

Nonresident corporations with a Greek permanent establishment are taxed at the same rates as unlisted resident corporations (43.4%). This tax applies regardless of whether income is retained or remitted to the foreign head office.

Double-Taxation Relief

If tax-treaty provisions do not grant specific relief from double taxation of foreign income, Greece allows a tax credit for foreign taxes paid. The amount of the tax credit cannot exceed the Greek tax on the foreign income.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as treaties among these countries.
Taxable Income

A resident corporation is generally taxed on all income from worldwide sources. However, dividends received from Greek corporations (net of withholding tax) are tax exempt as described below, and interest earned on Greek bank deposits is also exempt. Other interest, royalties, and business profits from domestic and foreign sources are taxable. Most normal business expenses recorded for financial purposes are allowable deductions. Dividend distributions are also allowed as deductions, since Greece taxes only the undistributed income of a resident corporation.

A nonresident company is taxed on income derived from Greek sources; all profits of a permanent establishment in Greece; as well as rents, royalties, and gains from property situated in Greece. As with residents, domestic dividends and bank interest are excluded from a nonresident's taxable income. Business deductions attributable to Greek-source income are deductible to the same extent as for residents. However, no deduction is granted for profits remitted to the head office. A headquarters branch or office established in Greece by a foreign company may be exempt from Greek tax on income earned from activities outside Greece.

Dividends. Corporate income is taxed only once. If earnings are retained in the business, the corporation is taxed as previously explained. A corporation is not taxed on earnings paid out to its shareholders, but a withholding tax is imposed on the distribution. The withholding tax rates (38% for listed companies and 43% for unlisted companies with respect to registered shares) are the same as the corporate tax rates on undistributed income. Since the withholding is a final tax, the shareholder excludes the net dividend from taxable income. This system applies to both domestic and foreign shareholders of Greek corporations. Foreign-source dividends are taxable to Greek residents, but are not taxable to nonresident shareholders.

Depreciation. Depreciation generally may be computed only on the straight-line method at rates fixed by the Ministry of Finance. Examples include: industrial buildings (8%), machinery and equipment (10% to 15%), office equipment (15%), furniture and fixtures (20%), trucks (20%), and other vehicles (12%).

Accelerated depreciation is sometimes permitted for industrial property investments in certain regions.
Inventories. Inventories must be valued at cost or market, whichever is lower. Taxpayers may adopt any reasonable cost method, including average cost; first-in, first-out (FIFO); and last-in, first-out (LIFO). Once adopted, a cost method cannot be changed.

Special Adjustments. Additions to general reserves are not usually deductible.

Exporters are granted a special deduction, usually amounting to 1% to 3% of gross export revenue.

Losses

Operating losses may not be carried back, but usually may be carried forward for three years. Losses sustained by a manufacturing, farming, or mining company may be carried forward for five years.

Capital Gains

Capital gains on most assets are taxed as ordinary income, but the tax can often be deferred by crediting the proceeds to a special reserve for reinvestment. Capital gains not reinvested are usually taxed upon distribution to shareholders. Gains from patents are taxed at a flat 30% rate in the year of the sale.

Capital losses may be deducted from previously deferred capital gains or they may be deducted from operating income.

Assessment and Payment

The tax year ends on December 31. Taxable income is determined for the accounting period ending during the tax year. Generally, the annual accounting period must end on either December 31 or June 30. A different accounting period may be allowed if it coincides with the fiscal year of a foreign parent company.

Corporations pay an estimated tax in eight monthly instalments, usually totaling 50% of the prior year's tax. Any balance of current tax due at year end is payable in six monthly instalments beginning when the return is filed.

Other Taxes

A general turnover tax applies to the gross sales receipts of manufacturing or processing enterprises at a
rate of 8%, but this may be reduced to 4% or 2%, if production takes place in certain provinces. Exports and items subject to excise duty and consumption tax are exempt from the turnover tax. Some services are taxed at rates of 3% to 18%. Certain luxury goods are subject to an additional luxury tax.

The maximum social security contribution in the Athens and Piraeus area is presently 29% of taxable payroll. The employer pays 18.75%, and the employee pays 10.25%. The ceiling on taxable payroll is Dr 63,025 per month. Various regions offer rate reductions as development incentives.

A 3% municipal tax is imposed on income from real estate in the Athens and Salonica areas.

Real estate transfer taxes are levied at 9% or 13%, depending on the location of the property.

A stamp tax applies to many business transactions. The stamp tax on most sales invoices is 2.4%.

Consolidated Returns

Greece does not permit the filing of consolidated tax returns.

Investment Incentives

Several types of investment incentives are available, including the following:

1. Certain manufacturing, mining, or exporting businesses, which are financed with foreign capital, can obtain fixed rates of taxation for ten years with provisions for downward adjustment. These businesses also may be granted exemption from customs duties, turnover taxes, and various local taxes.

2. The hotel industry is offered special depreciation rates.

3. Industrial and handicraft enterprises undertaking new productive investments in certain areas of Greece can deduct from taxable income 50% or 150% of the cost of new investment, depending on location.

4. Both Greek and foreign shipping companies are taxed at favorable rates.
5. A Greek off-shore office of a foreign company is exempt from income tax if its income is earned from business activities conducted outside Greece.

The entire incentive program is currently under review, and major revisions may be proposed.

Branch-Subsidiary Comparison

A Greek subsidiary that distributes all its earnings to a foreign parent pays no income tax, but deducts a 43% withholding tax at source. A Greek branch pays income tax on earnings at about 43% and may distribute its after-tax profits to a foreign head office without withholding tax. Consequently, the after-tax distribution available to a foreign owner is about the same as that from a Greek branch or subsidiary. It should be noted, however, that foreign exchange controls require advance approval for repatriation of earnings.

Withholding on Payments to Nonresidents

Dividends from Greek corporations are subject to the same withholding taxes, regardless of whether the recipient is a resident or a nonresident. Statutory withholding rates vary for registered and bearer certificates and listed and unlisted securities as follows:

<table>
<thead>
<tr>
<th></th>
<th>Athens Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Listed</td>
</tr>
<tr>
<td>Registered</td>
<td>38%</td>
</tr>
<tr>
<td>Bearer</td>
<td>41%</td>
</tr>
</tbody>
</table>

Interest other than on bank deposits is subject to withholding of 25% if the foreign recipient has a Greek permanent establishment and 43.4% otherwise.

Royalties paid to nonresidents are subject to a 16.87% withholding tax imposed on gross royalties, less expenses incurred in Greece. In addition, there is 2.4% stamp tax withheld on outbound royalties. Taxation of royalties paid to nonresidents may vary in accordance with certain investment incentives.

No withholding tax is imposed on the remittance of Greek branch profits to a foreign head office. Tax treaties usually reduce or eliminate withholding tax rates on bond interest and royalty payments and, in some cases, on dividends.
Withholding rates for payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to</th>
<th>Dividends(a)</th>
<th>Interest(c)</th>
<th>Royalties(g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>38</td>
<td>-(d)</td>
<td>-</td>
</tr>
<tr>
<td>Austria</td>
<td>38</td>
<td>-(e)</td>
<td>-(e)</td>
</tr>
<tr>
<td>Belgium</td>
<td>25(f)</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Denmark</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>France</td>
<td>38</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Germany</td>
<td>25(f)</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Ireland</td>
<td>38</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>Italy</td>
<td>25(f)</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>Norway</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>Portugal</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>Spain</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>Sweden</td>
<td>38</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>38(b)</td>
<td>43.4(b)</td>
<td>16.87(h)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>38</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes

(a) Withholding tax rates vary depending on the type of shares. This table is for registered shares which are listed on the Athens Stock Exchange.

(b) No treaty.

(c) No withholding tax on bank and certain other types of interest. Interest is also subject to a 2.4% stamp tax, except for interest on bank deposits and certain bonds.

(d) 43.4% tax withheld where recipient company owns more than 50% of the payer.

(e) 10% tax withheld where recipient company owns more than 50% of the payer.

(f) This rate applies to all types of dividends and all types of companies.

(g) A stamp tax of 2.4% is also withheld.

(h) The withholding tax rate is 17.25% on royalties, which includes a 15% tax deductible surcharge, thereby reducing the effective rate to 16.87%.
IRELAND (REPUBLIC OF)

Principal Business Entities

The two principal forms of limited liability organization are the public company and the private company, which correspond to the publicly held and the closely held corporation in the United States. Other types of business enterprise include general and limited partnerships and branches of foreign corporations.

Residence

A resident corporation is one that is managed and controlled in Ireland. For determining Irish residence, the place where a business is incorporated is not relevant.

Corporate Tax Rates

 Resident and nonresident corporations are taxed at a 45% rate, if taxable income exceeds £35,000. Corporations with less than £25,000 of taxable income are subject to a 35% rate. Partial rate relief provisions apply for corporations with income between £25,000 and £35,000.

Double-Taxation Relief

Ireland does not unilaterally grant a foreign-tax credit, but allows foreign taxes paid to be deducted as an expense.

If Ireland has negotiated a tax treaty with the country to which foreign taxes were paid, a tax credit against Irish tax usually is permitted. In such cases, credit is granted for withholding taxes and income taxes paid by a foreign subsidiary. The tax credit may not exceed the amount of Irish tax on the foreign income.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

Resident corporations are generally subject to Irish tax on worldwide income including business profits, dividends (except dividends received from Irish corporations), interest, rents, and royalties. Royalty income derived from an Irish patent is tax exempt, if the patent resulted from work performed in Ireland. Most normal business expenses recorded for financial statement purposes are allowed as tax deductions.
A nonresident company is taxable on the business profits attributable to a permanent establishment in Ireland and on income from rights or assets used or held in Ireland. Deductible expenses generally are the same as for resident corporations.

A tax-holiday incentive for exports is discussed below.

**Dividends.** Dividends received by a resident corporation from another resident corporation are exempt from tax. Foreign dividend income is taxable to resident shareholders net of any foreign taxes imposed. However, certain tax treaties provide for a foreign tax credit against the Irish tax on foreign dividends. (See Double-Taxation Relief above.)

**Depreciation.** Tax depreciation need not agree with book depreciation. Tax depreciation for industrial buildings and hotels is computed on the straight-line method, but the declining-balance method is available for machinery and equipment. For all new items (except motor vehicles), initial depreciation may be claimed. The rates are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Annual Allowances on Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Industrial buildings</td>
<td>50%</td>
<td>4%</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>-</td>
<td>20%</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>100%</td>
<td>10%, 12%, 25%</td>
</tr>
</tbody>
</table>

Investments in hotels, industrial buildings, machinery, and equipment may qualify for "free depreciation," under which all or any portion of the depreciable basis may be written off at will. Used machinery and equipment are not eligible for free depreciation or initial depreciation.

The total of initial and annual allowances cannot exceed cost.

Patents may be amortized over their useful lives, but most other intangibles are not amortizable.

**Inventories.** Inventory is valued at the lower of cost or market. First-in, first-out (FIFO) is an acceptable method, but last-in, first-out (LIFO) is not.
Special relief from the effects of inflation on inventory value is granted to certain resident corporations, primarily manufacturers and distributors of machinery and equipment. A tax deduction is allowed for the lesser of (a) 75% of the operating profit, after deducting capital allowances and losses or (b) 75% of the excess of the current year’s increase in inventory value over 20% of the operating profit, before deducting capital allowances of losses.

Special Adjustments. Interest expense, in certain circumstances, is not deductible if paid to a nonresident parent company that owns 75% or more of the paying corporation’s stock.

Losses

Operating losses may be applied against other taxable income of the same year, and excess losses may be carried back as a deduction against the preceding year’s taxable income. Any remaining loss may be carried forward against future operating profits without a time limit. Upon termination of a business, losses of the last year can be carried back against the income of the three preceding years.

Capital Gains

Capital gains are taxed at an effective rate of 30%, after adjustment for an inflation index. Tax can be deferred on the gain from business assets if the proceeds are reinvested in new business assets within three years after the gain is realized.

Capital losses may be used to offset capital gains, but net capital losses may not offset ordinary taxable income.

Assessment and Payment

Taxable income is based on the income of the normal accounting period. The tax year is considered to be the normal accounting period ending on or within the calendar year. The annual tax return must be filed within 21 days after it is received from the government.

Tax is payable in two equal instalments. The first is due nine months after year-end, and the second is usually due three months later.
Other Taxes

A value added tax (VAT) is imposed on most goods and imports and many services. The standard rate for goods is 25% with certain exceptions. A 15% rate applies to most services other than banking and professional services.

Local taxes, called "rates," are levied on business real estate. Rates vary annually, but approximate 2% of the property's value.

Social security and payroll taxes are imposed on employers and employees. The employer's annual share is 10.25% of wages.

Consolidated Returns

Under the group-relief provisions, Irish resident corporations with a common Irish parent corporation may be taxed on a consolidated basis, although each company must report its results separately to the Revenue. Usually, at least 75% stock ownership in a subsidiary is necessary for group relief to apply.

Investment Incentives

For companies (resident or nonresident) in existence and exporting manufactured goods before January 1, 1981, income earned on exports is exempt from corporation tax for a maximum period of 20 years (full relief for 15 years and tapering relief for the remaining years). In no case will any relief be given beyond 1990.

For manufacturing companies established after January 1, 1981 and for those existing before that date and for which the period of export sales relief has expired, the income will be taxed at a special rate of 10%. This relief will continue to the end of the century.

Cash grants, of up to 50% of the cost of new assets, and rent-subsidized premises are available from the government.

Up to 100% first-year depreciation is permitted for investment in new plant and up to 50% in hotels and factories up to April 1, 1984 and for investment in new machinery and equipment without time limit. "Free depreciation" may be claimed on up to 100% of the cost of these assets without time limit, but the total depreciation may not exceed 100% of the cost of the asset.
The Shannon Airport is a customs-free trade zone. No income tax is imposed on profits earned before 1990 from operations in the zone.

**Branch-Subsidiary Comparison**

The same corporation tax rates (45%) apply to an Irish subsidiary as to an Irish branch owned by a foreign parent. A subsidiary’s dividends paid to a foreign parent are exempt from withholding tax, as are branch remittances to a foreign head office.

A subsidiary can be treated as resident in Ireland if corporate management is located there. A branch is taxable in full on its profits.

**Withholding on Payments to Nonresidents**

There is generally no withholding tax on dividends paid to nonresident shareholders. Payments of interest and patent royalties to nonresidents are subject to a 35% withholding tax, which is sometimes eliminated under tax-treaty provisions. No withholding tax is imposed on business profits remitted by an Irish branch.

Withholding rates for payments to residents in the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to</th>
<th>Percentage of Withholding Taxes on Dividends(a)</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Austria</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>15(b)</td>
<td>-</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Greece</td>
<td>-</td>
<td>35(c)</td>
<td>35(c)</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Portugal</td>
<td>-</td>
<td>35(c)</td>
<td>35(c)</td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>35(c)</td>
<td>35(c)</td>
</tr>
<tr>
<td>Sweden</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Notes:
(a) No withholding taxes levied on dividends.
(b) No tax on bank or similar interest.
(c) No treaty.
Following the change in the corporation tax system introduced in Ireland in 1976, all the treaties have to be revised. The only one that is up to date is that with the United Kingdom, which was revised in 1976.
Principal Business Entities

The two principal forms of limited liability organization are the corporation, *Società per Azioni* (SpA) and the private corporation *Società a responsabilità limitata* (Srl). Other common business entities include general and limited partnerships and branches of foreign companies.

Residence

A corporation is considered a resident if it is incorporated in Italy, or if its management headquarters or principal operation is in Italy.

Corporate Tax Rates

Corporations are subject to a 27% income tax on legal entities (IRPEG) and a 16.2% local tax (ILOR), which is deductible in computing IRPEG. The combined effective rate is approximately 39%. The same tax rates apply to residents and nonresidents. These rates include the 1982 special 8% surtax.

Double-Taxation Relief

To avoid double taxation of income earned by a resident corporation, Italy provides relief for income taxes paid on such income abroad. The relief is in the form of a direct tax credit or exemption from IRPEG, on the same terms applied by the foreign country in granting a tax credit or exemption for similar income earned in Italy and up to that proportion of the Italian tax corresponding to the proportion which the foreign income bears to total assessable income. If the foreign country does not grant a tax credit or exemption, the credit is allowed up to an amount equivalent to 90% of said proportion of the Italian tax.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

As a rule, IRPEG applies to all income of a resident business entity, whether earned in Italy or abroad, whereas ILOR applies only to income earned in Italy and those foreign countries in which the resident entity does not
have a permanent establishment. Nonresident business entities are subject to IRPEG only on income earned in Italy and are not subject to ILOR.

**Dividends.** Dividends paid by an Italian resident corporation to resident shareholders are generally subject to tax withholding at the rate of 10% because of the recipient’s liability to income tax. Dividends paid to nonresident shareholders are subject to tax withholding at the rate of 30% in final settlement of the recipient’s liability. The foreign resident may then claim reimbursement of the tax withheld up to a maximum of two-thirds of the taxes that he can prove to have paid abroad on the dividends in question.

For income tax purposes, the resident shareholders of a resident corporation are entitled to a tax credit equivalent to one-third of the dividends received from such corporation. The amount of the tax credit must be added to the assessable income and deducted from the tax liability declared to the revenue authorities. If the amount of the tax credit exceeds that of the liability (before deducting the credit), the taxpayer is entitled to a refund of the difference.

As explained above, Italian legislation also provides for limited relief for income taxes paid on income earned abroad by an Italian resident, such as the dividends received by the resident shareholders of a nonresident corporation. However, this situation, as well as the taxation of dividends paid by a resident corporation to nonresident shareholders, may also be affected by the provisions of international tax treaties.

Dividends are not subject to ILOR.

**Depreciation.** Depreciation must normally be computed using the straight-line method. The government has established specific rates for assets used in various industries. Typical maximum rates include: buildings (3% to 7%), machinery and equipment (6% to 17%), office furniture and fixtures (12%), and automobiles (20% to 25%).

Intangibles may be amortized over their useful lives. If an asset’s life is indeterminable, a 20% rate may be used.

Accelerated depreciation may be claimed for tangible and certain intangible assets in the first three years. The additional depreciation cannot exceed 15% of cost in each year.
Inventories. Each category of inventory is valued at the lower of cost or market. The cost method usually used is last-in, first-out (LIFO). Other cost methods producing a higher valuation may be used. Market is defined as the “normal value” of the goods during the last three months of the year.

Special Adjustments. A bad-debt provision may be deducted at a rate up to 0.5% of total accounts receivable until a total reserve of 2% of receivables has been established. Thereafter, it may be increased at a rate of 0.2% of receivables up to a maximum reserve of 5% of total receivables.

Losses

A five-year carryforward of net operating losses is permitted for federal tax purposes, but not for local tax purposes. No loss carryback is permitted.

Capital Gains

Capital gains are taxed as ordinary income and capital losses are allowed as ordinary deductions. The tax on capital gains from disposal of fixed assets can be deferred if the gain is reinvested in fixed assets within two years. Deferred gain reduces the depreciable basis of replacement assets.

Assessment and Payment

The tax period may be either a calendar or fiscal year. Fiscal-year corporations are assessed on the income reported for their accounting period. An annual tax return must normally be filed within one month after the approval of the financial statements at the annual shareholders’ meeting. Prepayments of taxes (IRPEG and ILOR) must be made within the 11th month of the accounting period in an amount not less than 92% of either the tax paid for the preceding period or the estimated tax due for the current period. The balance is due with the filing of the tax return.

Other Taxes

There is a municipal tax (INVIM) on realized appreciation of real property located in Italy. Tax is payable each time a company sells real estate. Real estate companies and any companies that own property not used for their own business activities are also subject to this tax on the increase in value of any such property that they have owned for more than ten years. INVIM tax rates
increase progressively from a minimum of 3% to a maximum of 30%, depending on the amount of appreciation and holding period.

A value added tax applies to most goods, services, and imports. The standard rate is 15%; a special reduced rate of 2% applies to basic commodities, and a 35% rate applies to luxury goods.

Employers and employees must contribute to various social security programs; rates vary with salary level and business classification. Generally, the employer portion of compulsory social contributions ranges from 40% to 46% of payroll for personnel other than executives. The employees pay an additional amount—approximating 8% of their gross salary or pay.

**Consolidated Returns**

Under certain circumstances, consolidated returns are allowed for value added tax, but not for income tax purposes.

**Investment Incentives**

A wide variety of incentives is available for investment in the so-called Mezzogiorno (Southern Italy, Sardinia, Sicily, and the Isle of Elba), and in certain other depressed areas of Northern and Central Italy. For investments in the Mezzogiorno, cash grants of 15% to 40% of investment cost are offered as well as loans at low interest. In addition:

(a) Reported taxable profits that are invested in the Mezzogiorno enjoy exemption from ILOR up to 70%, or an amount equivalent to the cost of construction work and of plant and equipment, whichever is lower;

(b) Income derived from the establishment of industrial plants in the Mezzogiorno enjoys exemption from ILOR for a period of ten years from the first year the company has taxable income, while corporations established in the Mezzogiorno for the purpose of carrying out production activities in those areas enjoy exemption from ILOR and a 50% reduction in their liability to IRPEG for a period of ten years from the date of their formation.

New industrial enterprises organized for the production of goods in the depressed areas of Northern and Central Italy enjoy exemption from ILOR for a period of ten years from the date on which they start operating, provided that the amount of their investments in fixed assets does not exceed six billion lire.
Italy

**Branch-Subsidiary Comparison**

The same IRPEG and ILOR rates apply to an Italian subsidiary as to an Italian branch of a foreign corporation. A subsidiary's dividend distributions to a foreign parent are subject to withholding tax, but branch remittances to a foreign head office are not.

**Withholding on Payments to Nonresidents**

Branch profits may be remitted to a foreign head office without withholding tax. Payments of investment-type income are subject to withholding tax at the following rates (unless reduced by a tax treaty):

- **Dividends**: 32.4%
- **Interest**: 15% (20% on certain bonds)
- **Royalties**: 21%

If a dividend received by a nonresident corporate shareholder is taxable in the shareholder's country, Italy grants a partial refund of the 30% dividend withholding tax. The maximum refund is the lesser of the foreign tax on the dividend or two-thirds of the tax withheld at source.

Withholding rates for payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to</th>
<th>Dividends</th>
<th>Interest(e)</th>
<th>Royalties</th>
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<tbody>
<tr>
<td>United States</td>
<td>5(a)</td>
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<tr>
<td>United Kingdom</td>
<td>5(d)</td>
<td>15(h)</td>
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</tbody>
</table>
Notes

(a) If recipient is a corporation owning at least 95% of payer’s stock and not over 25% of payer’s income consists of dividends and interest other than from its own subsidiaries; otherwise 15%.

(b) No treaty.

(c) 75% holding required; otherwise 30%. Treaty reductions apply to all types of shares.

(d) 51% holding required; otherwise 15%.

(e) Does not cover bond interest on which withholding tax is normally 20%.

(f) 15% on loans secured by Italian immovables. No tax on other interest.

(g) If either company is owned 40% by the other, withholding is 21%.

(h) Different rates apply to bank deposits and current accounts.
LUXEMBOURG

Principal Business Entities

The two principal forms of limited liability organization are the corporation, Société Anonyme (SA), and the private company, Société à Responsabilité Limitée (SARL), which are similar to publicly held and closely held corporations in the United States. Other types of business enterprises include general and limited partnerships, joint ventures, and branches of foreign corporations.

Residence

Resident corporations are those incorporated or having their central management in Luxembourg.

Corporate Tax Rates

The maximum tax rate of 40% applies if taxable income exceeds LFr 1,312,000. For lower levels of taxable income, progressive rates of 20% to 40% apply.

Nonresident corporations deriving income from a Luxembourg permanent establishment are taxed at the 40% rate. However, if they can show that their worldwide income is less than LFr 1,312,000, the lower progressive rates apply.

Double-Taxation Relief

Luxembourg has adopted a foreign-tax credit system of unilateral relief from double taxation for situations where tax treaties do not apply. A limited foreign tax credit is available to resident companies deriving certain types of income from foreign sources, provided the income is subject to income tax in the other country. Foreign tax credit is allowed with respect to income from a foreign permanent establishment, certain gains from disposition of assets situated abroad, and foreign-source dividends and interest. Generally, the foreign-tax credit is computed on a per-country limitation basis. The limitation is generally the lesser of the foreign tax or the Luxembourg tax on the foreign-source income. In certain cases where foreign taxes are paid on foreign-source dividends and interest, the foreign-tax credit limitation can be determined on an overall basis rather than the per-country basis, but different technical limitations apply.
Foreign-source dividends that qualify for the “affiliation privilege” are exempt from Luxembourg taxation, in which case no foreign-tax credit is available on the dividends. (See “Dividends” below.)

Tax treaty provisions do not apply to Luxembourg holding companies. The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as treaties among these countries.

**Taxable Income**

Resident corporations are generally subject to tax on worldwide income, including business profits, dividends, interest, rents, and royalties.

Nonresidents are subject to the corporation tax on income from a permanent establishment or real property located in Luxembourg and on gains from the sale of a substantial holding (25% or more) in a Luxembourg company. Most normal business expenses recorded for financial-statement purposes are allowed as deductions.

Luxembourg holding companies are exempt from income tax. However, an annual subscription tax is imposed, usually on the value of a holding company’s capital. The rate and the method of taxation vary depending on the nature of the holding company, but the effective tax rate approximates 0.2% of the value of a holding company’s capital.

**Dividends.** Dividends received by a resident corporation (other than a Luxembourg holding company) from another Luxembourg corporation are tax free, providing the recipient has held at least a 25% stock ownership for at least 12 months before the end of the dividend year. This relief, referred to as the “affiliation privilege,” is also available if the dividends are received from a nonresident corporation, provided that the payer was subject to a foreign income tax comparable to the Luxembourg income tax.

Dividends not eligible for the affiliation privilege are taxable in full to resident shareholders. A 15% withholding tax is deducted from domestic dividends (other than those paid by a holding company), but this is creditable
by the shareholder against its income tax. Foreign-source dividends not eligible for the affiliation privilege are included in a resident’s taxable income, with credit granted for foreign withholding taxes. (See “Double-Taxation Relief” above.)

**Depreciation.** Straight-line depreciation must be used for buildings and intangible assets, such as patents. For other tangible assets, either the straight-line or the declining-balance method may be used. Declining-balance rates may not exceed the lower of twice the straight-line rate or 20% for assets purchased before December 31, 1981. For assets purchased thereafter, the restriction is three times the straight-line rate or 30%.

Typical straight-line depreciation rates include:
- industrial buildings (4%),
- office buildings (2%),
- machinery (8-12%),
- office equipment (10%), and
- vehicles (25%).

**Inventories.** Inventories are valued at the lower of cost or market. Last-in, first-out (LIFO) or first-in, first-out (FIFO) methods may be adopted if they can be justified by the business situation. A weighted-average cost method may be used for fungible goods.

**Special Adjustments.** No deduction is allowed for remuneration paid to directors (except for day-to-day actual services rendered) and for fees paid to statutory auditors. Interest expense charged to a branch (other than a bank) by its foreign head office is not tax deductible.

**Losses**

A resident’s business losses may be deducted against other income realized during the same year, and any excess loss may be carried forward for five years.

Nonresident businesses are not allowed any loss carryovers, unless specifically provided by a tax treaty.

**Capital Gains**

Capital gains are generally taxed as ordinary income, except for an excludable portion of the gain attributable to inflation. Tax on gains from the sale of real property and certain investments held for at least five years may be deferred if the proceeds are reinvested within two years.

**Assessment and Payment**

The tax year ends on December 31. A company that maintains its records on a fiscal-year basis computes
taxable income for its accounting year ending during
the tax year. Annual tax returns are due May 31; exten-
sions of time to file are available.

Advance payment of tax is required during the tax year
on the tenth of March, June, September, and December.
Payments are based on the prior year's tax. Final pay-
ment is due one month after issuance of a final assess-
ment determined from the company's tax return.

Other Taxes

A municipal business tax is levied on all businesses
located in Luxembourg. The tax comprises a tax on
three elements: business income, net worth, and
payroll. The effective tax rates vary by locality, but the
income element consists of a tax ranging from 5.6% to
15% of taxable income over LFr 400,000 and the net
worth element generally ranges from 0.28% to 0.75% of
taxable net worth over LFr 800,000. The payroll element
generally ranges from 0.6% to 0.8% of taxable payroll.

There is a separate net worth tax on resident and non-
resident companies. Residents are taxed on worldwide
net worth, excluding the value of ownership in subsidi-
aries eligible for the affiliation privilege. (See "Divi-

dends" above.) Nonresidents are subject to the net
worth tax on Luxembourg situs property. The net worth
tax rate is 0.5%. Holding companies are exempt from
the net worth tax.

Registration tax on issuance of capital amounts to 1%.

A value added tax of 10% is charged on most goods,
services, and imports. Reduced rates apply to such
items as food.

Various social security taxes are imposed on employers
and employees. The total cost to the employer may be
12% of white collar payroll and 13% to 29% of other
payroll.

Consolidated Returns

Luxembourg does not permit the filing of consolidated
tax returns.

Investment Incentives

Two types of investment tax credit are available. A
credit against corporate income tax may be taken for
12% of supplementary investment in most types of
tangible depreciable assets other than buildings. Sup-

dlementary investment is the excess of the value of a
company's qualifying assets at year-end over the value of qualifying assets at the end of the prior year. Used assets are not eligible for this credit, but they may qualify for another type of tax credit equal to 6% of the investment cost up to LFr 3,000,000 and 2% of cost in excess of LFr 3,000,000. Any excess credit may be carried forward for up to four years.

New businesses may be granted capital subsidies for up to 15% of investment expenditures. A business established before 1983 may be granted a tax exemption for up to 25% of its taxable income earned during the first eight years of operation in Luxembourg.

Branch-Subsidiary Comparison

Generally, the 40% tax rate applies to both a Luxembourg subsidiary and a Luxembourg branch of a foreign corporation. A subsidiary's dividend distributions to a foreign parent are subject to withholding tax, but branch remittances to a foreign head office are not. Providing the withholding tax on dividends can be claimed as a foreign tax credit by the parent company, the branch and subsidiary structures in Luxembourg tend to have the same effective tax rates.

Withholding on Payments to Nonresidents

Dividends paid to nonresident shareholders are subject to a 15% withholding tax, except that dividends paid by a holding company are exempt. Patent royalty payments to nonresidents are subject to a 12% withholding tax if the recipient has no permanent establishment in Luxembourg; otherwise, they are included in the business taxable income of the permanent establishment. Other royalties are subject to a 10% tax. Most types of interest are exempt from withholding tax, but interest on loans secured by Luxembourg real estate is subject to the 40% corporate income tax. Branch profits may be remitted to a foreign head office without withholding tax.

Withholding rates for payments to residents of the United States and Western European countries are listed on the following page.
### Percentage of Withholding Taxes on

<table>
<thead>
<tr>
<th>Paid to:</th>
<th>Dividends (g)</th>
<th>Interest (d)</th>
<th>Royalties (e)(h)</th>
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<tbody>
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<td>United States</td>
<td>5(a)</td>
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<td>-</td>
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<tr>
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<td>5(b)</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Denmark</td>
<td>15(c)</td>
<td>-</td>
<td>12(c)</td>
</tr>
<tr>
<td>France</td>
<td>5(b)</td>
<td>-</td>
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<td>-</td>
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<td>United Kingdom</td>
<td>5(b)</td>
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<td>5</td>
</tr>
</tbody>
</table>

### Notes

(a) If recipient is a corporation owning at least 50% of payer's stock, and not more than 25% of payer's gross income consists of dividends and interest other than from its own subsidiaries; otherwise 7.5%.

(b) 25% holding required; otherwise 15%.

(c) No treaty.

(d) No withholding tax on general business interest.

(e) 5% turnover tax also applies.

(f) If recipient owns more than 50% of payer's voting stock, rate is 10%.

(g) No withholding tax on dividends from a Luxembourg holding company.

(h) Rates are for patent royalties. Other royalties are taxed at not more than 10%.
THE NETHERLANDS

Principal Business Entities

The two principal forms of limited liability organization are the public corporation, Naamloze Vennootschap (NV), and the closely held corporation, Besloten Vennootschap Met Beperkte Aansprakelijkheid (BV). Other types of businesses include three types of general and limited partnerships, branches of foreign corporations, and cooperatives.

Residence

Resident companies are those incorporated or centrally managed in the Netherlands.

Corporate Tax Rates

A 48% tax rate applies to resident and nonresident corporations with taxable income in excess of 50,000 Dutch guilders (Fl). If taxable income is below Fl 50,000, the following rates apply:

- First Fl 40,000: 45%
- Next Fl 10,000: 60%

(increasing the effective rate on Fl 50,000 to 48%)

Double-Taxation Relief

Resident corporations are granted a tax credit with respect to business income from a foreign permanent establishment that is subject to income tax in the foreign country. The credit is equal to the total Dutch tax on worldwide income multiplied by the ratio of foreign business income to total income, without reference to whether foreign tax is actually levied and paid. Foreign taxes withheld on investment income are deductible as expenses, but are not allowed as tax credits. Under the terms of some Dutch tax treaties (such as the Netherlands-U.S. treaty), a foreign-tax credit is allowed for dividend withholding tax imposed by the other treaty country.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

Resident corporations are subject to tax on their worldwide income, including business profits, dividends, interest, rents, and royalties. Most normal business
expenses recorded for financial-statement purposes are allowed as deductions.

Nonresident corporations are taxed on their net profits from Dutch sources. Taxable income consists of business income realized by a permanent establishment or permanent representative in the Netherlands, income from Dutch real estate, and income on mortgages secured by Dutch real estate.

Certain resident corporations, which derive their income mainly from real estate, securities, and mortgage loans, are classified as investment companies and are exempt from corporate income tax. To be treated as an exempt investment company, a corporation must distribute all of its ordinary income each year, and it cannot be principally owned by foreigners.

**Dividends.** In general, dividends are not taxable to a resident shareholder owning 5% or more of the paying corporation's par value of paid-up nominal capital. If dividends are taxable to the recipient, a 25% withholding tax is deducted from the distribution, the gross amount of the dividend is included in the shareholder's taxable income subject to its regular rate of tax and the 25% tax withheld is treated as an advance payment of the shareholder's tax liability.

Foreign dividends with respect to a substantial shareholding (at least 5%) are exempt from tax, provided the paying corporation is subject to income tax in its country. Other foreign dividends are taxable to resident shareholders, with a deduction allowed for taxes withheld at source.

**Depreciation.** Depreciation may be calculated on any reasonable basis. There are no official guidelines, but, in practice, rates are agreed upon by the tax authorities and the taxpayer. Tax depreciation need not correspond to book depreciation. The following straight-line rates are normally used: industrial and commercial buildings (1.5% to 2%), machinery (10%), office equipment (10%), and vehicles (20% to 33.3%).

Intangible assets are amortizable if they have a limited useful life.

**Inventories.** Inventories may be valued at cost, or at the lower of cost or market. Any reasonable cost method including first-in, first-out (FIFO) and last-in, first-out (LIFO) may be used if followed consistently. There is no requirement to include overhead costs in inventory valuation.
Special Adjustments. Taxpayers may deduct additions to reserves for major periodic maintenance and, under certain conditions, for self-insurance against insurable losses.

A deduction is allowed for an amount equal to 2.25% of shareholders’ equity.

Losses

Operating losses may be deducted against other income of the same year. Any excess loss must first be carried back two years, and any remaining loss may be carried forward against taxable income of the next eight years. Earliest losses are absorbed first. Operating losses during the first six years of a company’s existence may be carried forward without time limit.

Capital Gains

Capital gains from the disposal of business assets are taxed as ordinary income. However, the tax can be postponed if the proceeds from asset dispositions are reinvested in replacement assets within four years. A corporation is not taxed on its gain from the sale of stock in a subsidiary corporation if it has owned at least a 5% shareholding since the beginning of its taxable year. Losses from the sale of such stock are not deductible.

Assessment and Payment

A corporation reports its taxable income on the basis of the accounting period it uses for financial-statement purposes. The corporate tax return is due six months after fiscal year-end, but an extension can be requested. Tax is normally paid on the basis of two assessments. The first assessment is about seven months after the corporation’s previous year-end. Unless the corporation can justify a lower amount, the first assessment can be as high as 85% of the prior year’s tax. The balance of tax is assessed one to three years after year-end. Both assessments are payable within one month of their issuance.

Other Taxes

A value added tax is levied on virtually all transactions involving goods, services, and imports. The tax charged to a company by suppliers can be offset with the tax charged by the company to its customers. The standard rate is 18%, but a reduced rate of 4% applies to certain basic goods and services.
Social security contributions represent approximately 54% of payroll up to a specified maximum. In general, half of the contributions are paid by the employer and half by the employees.

A 6% tax on the transfer of real estate is imposed, except, under certain conditions, where value added tax applies to the transaction. Some municipalities impose local taxes based on the value of real estate.

A 1% duty is levied on paid-in capital (whether in cash or in kind) when a corporation issues shares.

Consolidated Returns

If a Dutch corporation owns all the shares of another Dutch corporation, permission may be requested to combine profits and losses of these companies for tax purposes. If permission is granted, a consolidated return is normally filed for as long as the relationship continues.

Investment Incentives

Investment-bonus provisions, similar to an investment-credit system, provide for a bonus (credit against tax) of 16% of investment in new commercial and industrial buildings, 10% of investment in existing commercial and industrial buildings, 12% on fixed installations in the open air, and 12% on other capital investments. Rates of 12% to 15% apply to airplanes and ocean vessels. Aside from these basic premiums, there are a number of supplementary grants.

The former practice of imposing penalties on new construction in the western part of the Netherlands was suspended as of September 16, 1981.

Branch-Subsidiary Comparison

The corporation tax rate of 48% applies to both Dutch subsidiary corporations and branches. Withholding tax is levied on dividends paid to a foreign parent, but there is no withholding tax on branch remittances to a foreign head office. Therefore, the withholding tax is generally an additional cost of doing business in the Netherlands through a subsidiary corporation as compared with a branch.

Withholding on Payments to Nonresidents

Nonresidents are generally subject to a 25% withholding tax (or lower treaty rate) on dividends from a Dutch
The Netherlands

corporation. No withholding tax is levied on remittances of normal business interest, royalties, or branch profits.

Withholding rates on payments to residents of the United States and Western European countries are listed below.

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<tr>
<th>Paid to</th>
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<td>5(a)</td>
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</tbody>
</table>

**Notes**

(a) If recipient company owns at least 25% of the voting stock, and not more than 25% of the payer’s gross income consists of dividends and interest, other than from its own subsidiaries or from conduct of its banking business; otherwise 15%.

(b) No treaty.

(c) 50% holding required; otherwise 15%.

(d) Covers only normal business interest on which no withholding tax is levied. Tax is imposed on other forms of interest paid to nonresidents at various rates.

(e) No withholding tax on royalties, but royalties are subject to 18% turnover tax on value added.
NORWAY

Principal Business Entities

The principal forms of limited liability organization are the corporation, Aksjeselskap (A/S), and branch operations of foreign corporations. Other common business entities include four types of general and limited partnerships. Foreign investors usually prefer to do business in Norway through an A/S.

Residence

Resident corporations are those either incorporated or managed and controlled in Norway.

Corporate Tax Rates

Corporations are subject to a combined tax rate of approximately 50.8%. The components of this rate are a federal income tax of 27.8%, a municipal tax of 21%, and a 2% equalization tax. The 50.8% rate applies to the undistributed earnings of a resident corporation. The portion of a resident corporation’s earnings used to pay dividends is exempt from the federal tax, which reduces the effective rate on distributed income to 23% (the sum of the municipal tax and equalization tax). A nonresident corporation is taxed at 50.8% whether or not earnings are distributed.

Corporations involved in oil and gas production or pipeline transportation in Norway are subject to an additional 35% tax on income in excess of 6.67% of their investment in depreciable business assets.

Double-Taxation Relief

Norway has attempted to relieve the effects of double taxation on foreign-source income by negotiating tax treaties. Where no treaty exists, foreign income taxes generally are not allowed as credits against Norwegian tax, but they may be deducted as an expense if the foreign-source income is taxable in Norway. In addition, a resident can exclude certain foreign income from Norwegian taxable income. (See “Taxable Income” below.) Foreign withholding tax on dividends received is allowed as a tax credit against a resident corporation’s income tax.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.
Taxable Income

Resident corporations are subject to tax on their worldwide income, including business profits, dividends, interest, rents, and royalties. Most normal business expenses recorded for financial-statement purposes are allowed as deductions. In addition, where there is no tax treaty in effect, a resident corporation can exclude from taxable income 50% of the income from a foreign permanent business establishment and from foreign real property. Any tax paid in the foreign country is deducted from such income before computing the 50% exclusion. Nonresident businesses are subject to corporation tax on income from Norwegian sources which consists of:

- business income from a permanent establishment in Norway
- income from real estate located in Norway
- dividends from a Norwegian corporation (This liability is normally satisfied by withholding tax.)

Where a treaty applies, Norway generally exempts from taxation the business income from a permanent establishment in the treaty country.

Dividends. For federal tax purposes only, dividends from domestic corporations are taxable as ordinary income for resident shareholders. Foreign-source dividends are fully taxable for federal, municipal, and equalization tax purposes, subject to tax-treaty exemptions.

Nonresidents are taxed on Norwegian-source dividends, but usually satisfy the tax liability through withholding.

Depreciation. For the income year 1982, taxpayers have the option to apply a new set of rules or the former rules. Beginning with the income year 1983, the new rules are mandatory.

- New Rules (Optional for 1982). Depreciation shall be calculated on a declining-balance basis. Depreciation rates are as follows: buildings (except offices and stores) — up to 8%; machinery and equipment — up to 30%; airplanes, ships, oil-rigs, and fishing vessels — up to 30%. Office and store buildings are depreciated on a straight-line basis at rates ranging from 2% to 5%.
Additional depreciation and initial depreciation are no longer permitted.

- **Former rules.** Depreciation is calculated using the straight-line method. Tax depreciation must be the same as depreciation recorded for book purposes. Published government guidelines are generally used to determine depreciation rates. Examples of these rates are: buildings (2% to 5%), machinery and equipment (5% to 15%), motor vehicles (10% to 20%), and office equipment (10%).

Additional depreciation is allowed for depreciable assets other than certain commercial buildings (used for offices, shops, hotels, etc.) and motor vehicles. Such additional depreciation may be taken only for the first year of use and the four subsequent years. The maximum additional depreciation in any one year is the lesser of half the regular depreciation or 5% of the asset cost, but the total claimed for the five years cannot exceed 15% of cost.

Alternatively, certain assets are eligible for an initial allowance which may be claimed in addition to ordinary depreciation. The initial allowance for a qualified asset may be deducted over a period of five years, but the allowance cannot exceed 50% of taxable income in any one year. Certain buildings and facilities for production or storage of goods and drilling platforms or drillships are eligible for the initial allowance of 25% of cost in excess of Nkr. 500,000. Ships and aircraft are similarly eligible for the 25% initial allowance, but the Nkr. 500,000 minimum does not apply.

Intangible assets, other than goodwill, may be amortized over their useful lives.

**Inventories.** Inventory must be valued at the lower of cost or market. Manufacturers must use a full-absorption cost method. The first-in, first-out (FIFO) method is commonly used. The last-in, first-out (LIFO) method is not permitted.

**Special Adjustments.** Dividends paid by Norwegian companies are deductible in computing federal taxable income, but not for purposes of the municipal income tax.
Norway

Losses

Business losses may be deducted against other business income during the year, and any excess loss may be carried forward for ten years. Normally, no loss carryback is allowed; however, a net loss incurred in the final year of operations may be carried back two years. Special extended loss provisions apply for businesses engaged in the exploration for, or exploitation of, petroleum. Subject to certain limitations, business losses from these activities may be carried forward for 15 years.

Capital Gains

Gains from the sale of depreciable business assets are usually taxable as ordinary income. However, tax can be deferred, in some cases, by either reinvesting sale proceeds in replacement assets (generally within four years) or by writing down the depreciable basis of other fixed assets on hand. Gain from the sale of real estate for a building site may be subject to a reduced federal tax rate of 15% (10%, if sold to a government body). Gains from selling securities are usually tax free, if they were held for investment purposes for at least five years after the end of the calendar year of acquisition. Gains on investment securities not held more than five years are taxed separately from regular business income. Capital losses on such transactions are deductible only against taxable gains.

Assessment and Payment

The tax year ends on December 31. A company using a fiscal year reports taxable income for the accounting year ending during the tax year. Tax returns are generally due February 28 of the following year. A one-month filing extension may be granted on request.

Tax is payable in four instalments. The first two instalments, each usually equal to 25% of the prior year’s tax, are payable on February 15 and April 15 of the year after the income year. The balance of tax is due in two equal instalments on the following September 15 and November 15.

Other Taxes

A 0.7% federal net worth tax is levied on the net assets of resident and nonresident corporations. A local 1% net worth tax is also imposed on branches of foreign cor-
Norway

Branches of foreign corporations may not deduct a liability to the head office in computing taxable net worth.

A 20% value added tax is imposed on the sale of most goods and services as well as on imports. Exports are exempt from this tax.

Employers and employees are required to contribute to a social security program. The employer's share of contributions ranges up to 16.8% of payroll.

Consolidated Returns

Norway does not permit the filing of a consolidated tax return. However, a system of corporation-contribution (konsernbidraget) has been introduced. Contributions can be made to 90%-owned companies in an affiliated group. Contributions cannot be made to companies outside Norway. The effect is that a loss in one company is offset against profits in another company.

Investment Incentives

A business enterprise is permitted to establish a reserve for investment in pollution-control equipment and other assets that protect the environment. Additions to this reserve may be tax deductible up to 25% of each year's taxable income as computed for municipal tax purposes. When purchases of new productive assets are made with funds from the reserve, 85% of the asset cost is included in taxable income. At the same time, the taxpayer may claim a deduction, in an equivalent amount, for extraordinary depreciation of the new assets. The rest of the purchase price constitutes the basis of the purchased asset, which can be written off under the normal depreciation rules.

Various cash grants are available for qualified investments in underdeveloped regions. These grants are usually offered for investment in buildings and other assets of a permanent nature. Grants range from 15% to 35% of asset cost and vary by region. Grants are not taxable, but they reduce the depreciable basis of assets acquired.

Branch-Subsidiary Comparison

Foreign investors usually adopt a subsidiary rather than a branch structure for Norwegian operations. There is a
tax advantage in using a subsidiary because a subsidiary may deduct dividend payments in computing taxable income for federal purposes. Both a subsidiary and a branch are subject to the same municipal taxes, but the branch is subject to the 27.8% federal tax on its income whether or not it is remitted to the head office. A subsidiary avoids federal tax on distributed earnings, thereby saving the 27.8% tax on the amount of its dividends. A withholding tax of 25% (or reduced treaty rate) applies to the dividends paid to a foreign shareholder, but since the dividend withholding tax is less than the federal income tax, a subsidiary can pay a greater return to a foreign investor than can a branch. In practice, however, a subsidiary cannot distribute all of its income, since a portion must be allocated to a statutory reserve.

Withholding on Payments to Nonresidents

Norway imposes a 25% withholding tax on dividends remitted to a foreign parent. Tax treaties generally reduce or eliminate this tax. No withholding tax applies to payments of interest, royalties, and branch remittances.

Withholding rates on payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to:</th>
<th>Percentage of Withholding Taxes on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dividends</td>
</tr>
<tr>
<td>United States</td>
<td>10(a)</td>
</tr>
<tr>
<td>Austria</td>
<td>15</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
</tr>
<tr>
<td>Denmark</td>
<td>15</td>
</tr>
<tr>
<td>France</td>
<td>-(b)</td>
</tr>
<tr>
<td>Germany</td>
<td>-(c)</td>
</tr>
<tr>
<td>Greece</td>
<td>25(d)</td>
</tr>
<tr>
<td>Ireland</td>
<td>-(e)</td>
</tr>
<tr>
<td>Italy</td>
<td>25</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>25(d)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-(c)</td>
</tr>
<tr>
<td>Portugal</td>
<td>10(c)</td>
</tr>
<tr>
<td>Spain</td>
<td>10(f)</td>
</tr>
<tr>
<td>Sweden</td>
<td>15</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10(i)</td>
</tr>
</tbody>
</table>
Notes

(a) If a U.S. company owns at least 10% of the payer's voting stock and not more than 25% of the payer's gross income consists of dividends and interest, other than from its subsidiaries or the conduct of its banking business; otherwise 15%. A treaty revision scheduled to become effective June 1, 1982 will change the withholding tax rules of the current treaty. Under the revised treaty, the dividend withholding tax will be 15%.

(b) 50% holding required; otherwise 10%.

(c) 25% holding required; otherwise 15%.

(d) No treaty.

(e) 25% holding required; otherwise 10%.

(f) 50% holding required; otherwise 15%.

(g) No withholding tax levied on interest.

(h) No withholding tax on royalties, but a 20% turnover tax applies.

(i) 10% holding required; otherwise 15%.
PORTUGAL

Principal Business Entities

The two principal forms of limited liability organization are the public company, Sociedade Anônima de Responsabilidade Limitada (SARL), and the closely held company, Sociedade por Quotas (quota company). The quota company is more frequently used by foreign investors. Other types of business organization include partnerships and branches of foreign companies, but these are seldom used by foreign investors.

Residence

A resident company is one that has its head office in Portugal or its adjacent islands.

Corporate Tax Rates

Resident and nonresident companies, including branches of foreign corporations, are subject to two principal income taxes: the industrial tax on business profits and the complementary tax on undistributed profits. The income tax rates are graduated as follows:

<table>
<thead>
<tr>
<th>Taxable Income in Escudos (Esc.)</th>
<th>Industrial Tax</th>
<th>Complementary Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 120,000</td>
<td>30%</td>
<td>6%</td>
</tr>
<tr>
<td>120,001 to 1,200,000</td>
<td>30%</td>
<td>8%</td>
</tr>
<tr>
<td>1,200,001 to 3,000,000</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>3,000,001 to 6,000,000</td>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td>Over 6,000,000</td>
<td>40%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Double-Taxation Relief

Portugal does not grant credits for foreign taxes paid, unless specifically provided in a tax treaty. However, foreign taxes paid are deductible as expenses.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as treaties among these countries.
Portugal

Taxable Income

Resident companies are generally subject to industrial tax on net income reported for financial purposes, except that the industrial and complementary taxes are not deductible. Except as described, below, under “Dividends,” residents are taxed on worldwide income, including dividends, interest, rents, royalties, and branch profits. The complementary tax is imposed on the same taxable income as for industrial tax purposes, less the current year’s industrial tax and any dividends paid.

Nonresident companies are subject to the same taxes, but only on Portuguese-source income.

Dividends. Generally, resident companies are taxable on the gross dividends received from both Portuguese and foreign companies.

Dividends are subject to a withholding tax of 18% (for 1982 only, a special 10% surtax has increased this to 19.8%), which is allowed as a credit against the shareholder’s industrial tax. Domestic and foreign dividends are excludable from taxable income of a resident parent company that has owned at least 25% of the payer’s stock for at least two years (or since the subsidiary’s inception).

Normally, nonresidents are not taxed on foreign-source dividends, but if the nonresident shareholder operates a Portuguese branch, foreign-source dividends may have to be included in taxable branch income.

Depreciation. The straight-line method is the only approved depreciation method. Maximum rates are set by law for assets in many industries, but, in some cases, the authorities may grant permission to use accelerated rates. Typical depreciation rates are: industrial buildings (4%), office buildings (2%), machinery and equipment (10% to 25%), office equipment (10% to 14%), vehicles (20%), and patents (10%).

Inventories. Inventories are normally valued at the lower of cost or market. First-in, first-out (FIFO) is an allowable cost method. Other methods may be allowed if they are accepted methods in particular industries.

Special Adjustments. Portugal imposes limitations on the maximum compensation that may be paid to certain employees. In addition, compensation in excess of Esc. 560,000 per year to shareholders, directors, and managers is not deductible.
Portugal

**Losses**

Operating losses may be carried forward and deducted against taxable income for five years. No loss carryback is allowed.

**Capital Gains**

Capital gains are not subject to industrial tax, but they are subject to special taxation.

Capital gains on the sale of fixed assets are taxed at a 12% rate. Gain is measured by the excess of the sale price over net book value, adjusted for monetary devaluation. Gains from the sale of development land are taxed at 24%. No tax is imposed on gains from the sale of securities.

**Assessment and Payment**

All businesses must use the calendar year for accounting and tax purposes. Tax returns are normally due and industrial tax is payable between April and June of the following year. Complementary tax is payable during the following October-to-December period. No advance tax payments are required.

**Other Taxes**

An annual stamp tax on the value of outstanding shares is presently measured as 1% of the annual dividend. A tax up to 10% is imposed on the transfer of real estate. For 1982 only, a special 10% surtax increases this tax to 11%.

A single-stage turnover tax of 15% is levied on the wholesale value of most goods, and the tax on imports varies between 30% and 90%.

The principal payroll taxes are a 29% social security tax and a 5.5% unemployment tax. The employer’s share of these taxes is 21% and 3%, respectively.

**Consolidated Returns**

Portugal does not permit the filing of consolidated tax returns.
Investment Incentives

A deduction up to 100% of undistributed income is allowed for additions to an investment reserve, if within three years these amounts are reinvested in certain kinds of machinery and equipment.

New industrial enterprises that are considered important to the economy may receive tax concessions at the national and local levels. In some cases, these concessions take the form of tax holidays of six to ten years.

Branch-Subsidiary Comparison

It is particularly difficult to generalize about the comparative tax positions of a branch and corporate subsidiary in Portugal. This is partly due to the numerous taxes and surtaxes imposed at the national and local levels and the frequent changes in these levies. Dividend restrictions and branch registration requirements also reduce the significance of such comparisons.

In broad terms, there is no substantial tax difference between a foreign-owned subsidiary and a branch in Portugal. Both are subject to the industrial tax at the same progressive rates. A subsidiary is subject to complementary tax only on undistributed profits, and a withholding tax is imposed on its dividends. A branch, however, is subject to complementary tax on its entire income (after industrial tax), but is not subject to withholding on remittances of profit to its head office.

Withholding on Payments to Nonresidents

Tax must be withheld at source on payments to nonresidents of dividends, interest, and royalties. There is no withholding tax on branch profit remittances.

The normal withholding rates (including various surtaxes) are as follows (for 1982 only, a special surtax increases the rates below by a further 10%):

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>18%</td>
</tr>
<tr>
<td>Interest:</td>
<td></td>
</tr>
<tr>
<td>bonds</td>
<td>12%</td>
</tr>
<tr>
<td>bank deposits</td>
<td>18%</td>
</tr>
<tr>
<td>other</td>
<td>30%</td>
</tr>
<tr>
<td>Royalties</td>
<td>15%</td>
</tr>
</tbody>
</table>
Withholding rates (including local surtaxes) on payments to residents of the United States and Western European countries are listed below.

<table>
<thead>
<tr>
<th>Paid to</th>
<th>Dividends(f)</th>
<th>Interest(f)(d)</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Austria</td>
<td>15</td>
<td>10</td>
<td>5(e)</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Denmark</td>
<td>10(b)</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>15</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Greece</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Ireland</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Italy</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Norway</td>
<td>10(b)</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Spain</td>
<td>10(c)</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Sweden</td>
<td>18(a)</td>
<td>30(a)</td>
<td>15(a)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10(b)</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10(b)</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

Notes

(a) No treaty. Rate includes local surcharge. For 1982 only, because of a special surtax, rate should be increased by 10%.
(b) 25% ownership required; otherwise 15%.
(c) 50% ownership required; otherwise 15.5%.
(d) Tax of 12% levied on bond interest, 18% on bank deposit interest (including surcharges, except the 1982 special surtax of 10%). Indicated rates apply to other types of interest and include surcharges.
(e) If recipient owns more than 50% of payer, rate is 10%.
(f) Dividends of SARLs and certain bond interest payments are also subject to a 5% substitute inheritance tax.
Principal Business Entities

The two principal forms of limited liability organization are the corporation, Sociedad Anónima (SA), and the limited liability company, Sociedad de Responsabilidad Limitada (SRL). Branches are commonly used by foreign investors wishing to initiate purely commercial transactions in Spain. Other business entities include general and limited partnerships, but these forms are seldom used by foreign investors.

Residence

Resident companies are those that are incorporated in Spain or have their effective management located in Spain.

Corporate Tax Rates

Resident corporations and Spanish branches of foreign corporations are subject to a 33% corporate income tax, except for the following:

- Nonresident companies can elect to be subject to a 24% tax on gross interest on debt capital invested in Spain.
- Certain small closely held companies can elect to have their shareholders taxed directly on their share of corporate income. In such case, the corporation itself is not subject to tax.

Double-Taxation Relief

Resident corporations deriving foreign-source income are entitled to a credit against Spanish income tax for foreign income taxes paid. The credit is the lesser of the actual foreign tax paid (that is similar in nature to the Spanish corporate income tax) or the Spanish tax that would have been incurred on such income had it been derived from Spanish sources. Nonresident companies are not entitled to foreign tax credits.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

Resident corporations are taxable on their worldwide income, including domestic and foreign-source divi-
dends, interest, rents, royalties, and business profits. In addition, if asset carrying values are increased, the increase is treated as taxable income. For particular types of income that are subject to Spanish withholding taxes (such as interest and royalties), the amount before withholding is included in taxable income and the withholding tax is credited as a prepayment of the recipient’s corporate income tax. Investment incentive subsidies are included in taxable income; however, when the subsidy is invested in durable business assets, the income is recognized over a period of years. Most normal business expenses recorded for financial-statement purposes are deductible for tax purposes.

Nonresident companies are subject to corporate income tax on Spanish-source income, which includes:

- business income derived from a permanent establishment in Spain;
- income from services, technical assistance, loans or other use of capital, personnel, or personal property in Spain;
- capital gains from disposing of assets located in Spain;
- investment income from Spanish securities; and
- rents from Spanish real estate.

**Dividends.** Both domestic and foreign-source dividends received are included in taxable income. The taxable amount is the gross dividend before any Spanish or foreign withholding tax. Foreign taxes paid or withheld on dividend income are eligible for a foreign-tax credit. (See “Double-Taxation Relief” above.) Spanish corporations withhold a 16% tax on dividends if the shareholder is a resident corporation or individual. For nonresident corporate shareholders, the withholding rate is 33% on one-half of the dividend (effectively 16.5%), unless the dividend is included in Spanish-source business income taxed at 33% (in which case, the withholding rate is 16%). If the recipient is a resident or a nonresident corporation with a Spanish permanent establishment, the tax withheld is credited against the shareholder’s income tax liability; otherwise, the withholding is a final tax. In addition, a recipient that is a resident corporation (or a nonresident with a Spanish permanent establishment) is granted a credit of 50% of the payer’s corporate income tax paid on the income from which the dividend was paid. The credit is increased to 100% of the income tax paid on the income distributed if the recipient owns more than 25% of the payer’s capital.
Depreciation. Depreciation is generally deductible to the same extent it is recorded as an expense for financial-statement purposes, provided the amounts claimed do not exceed government guidelines. Normally, depreciation is computed on the straight-line method, but permission to use accelerated depreciation is sometimes granted. Guidelines have not been revised to reflect the 1979 Spanish tax changes; however, under prior law, the following straight-line rates were acceptable: industrial buildings (3% to 4%), machinery and equipment (8% to 12%), and vehicles (14% to 15%). The cost of most intangible assets (except goodwill and trademarks) may be amortized for tax purposes to the same extent as for financial-statement purposes.

Inventories. Inventory is valued at the lower of cost or market. Full-absorption-cost methods are acceptable, but requirements are not well defined. As a result, reasonable cost methods, including first-in, first-out (FIFO); last-in, first-out (LIFO); and average cost are acceptable.

Special Adjustments. Interest payments to shareholders are not deductible. Interest, rents, royalties, and technical-assistance payments to foreign corporations are deductible only if the Spanish government has granted permission for such remittances. A Spanish permanent establishment of a foreign corporation can deduct management charges made by a foreign head office only if government permission for payment is granted. Currently, Spain does not permit the remittance of these management fees.

Assessment and Payment

The tax year for a company is the same as its accounting year. Each company must file an annual tax return and a copy of shareholder-approved financial statements. These documents must be filed within 25 days after shareholder approval of the financial statements, but not later than six months after the company's year-end. The tax liability remaining after credits (e.g., taxes withheld on such items as dividends, interest, etc.) is payable with the tax return.

Losses

Net operating losses and capital losses may be carried forward and offset against taxable income for the next five years. No loss carryback is allowed.
Spain

Capital Gains

There is no separate tax on capital gains, but, unless the proceeds qualify for reinvestment treatment, such gains must be included in taxable income. Recognition of gain on disposal of business property, such as machinery and equipment, is deferred if the company reinvests the sale proceeds in similar assets within two years. In some cases, the reinvestment period is extended to four years.

Other Taxes

Local authorities derive most of their income from the central government through: (1) surcharges on the national sales taxes; (2) an annual business and professional license tax; and (3) an annual tax at 20% of the deemed rental value of property. A local tax of 5% to 40% is applied to realized capital gains on real estate and to unrealized gains from periodic revaluations of real estate.

Transfer taxes on the transfer of real or personal property vary from 1% to 5% (draft budget for 1982).

A cumulative sales tax, generally including a provincial surcharge, is levied on transfers of goods and services. The rates range generally up to 5.5% (draft budget for 1982). The tax must be invoiced and recovered from purchasers of the goods and services.

Social security contributions are payable by employers and employees. The employer’s share approximates 36% of “covered payroll”; the rates and amount of covered payroll change annually.

Consolidated Returns

A controlled group of companies may request to be taxed on a consolidated-return basis. To be eligible, the group must consist of a resident Spanish corporation (SA) and its subsidiary corporations in which the parent’s shareholdings are more than 50%. Shareholdings can be direct or indirect, and the subsidiaries can be resident or nonresident in Spain.

Investment Incentives

Spain’s program of investment incentives has changed substantially. However, the incentives granted under prior law will generally continue until the earlier of the previously scheduled expiration date or December 31, 1983. Those incentives that will be continued during
this limited transition period generally consist of reduced withholding tax rates on interest, rents, and royalties, and the tax deductions for additions to reserves to accumulate funds for capital investment.

Under the new law, an investment tax credit is allowed for investment in new fixed assets (except the undeveloped cost of land), newly issued stock of a publicly traded Spanish corporation, certain acquisitions of foreign subsidiaries, and new permanent establishments outside Spain. Based on the draft budget for 1982, the amount of the credit is 12% of the qualified investment up to a maximum of 30% of the Spanish income tax before this credit. If the qualified investment does not cause a reduction of the employer's labor force, the investment-credit rate is increased to 15% and the maximum remains 30% of the Spanish tax. If employment increases, 25% of the increased payroll in the first two years is credited, in addition to the investment credit, against the corporation's tax. The sum of the investment credit and the employment credit may not exceed 40% of the tax before these credits. Any excess credit can be carried forward four years.

Branch-Subsidiary Comparison

There is no significant tax difference to foreign investors between a resident Spanish subsidiary and a branch located in Spain. The same 33% corporation income tax and the same withholding taxes are imposed on both.

Withholding on Payments to Nonresidents

Nonresident corporations that derive dividends, interest, rents, royalties, capital gains, or business profits from Spanish sources are generally deemed to be operating in Spain. Therefore, the nonresident corporate recipient of such income is subject to Spanish corporation tax at the 33% rate. The standard withholding tax of 16% is credited toward the final tax liability, which is determined on the basis of the annual tax return. Nonresident corporations may elect to be taxed: (1) on gross interest income from Spanish sources at a 24% rate and (2) on 50% of other income (including dividends and royalties), except branch profits or capital gains, at the rate of 33%. Such election satisfies Spanish tax liabilities and permits immediate remittance, but precludes claiming attributable expenses higher than 50% of the earnings.
Withholding rates on payments to residents of the United States and Western European countries are listed below:

<table>
<thead>
<tr>
<th>Paid to</th>
<th>Percentage of Withholding Taxes on</th>
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<tr>
<td></td>
<td>Dividends</td>
</tr>
<tr>
<td>United States</td>
<td>16.5(a)</td>
</tr>
<tr>
<td>Austria</td>
<td>10(b)</td>
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<tr>
<td>Belgium</td>
<td>15</td>
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<tr>
<td>Denmark</td>
<td>10(b)</td>
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<tr>
<td>France</td>
<td>10(c)</td>
</tr>
<tr>
<td>Germany</td>
<td>10(c)</td>
</tr>
<tr>
<td>Greece</td>
<td>16.5(a)</td>
</tr>
<tr>
<td>Ireland</td>
<td>16.5(a)</td>
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<tr>
<td>Italy</td>
<td>15</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>16.5(a)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5(d)</td>
</tr>
<tr>
<td>Norway</td>
<td>10(b)</td>
</tr>
<tr>
<td>Portugal</td>
<td>10(b)</td>
</tr>
<tr>
<td>Sweden</td>
<td>10(b)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10(c)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10(e)</td>
</tr>
</tbody>
</table>

Notes

(a) No treaty. Where no treaty exists, a nonresident corporation receiving this type of income would be subject to regular corporate income taxes at 33%; however, the recipient can elect to be taxed on 50% of dividends and royalties at 33% and on 100% of interest at 24%.

(b) 50% holding required; otherwise 15%.

(c) 25% holding required; otherwise 15%.

(d) When dividend is not taxable in Netherlands; otherwise 15%, or 10% if the Netherlands parent owns at least 50% of the payer's capital (or owns at least 25% and another Netherlands company owns at least 25%).

(e) 10% holding required; otherwise 15%.

(f) For contracts made between October 20, 1972 and October 19, 1977, the rate is 5% for five years.

(g) Turnover tax is payable and borne by the Spanish payer (and, therefore, not withheld) at 3% on technical services and at 4% on other services, equipment rentals, and others.
Principal Business Entities

The *Aktiebolag* (AB) is the business structure usually adopted by foreign investors and Swedish enterprises. The AB is comparable to a corporation in the United States. Other types of business organization include general and limited partnerships. Branches of foreign companies are recognized, but are seldom used.

Residence

Resident corporations are those registered or managed and controlled in Sweden.

Corporate Tax Rates

The effective corporate income tax rate is about 57.4%. This rate consists of a 40% national income tax and a communal income tax averaging 29%; the local tax is deductible in computing national taxable income. Branches of foreign companies are taxed as separate corporations and, therefore, are subject to these same rates. Nonresidents deriving Swedish-source business income that is not attributable to operations in a specific municipality are subject to a flat 10% rate in lieu of communal tax, in addition to the regular national income tax.

Double-Taxation Relief

Sweden grants partial relief from double taxation of foreign-source income by allowing foreign taxes to be deducted as an expense in computing taxable income for national and communal purposes and, to the extent that the deduction does not eliminate double taxation, a foreign-tax credit is also allowed. The foreign-tax credit is creditable only against the national income tax; it cannot exceed the Swedish tax attributable to the foreign income.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as treaties among these countries.

Taxable Income

Resident corporations are subject to tax on worldwide income, which includes business profits, certain divi-
dends, interest, rents, and royalties. Most normal business expenses recorded for financial-statement purposes are allowed as deductions.

Nonresidents are taxed on Swedish-source income derived from a business, royalties, real estate situated in Sweden, and any gains from the disposition of business assets or real estate in Sweden. The taxable income of a Swedish branch of a foreign corporation is computed as if the branch were a resident corporate entity. Foreign corporations that establish a Swedish office that functions as a management headquarters are not taxed if the office does not generate a profit and does not engage in selling activities.

**Dividends.** Swedish and foreign-source dividends are generally included in a resident shareholder’s taxable income. Dividends received by a Swedish parent from its Swedish subsidiary corporation are exempt from tax if the parent owns stock representing at least 25% of the voting power in the subsidiary.

**Depreciation.** Buildings must be depreciated by the straight-line method. The rate is 2% to 5% for industrial and commercial buildings. Depreciation of buildings cannot be deferred to a later year if the taxpayer has no current profits.

For other depreciable assets, the taxpayer may claim depreciation computed on the same basis as for financial-statement purposes (book method). According to this method, the taxpayer can, at the end of each year, deduct either 30% of the net book value at the end of that year (declining-balance) or 20% of original asset cost (straight-line). Almost all taxpayers use the book method. A special tax-depreciation method (tax plan) can also be adopted. In this case, the straight-line method is used with the following representative rates: machinery and equipment (10%), office equipment (10%), automobiles (10% to 15%), and other motor vehicles (20% to 25%). Under the tax plan method, depreciation may be deferred to a later year if the taxpayer has no current profits.

Intangible assets, such as patents, trademarks and goodwill, are subject to the same depreciation rules as machinery.

**Inventories.** Inventory is valued at the lower of cost or market. Cost is determined under the first-in, first-out (FIFO) method. Taxpayers are granted considerable flexibility in maintaining a deductible inventory reserve.
Such reserve may be used to reduce inventory value to as little as 40% of the value determined under the standard procedures described above. Last-in, first-out (LIFO) is not allowed.

In accordance with a May 1979 law change, provisions for a “result equalization reserve” are deductible up to an amount corresponding to 20% of salaries and wages paid. The provision must be reversed in the next taxable year. If such a provision is made, the inventory value may not be reduced below 55% of the value described above.

**Special Adjustments.** Subject to certain conditions, a deduction is available for dividends paid on shares of stock issued after June 30, 1966. The limitations on such deductions vary depending on when the shares were issued. For shares issued after 1978, the deduction may not exceed 10% of the consideration received for the shares. The deduction is available for 20 years after the shares were issued. Total deductions must not exceed the amount received for the shares.

**Losses**

Net losses may be carried forward and deducted against taxable income of the next ten years. No loss carryback is allowed.

**Capital Gains**

Capital gains are not subject to a separate tax, but may be included in ordinary taxable income. Gain from the disposal of machinery and equipment is taxed as ordinary business income. The full gain from the sale of shares of stock held less than two years is taxable, but if the shares were held longer than two years only 40% of the gain is taxable. The entire gain on the sale of real estate is taxable. However, in computing the capital gain from the sale of real estate, the original cost basis may be increased to allow for post-1951 inflation. A special table has been issued for calculating the adjustment allowed. Depreciation deducted over the period the asset was held is also adjusted for the effects of inflation, and the resulting amount is treated as a reduction in the property’s basis.

A capital loss is deductible only against capital gains; a net capital loss is not deductible in computing taxable income from operations. A capital loss is calculated in the same way that a capital gain would have been calculated had the assets been disposed of at a gain.
Assessment and Payment

The tax-measurement period is the corporation’s most recent accounting year ending before March 1 of the tax year. Permission may be obtained to use an accounting period other than the calendar year. The annual tax return is normally due March 31, but extensions are available.

Advance tax payments (usually based on the previous tax year’s liability) must be made in six equal bimonthly instalments beginning in March of the year before the tax year. Any excess of actual tax over prepayments is usually assessed in December of the tax year and is payable in two equal instalments in March and May of the year following the tax year.

Other Taxes

Nonresident companies are subject to a national capital tax on net assets located in Sweden at the end of each year. The maximum rate of 2.5% is imposed on asset value in excess of Skr 1.8 million. Under some tax treaties (e.g., the U.S.-Sweden treaty), this tax is waived.

A value added tax is imposed on nearly all goods, services, and imports. The standard rate is 17.7% of the value, including tax, but lower rates apply mainly to the construction industry and the hotel and restaurant trades. According to temporary legislation, the taxpayer may deduct from his value added tax liability 10% of the amount spent for certain capital equipment delivered during 1982, provided it was not contracted for before November 1, 1981.

Employers must contribute to various social security and other insurance programs. Their total contribution is about 33% of wages; no contribution is payable by employees.

Consolidated Returns

There is no provision for the filing of consolidated tax returns.

Investment Incentives

Companies may create deductible reserves of up to 50% of annual pretax income. One-half of the reserve must be deposited in a blocked account with the Bank of Sweden. Such reserves may be used, subject to government approval, for the acquisition of buildings, machinery, or equipment. Assets purchased from such tax-free reserves are not depreciable for tax purposes.
Temporary legislation permits a taxpayer to deduct from taxable operating income amounts spent through March 1983 as investments in buildings.

**Branch-Subsidiary Comparison**

Special permission is required to establish a branch of a foreign corporation in Sweden. As a result, branches are not commonly used. The same income tax rates generally apply to a branch and to a subsidiary. However, dividends paid by a subsidiary are subject to withholding at source, whereas branch profit remittances are not.

**Withholding on Payments to Nonresidents**

The dividend withholding tax for nonresident shareholders is 30%. There is no withholding tax on interest, royalties, or branch profit remittances. Royalties are subject to ordinary income taxes (national and communal) whether or not the recipient has a permanent establishment in Sweden. Most Swedish treaties provide for lower dividend withholding rates, and provide that royalties are taxable only by the recipient’s country of residence.

Withholding rates for payments to residents of the United States and Western European countries are listed below.

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<td>Austria</td>
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<td>Belgium</td>
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<td>Denmark</td>
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<td>France</td>
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<td>Germany</td>
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<td>Greece</td>
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<td>Ireland</td>
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<tr>
<td>Italy</td>
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<td>Luxembourg</td>
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<tr>
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<tr>
<td>Norway</td>
<td>5(b)</td>
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<tr>
<td>Portugal</td>
<td>30(d)</td>
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<tr>
<td>Spain</td>
<td>10(e)</td>
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<tr>
<td>Switzerland</td>
<td>5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-(f)</td>
</tr>
</tbody>
</table>
Notes

(a) If recipient is a corporation owning at least 50% of payer's stock and not more than 25% of payer's income is dividends and interest other than from its own subsidiaries; otherwise 15%.
(b) 25% holding required; otherwise 15%.
(c) 51% holding required; otherwise 15%.
(d) No treaty.
(e) 50% holding required; otherwise 15%.
(f) 10% holding required; otherwise 15%.
(g) No withholding tax levied on interest.
(h) If recipient owns more than 50% of payer, tax is 10%.
(i) Royalties are subject to income taxes at rates indicated, but no tax is withheld at source.
(j) Royalties are subject to regular income taxes that apply to business income, but there is no withholding at source.
**Principal Business Entities**

The two principal forms of limited liability organization are the corporation, Aktiengesellschaft (AG), and the private limited company, Gesellschaft mit beschränkter Haftung (Gmbh). Other types of businesses include three types of general and limited partnerships, branches of foreign companies, and cooperatives. The corporate entity (AG) is the form most frequently used by foreign investors.

**Residence**

Resident corporations and companies are those either formed or managed and controlled in Switzerland.

**Corporate Tax Rates**

Resident and nonresident companies are taxed on income at the same rates. The maximum combined effective income tax rate varies from about 25% to 37% of pretax income. The total tax burden consists of a federal, cantonal, and municipal income tax. The federal income tax is applied at progressive rates ranging from 3.63% to 9.8% of taxable income. The combined rate of cantonal and municipal tax varies from place to place within a range of 13% to 40% of taxable income. Each of the cantons in Switzerland has its own tax system, some based broadly on the federal system. The basic cantonal tax rates are set by law. A multiple is applied to such rates to determine the effective tax rate for cantonal and municipal taxes. Such multiples can change from year to year.

**Double-Taxation Relief**

Switzerland has an extensive system of international tax treaties that serves to reduce the effects of double taxation. Where no tax treaty exists, income attributable to a foreign permanent business establishment and sale of foreign real estate is exempt from Swiss tax. Other foreign income is taxable after deducting, as an expense, the foreign taxes paid.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

**Taxable Income**

Resident companies are generally subject to tax on their
worldwide income, including business profits, dividends, interest, rents, and royalties. There are, however, the following principal categories of exempt income:

1. income attributable to a foreign permanent establishment and income from foreign real estate,
2. gains from the sale of foreign real estate, and
3. dividends from "substantial holdings." (See "Dividends" below.)

Most normal business expenses recorded for financial statement purposes are allowed as deductions. In addition, the prior year’s federal, cantonal, and municipal income taxes are normally allowed as deductions in computing the current year’s taxable income. (Not all cantons grant the deduction for income taxes.)

Nonresident companies are taxed in the same way as resident companies, but only on income from a Swiss permanent establishment, income from Swiss real estate, and interest from mortgage loans on Swiss real estate.

Dividends. The federal and local governments generally tax resident shareholders on all dividend income from domestic and foreign corporations. A 35% withholding tax is withheld from domestic dividends. Resident individual shareholders report the gross dividend as income and are allowed a credit for the tax withheld. Resident corporations and Swiss branches of foreign corporations also are taxed on gross dividends received, but, upon request, they can obtain a refund of the 35% withholding tax.

Swiss holding companies are granted a reduction of federal tax on dividends received from domestic or foreign subsidiaries if they own a “substantial holding” (20% of the equity or a value of at least SF 2,000,000). A similar provision applies in some cantons.

Depreciation. The most common method of calculating depreciation is the declining-balance method, but the straight-line method is permitted. Official guidelines are published, but are not mandatory. If the depreciation method is approved by the tax authorities, the book depreciation is allowed for tax purposes. Rates vary widely among the various cantons.

The following declining-balance rates are generally acceptable: commercial buildings (4%), industrial build-
ings (8%), machinery and equipment (30% to 40%), office equipment (25%), and vehicles (40%). Straight-line rates are one-half of those rates.

The cost of intangible assets used in a business, such as patents, trade names, goodwill, and licenses, may be amortized at a 40% declining-balance rate or 20% straight-line rate.

**Inventories.** Inventories must be valued at the lower of cost or market. The first-in, first-out (FIFO); average; or last-in, first-out (LIFO) cost methods may be used.

Taxpayers that maintain complete records of inventory quantities may establish an inventory reserve. Tax authorities allow deductions for additions to this reserve, as long as the reserve does not exceed 33% of inventory (valued as above). In special situations, a higher inventory reserve may be allowed. In a year when the inventory reserve is reduced, the decrease is included in ordinary taxable income.

**Special Adjustments.** Each year, 5% of the net profits realized by corporations must be allocated to a general reserve until the reserve equals one-fifth of the paid-in capital. Thereafter, additions to the general reserve are required for 10% of dividends paid to the extent they exceed 5% of paid-in capital.

As long as the general reserve does not exceed half the share capital, it can be used only to absorb losses, to support the company through periods of depressed business, or to relieve unemployment.

**Losses**

The federal tax period covers two years; thus, losses sustained in one year can be offset against profits realized in the other year of the same tax period. If the two-year period shows a loss, this loss can be carried forward and deducted against profits realized in the next three tax periods. No further carryover is allowed. A loss can never be carried back to a prior two-year tax period.

Cantons vary in their treatment of losses. In general, losses cannot be carried back to a prior assessment period; but, in some cantons, losses may be carried forward for the next assessment period (or the next two periods in some cantons that assess annually).
Switzerland

Capital Gains

For federal tax purposes, a corporation's capital gains and losses are treated as ordinary income or loss. At the cantonal level, capital gains taxation varies considerably. In some cantons, a separate capital gains tax is imposed at a rate that varies with the amount of the gain.

Assessment and Payment

The tax period ends on December 31. Federal tax and the tax in those cantons that assess for a two-year period are based on the average profits of the two accounting years ending during the preceding tax period. In most other cantons, tax is assessed annually and based on the profits of the preceding accounting period.

Tax returns covering two years of operations must be filed generally within 30 days of receipt (usually in February or March of the first year in the assessment period), but extensions can be requested. Cantons that assess tax on an annual basis require a return every year.

Federal tax is payable on March 31 following each year of an assessment period. Taxpayers may pay the amount due for the second assessment year in advance, and, by doing so, are allowed a discount on the taxes not yet due. Cantonal and municipal taxes are due at different dates varying from canton to canton. Some cantons allow a discount for early payment; others send the bill at the end of the year, but request an advance payment in the middle of the year.

Other Taxes

A net-worth tax is imposed at the federal, cantonal, and municipal levels. The federal rate is .0825%; cantonal and municipal rates differ from place to place, but approximate 0.5%.

A turnover tax is levied at the wholesale level on imports and delivery of goods. An 8.4% tax applies to imports and goods for resale; the rate for consumer sales is 5.6%. Exports are exempt.

Required contributions to the national payroll insurance program are 10% of wages and salaries. Employers and employees each pay half the cost.

A 3% capital duty is levied on the value of newly issued shares of stock.
Consolidated Returns

There is no provision under Swiss or cantonal law permitting the filing of a consolidated income tax return by a group of affiliated companies.

Investment Incentives

No significant investment incentives are offered by the federal government. However, cantons may grant a tax holiday of up to ten years to new industrial establishments.

Most cantons and municipalities grant an exemption from income tax on holding companies. Privileged tax treatment is also granted in many cantons to companies that perform services on behalf of related or subsidiary companies and to firms that centralize non-Swiss sales activities, such as international sales companies.

Branch-Subsidiary Comparison

The same combined federal, cantonal, and municipal tax rates apply to both Swiss corporations and branches of foreign companies operating in Switzerland. Where a foreign parent company can defer taxes in its home country on the undistributed income of its Swiss subsidiary, the relatively low (25% to 37%) Swiss tax rates usually favor the use of a subsidiary corporation rather than a branch.

A dividend withholding tax (see below) is imposed on a Swiss subsidiary’s dividends paid to a foreign parent, but not on a Swiss branch’s remittances to a foreign head office.

Withholding on Payments to Nonresidents

The standard withholding tax on dividends and certain interest payments to nonresidents is 35%. Where tax treaties grant reduced rates of withholding on dividends, the nonresident recipient can normally obtain the treaty benefits only by requesting a refund of the excess of the tax withheld over the treaty rate. However, under the treaty with the United States, the reduced treaty rate on dividends (5%) can be applied at source if the U.S. parent is a corporation owning at least 95% of the voting power of the Swiss subsidiary and not more than 25% of the subsidiary’s income is from interest and dividends, other than interest and dividends received from its own subsidiary corporations.
There is no withholding tax on interest payments related to ordinary commercial and noncommercial loans. There also is no withholding tax imposed on payments of rents, royalties, and branch profits.

Withholding rates for payments to residents of the United States and Western European countries are listed below.

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<td>Sweden</td>
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</tbody>
</table>

Notes
(a) If recipient is a corporation owning at least 95% of payer's stock and not more than 25% of payer's income is dividends and interest other than from its own subsidiaries; otherwise 15%.
(b) No treaty.
(c) It is assumed that the particular conditions in this treaty can be satisfied.
(d) 25% holding required; otherwise 10%.
(e) 25% holding required; otherwise 15%.
(f) Taxes are levied on bank and bond interest at disparate rates.
(g) No withholding tax on royalties.
UNITED KINGDOM

Principal Business Entities

The common type of business organization is the limited liability company, which may be formed either as a public company or a private company. To be classified as a public company, the bylaws of the company must state that it is a public company. Furthermore, the company must have a nominal share capital of at least £50,000 with at least 25% paid up. Public companies are called “public limited companies” (usually abbreviated as p.l.c.). All other companies are “private companies.” Other business entities include unlimited companies, general and limited partnerships, and branches of foreign companies.

Residence

Under existing law, resident companies are those managed and controlled in the United Kingdom, regardless of where the company is incorporated. Thus, if a company, incorporated in the United Kingdom, has its central management and control situated outside the United Kingdom, it is taxed as a nonresident.

The Inland Revenue is considering changing the test of residency to one of the place of day-to-day management of the company’s business as a whole. The status of the proposal, which has stirred considerable controversy, will probably be resolved in the budget speech early in 1982. If any change is made it is likely to take effect as of April 1983.

Corporate Tax Rates

Companies are subject to the corporation tax at a rate that is set annually, usually in April. The tax rate determined in April applies to the preceding year ending March 31. For the year ended March 31, 1981, the general rate is 52%. A 40% rate is applied to the income of resident companies whose total taxable income (including dividends and capital gains) is not more than £80,000. Marginal relief is available for companies whose taxable income is between £80,000 and £200,000. Where there are two or more related companies, the earnings threshold for the reduced rate is divided equally between the companies.

Generally, nonresident companies doing business in the United Kingdom, including a U.K. branch of a foreign company, are taxed at the general rate of 52%. They are not entitled to the marginal relief available to resident companies, except where so provided under a tax treaty.
Double-Taxation Relief

A resident company (but not a branch of a foreign company) is entitled to a foreign-tax credit for taxes imposed on foreign-source income. Foreign taxes are creditable if they correspond to U.K. income tax or corporation tax or if a U.K. tax treaty specifies that the particular foreign tax is creditable. In addition, when dividends are received from a foreign company in which the U.K. company owns 10% or more of the voting stock, a credit is allowed for the underlying foreign tax on the subsidiary's income from which the dividend was paid. This "deemed paid" foreign-tax credit also applies to dividends received from lower-tier subsidiaries, provided the requisite 10% ownership test is satisfied between each payer and recipient.

The foreign-tax credit is allowed only up to the amount of U.K. tax attributable to the particular foreign income on which the foreign tax was paid. Excess foreign-tax credits cannot be carried backward or forward to any other accounting period, nor can they be applied against the U.K. tax on income from other sources. If a taxpayer elects not to claim a credit for foreign taxes, they may be deducted as an expense in computing taxable income.

The table at the end of this booklet indicates the status of income tax treaties between the United States and the 16 countries covered in this booklet, as well as the treaties among these countries.

Taxable Income

Resident companies are generally subject to corporation tax on their worldwide income, including foreign dividends and income from both domestic and foreign sources such as interest, rents, royalties, and branch profits. Foreign branch profits are taxable whether or not remitted to the U.K. head office. Foreign-source income is included in taxable income at an amount "grossed up" to include foreign taxes paid on the income, and a U.K. credit is generally allowed. (See "Double-Taxation Relief" above.) Most normal business expenses are allowed as deductions, except as explained below, under "Special Adjustments."

Nonresident companies are generally subject to the corporation tax only if they engage in a trade or business in the United Kingdom through a branch or agency. If so engaged, the company is taxed on business income
attributable to the branch or agency, income from property or rights used by or held on behalf of the branch or agency (such as patent royalties received by the branch), and certain types of capital gains effectively connected with a U.K. trade or business. In addition, a nonresident company is liable for income tax (separate from corporation tax) on certain U.K.-source income not attributable to a U.K. branch or agency. Interest, rents, and royalties from U.K. sources are subject to the income tax if they are not subject to corporation tax.

During 1981, the Inland Revenue proposed a more restrictive approach toward the use of tax haven-based subsidiaries of U.K. resident companies. In general, U.K. corporate shareholders would be taxed on their pro rata share of the profits of companies resident in "privileged tax systems." This would occur if the U.K. company has a 10% or more shareholding. No tax would be charged if the overseas company carries on an active trading or commercial business or if it distributes a substantial proportion of its profits as dividends. The prospects of this proposal should become clearer later in 1982.

**Dividends.** Dividends received from a resident company subject to corporation tax are exempt from tax. Foreign-source dividends are taxable when received, and a credit for foreign taxes paid is allowed. (See "Double Taxation Relief.") The Inland Revenue is proposing that loans to U.K. companies by overseas controlled companies should be taxed as foreign-source dividends. The prospects of this proposal should become clearer later in 1982.

**Depreciation.** Depreciation recorded for financial-statement purposes is not allowed for tax purposes; instead, specific capital allowances are provided for certain assets, and these are deductible. Capital allowances are granted for industrial buildings and certain hotels, machinery and equipment, research equipment, mineral deposits, agricultural assets, and industrial technology and patents. No allowance is available for investments in land, nonindustrial buildings, trademarks or goodwill.

For new industrial buildings, a first-year allowance of 75% of construction cost may be claimed. The balance is deductible on the straight-line method at an annual rate of 4%. Used industrial buildings are not granted a first-year allowance, but an annual allowance is deductible. The deductible amount is computed by writing off, on a straight-line basis, the lower of purchase price or
original construction cost over the unexpired portion of 25 years beginning with the date the building was placed in service.

For machinery and equipment (except automobiles), a first-year allowance is deductible, at the taxpayer’s option, for any amount up to 100% of asset cost. Any amount not claimed as a first-year allowance is written off on the declining-balance method at a 25% rate. Automobiles are depreciated using the declining-balance method at a rate of 25%, subject to a maximum of £2,000 per vehicle per year.

Industrial know-how costs can be written off over six years using the straight-line method. Patent costs are deductible on a straight-line basis over a 17-year period or, if less, over the unexpired term of the patent.

**Inventories.** Inventories are valued at the lower of cost or net realizable value. The first-in, first-out (FIFO) cost method is acceptable, but the last-in, first-out (LIFO) and base-stock methods cannot be used. To offset the effects of inflation on inventory values, a special deduction called “stock relief” is allowed. The deductible amount is a percentage of the book value (less £2,000) of inventories at the beginning of the company’s accounting year. The percentage is the increase for the year in a special price (“all stocks”) index published by the Department of Industry. On a total or near total cessation of business, stock relief claimed in the preceding six years is recaptured as taxable income.

**Special Adjustments.** Entertainment expenses, other than for foreign customers, are not deductible.

**Losses**

A taxpayer may elect to deduct operating losses against other taxable income in the same accounting period, and any excess loss may be carried back against taxable income of the preceding accounting period. Taxable income includes 30/52 of capital gains. Any excess loss not applied against the current or the prior year’s income can be carried forward without a time limit and deducted against income of the same business.

**Capital Gains**

Capital gains from the disposal of a company’s assets are, with limited exceptions, taxed at an effective rate of
30%. Capital losses may be deducted against capital gains of the same accounting period. A net capital loss can be carried forward without a time limit and deducted against future capital gains.

There are deferral provisions whereby tax on capital gains realized on business assets may be postponed, if the proceeds are reinvested in other business assets.

When land is sold or leased for development, or development commences, a realized development gain is subject to a special development land tax (DLT). In each year ending March 31, the first £50,000 of development gain is exempt, and any gain over that amount is taxed at 60%. Gain subject to DLT is not subject to any other tax.

Assessment and Payment

Companies use their financial reporting year as their tax year. The government annually establishes a corporation tax rate that applies for the year ended March 31. Usually, the rate is adopted shortly after March 31, and such rate applies retroactively to April 1 of the prior year. If there is a change in tax rates, a company whose accounting year extends beyond March 31 must apportion its income to determine the amount taxed at the old and new rates. When a dividend is paid, advance payments of corporation tax must be made. During the year ended April 5, 1982, the amount of the advance payment tax (ACT) is 3/7 of the cash dividend payable. The balance of tax (called “mainstream liability”) is usually payable nine months after the end of the accounting year.

Other Taxes

In addition to the corporation tax and income tax, income from oil extracted under a U.K. license is subject to supplementary petroleum duty (SPD) and petroleum revenue tax (PRT). SPD is imposed at a rate of 20% on gross revenues, less an allowance. SPD is deductible in calculating income for PRT and corporate tax purposes. The PRT rate is 70% of income, determined on a field-by-field basis. PRT is a deductible expense in computing taxable income for corporation tax purposes.

Local authorities impose a tax, referred to as “rates,” on the occupancy of buildings. The tax is based on the property’s deemed rental value. Rates vary from year to year and from one locality to another.
Value added tax is imposed on most goods and services and imports at a rate of 15%. A zero rate applies to exports, food, and certain other essentials.

Payroll taxes for various social insurance programs are imposed on employers and employees. Employers pay at a rate of 13.7% of compensation up to £10,400.

Consolidated Returns

Generally, each company is a separate entity for tax purposes. There are no provisions for filing consolidated tax returns. However, under “group relief” provisions, one company’s current loss (other than a capital loss) may be surrendered to, and applied against, current income of one or more related companies. Group relief is available where one resident company owns 75% or more of the capital of one or more resident companies.

Intercompany dividends can be paid without liability for ACT, and intercompany transactions can generally be accomplished without triggering a taxable gain.

Investment Incentives

Investment incentives are provided in the form of first-year depreciation allowances of up to 100% of the cost of new equipment, as well as industrial and commercial buildings in designated enterprise zones. Direct cash grants for investment are available in certain regions. Capital-investment grants are not taxable income, and they do not reduce the capital-allowance basis of assets acquired. Grants can be obtained for up to 22% of the cost of new industrial facilities.

Branch-Subsidiary Comparison

There is no substantial difference in the amount of tax imposed on a resident U.K. company and a U.K. branch of a foreign company. Both a branch and a subsidiary are subject to the 52% corporation tax. No withholding tax is imposed on dividends paid to a foreign parent or on branch remittances to a foreign head office. Resident companies are entitled to the reduced corporation tax rates for companies with profits below £200,000. Branches of nonresident companies may be similarly entitled by virtue of a tax treaty. However, in the latter case, the profits taken into account are those for the whole company, not merely the branch.

Withholding on Payments to Nonresidents

No withholding tax is imposed on dividends. A 30%
United Kingdom

A withholding tax is imposed on payments of interest and royalties. Many of the U.K. tax treaties reduce or eliminate these withholding taxes.

Withholding rates for payments to residents of the United States and Western European countries are listed below:

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<thead>
<tr>
<th>Paid to</th>
<th>Percentage of Withholding Taxes on</th>
</tr>
</thead>
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</tr>
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</tr>
<tr>
<td>Belgium</td>
<td>-</td>
</tr>
<tr>
<td>Denmark</td>
<td>-(b)</td>
</tr>
<tr>
<td>France</td>
<td>-(b)</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
</tr>
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<td>Greece</td>
<td>-</td>
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<tr>
<td>Ireland</td>
<td>-(b)</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
</tr>
<tr>
<td>Luxembourg</td>
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<td>Sweden</td>
<td>-(b)(c)</td>
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<tr>
<td>Switzerland</td>
<td>-(b)(c)</td>
</tr>
</tbody>
</table>

**Notes**

(a) Generally, there are no withholding taxes on dividends. Note, however, the liability of the U.K. company to pay ACT. (See above.) See also notes (b) and (c).

(b) These treaties provide for the refund of all of the ACT, subject to a deduction of 15% of all of the cash dividends, plus the ACT, to foreign resident companies owning less than 10% of voting shares.

(c) These treaties provide for the refund of one-half of the ACT, minus a withholding tax of 5% times the sum of the cash dividend, plus one-half of the ACT, to foreign resident companies owning 10% or more of the voting shares.

(d) A 15% value added tax also applies.

(e) If recipient owns more than 50% of payer, rate is 10%.

(f) If recipient is a Luxembourg holding company, rate is 30%.
TABLE OF INCOME TAX TREATIES AMONG THE UNITED STATES AND THE COUNTRIES DESCRIBED IN THIS BOOKLET

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
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<th>Germany</th>
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- Income tax treaty is in effect.
- NT — No income tax treaty is in effect.
- P — Treaty signed, but not yet in effect.
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## European Withholding Taxes on Payments to Residents of Canada

The following table lists the withholding taxes that the European countries covered in this booklet would impose on payments to residents of Canada, based on the applicable treaties entered into by those countries.

<table>
<thead>
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<th>Paid From:</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
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<td>15</td>
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<td>15(d)</td>
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<td>(a)</td>
<td>(a)</td>
</tr>
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<td>(f)</td>
<td>(f)</td>
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<td>(a)</td>
<td>(a)</td>
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<tr>
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<td>15(h)</td>
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<td>15</td>
<td>15(e)</td>
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<td>(a)</td>
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<td>10(b)(c)</td>
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<td>(c)(k)</td>
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<tr>
<td>United Kingdom</td>
<td>(i)</td>
<td>15(b)(j)</td>
<td>10(c)</td>
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</tbody>
</table>

### Notes

- **(a)** There is no treaty in effect with Canada. For statutory withholding rates, see the discussion of withholding on payments to nonresidents included in the chapter for each respective country.
- **(b)** Only applies to payments that are taxable in Canada.
- **(c)** Certain types of payments are exempt from withholding.
- **(d)** Only applies if the Canadian recipient owns more than 25% of the voting shares of the payor company.
- **(e)** Certain types of payments are subject to a maximum withholding rate of 10% and other types are exempt from withholding.
- **(f)** There is a treaty in effect, but it does not provide for a maximum withholding rate. See the discussion of
statutory withholding rates included in the chapter for Ireland. The treaty does provide an exemption from Irish surtax on these payments, however.

(g) The rate can be reduced to nil if certain conditions are met; but rate can be increased to 25% if certain conditions exist.

(h) This reduced treaty rate does not apply to certain types of payments.

(i) A Canadian resident is entitled to a refund of ACT (Advanced Corporation Tax), unless the recipient is a Canadian resident company (or Canadian resident together with one or more associated companies) that controls, directly or indirectly, 10% or more of the voting power in the U.K. company paying the dividend. Where a Canadian recipient is entitled to the ACT refund, a 15% maximum withholding rate applies to the sum of the dividend, plus the ACT refund.

(j) The treaty rate does not apply if the instrument generating the interest is sold within three months of the date of acquisition.

(k) There is a treaty in effect, but it does not provide a maximum withholding rate. For statutory withholding rates, see the discussion of withholding on payments to nonresidents included in the chapter for Sweden.

(l) Indicated rates are based on the Canada/Germany Income Tax Treaty signed June 4, 1956. The treaty signed July 17, 1981 has not as yet been ratified.
### TABLE OF FOREIGN CURRENCY EQUIVALENTS

*As of February 1, 1982*

<table>
<thead>
<tr>
<th>Country &amp; Unit</th>
<th>Abbreviation</th>
<th>U.S. Dollar Equivalent per Unit of Foreign Currency</th>
<th>Foreign Currency Equivalent per U.S. Dollar</th>
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<td>United Kingdom Pound</td>
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EUROPEAN OFFICES

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Hannover
Munich

**Greece***
Athens

**Italy**
Florence
Genoa
Milan
Rome
Turin
Vicenza

**Luxembourg**
Luxembourg

**Netherlands**
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Breda
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Rotterdam

**Norway**
Drammen
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Kristiansand
Oslo
Trondheim

**Portugal**
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Madrid
Zaragoza

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Helsingborg
Stockholm

**Switzerland**
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Edinburgh
Fraserburgh
Glasgow
Gloucester
Ledbury
Leeds
Liverpool
London
Manchester
Newcastle
Newport
Norwich
Nottingham
Reading
Southampton
Swansea

**Channel Islands**
Guernsey
Jersey

**Ireland (Republic of)**
Dublin

*Correspondent Firms