SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

CORPORATE INCOME TAX

PRESENTATION SUBTITLE

Ing. Šárka Sobotovičová, Ph.D.

INTERNATIONAL TAXATION AND TAX SYSTEMS/NPMZD

OUTLINE OF THE LECTURE

1. ARGUMENTS FOR A SEPARATE TAX ON CORPORATIONS
2. TAXATION OF FIRMS
3. BASIC MEASURES OF CIT
4. TAX RESIDENCE
5. CORPORATE INCOME TAX IN EU

INCOME TAXES

- are the part of every contemporary tax system and represent a substantial yield of public budgets.
- For purposes of the theory and practice they are divided into:
  - personal income taxes (taxes from the incomes of individual persons),
  - taxes from the profit of companies (corporate taxes).

This dividing is necessary as income taxes differ from each other, and that is especially in the construction of calculation of taxes and tax rates.

ARGUMENTS FOR A SEPARATE TAX ON CORPORATIONS

- The rationale generally given for the corporate income tax is that it would be difficult to administer a tax on all the capital income accruing to any individual, including any retained profit held in a company which is partly owned by that person.
- A second rationale sometimes offered is that a source-based corporation tax acts as a charge for public goods provided by the government and consumed by the company. However, there is no clear relationship between the tax that a company would pay on its profits and the value of the public goods it enjoys.
- The popular perception is that corporations ought to pay their fair share of tax. While this may be a powerful popular justification in political terms, it is incoherent on economic grounds, since corporations as such cannot bear any tax burden.

ARGUMENTS FOR A SEPARATE TAX ON CORPORATIONS

- Perhaps the most important point to keep in mind when considering company taxation is that it is not meaningful to think about the effects of taxes on companies separately from the effects of those taxes on the individuals associated with companies. This may include not only the individuals who own companies, but also the individuals who supply goods and services to companies, including their employees, and the individuals who purchase goods and services from companies. Important is the impact of company taxes on people whose living standards may be affected, as either shareholders, workers, suppliers, or customers.
- Economists ask whether the 'effective incidence' of a tax on company profits is 'shifted' onto employees or customers. This will depend on the form of the corporate tax, the nature of the economy in which it is levied, and the choices open to the firms on which it is imposed.
- Different views about the appropriate form and level of company taxation tend to be shaped by different views about the extent to which it is borne by shareholders, workers, or consumers, particularly in open economies where much activity is conducted by multinational firms.

TAXATION OF FIRMS

- CIT belongs to the youngest types of taxation in tax systems.
- Historically it follows the medieval yield taxes. Presently the profit of the firm which comes out from the accounting profit/loss is taxed and consequently according to the tax legislature it is adjusted for taxation (the so called tax base).
- In the professional terminology various terms for this tax can be found – the corporate tax, the corporate profit tax, the income tax of corporations. This indefiniteness relates to the legislative treatment of these incomes at various kinds of enterprises in different countries when the state applies the different tax policy to these taxpayers.
- In some countries for example there exists a special tax for joint-stock companies and other forms of legal entities are taxed in another way. In other countries the amount of taxation depends on the size of the firm, and therefore some countries use the different terminology for denomination of taxation of firms.

TAXATION OF FIRMS

- Some opinions criticise the reason of this tax as in the final consequence the profit of firms anyway will become the personal income of the natural person and will be subjected to the personal income tax. That means that the profit is taxed twice, and that is on the level of the entrepreneurial unit and on the level of the particular taxpayer in the form of the tax from incomes related to dividends, shares from the profit, etc.
- It is the so called **integral approach** which comes out from the fact that all taxes in the final stage are paid by individuals and that measuring the real economic profit is very complicated.
- Supporters of this theory deal mainly with ways how to evaluate the tax from firm profits in the personal income tax. It is pointed out that the tax from profits functions negatively in the direction of rising the price of the production and thus increasing the price of final products.

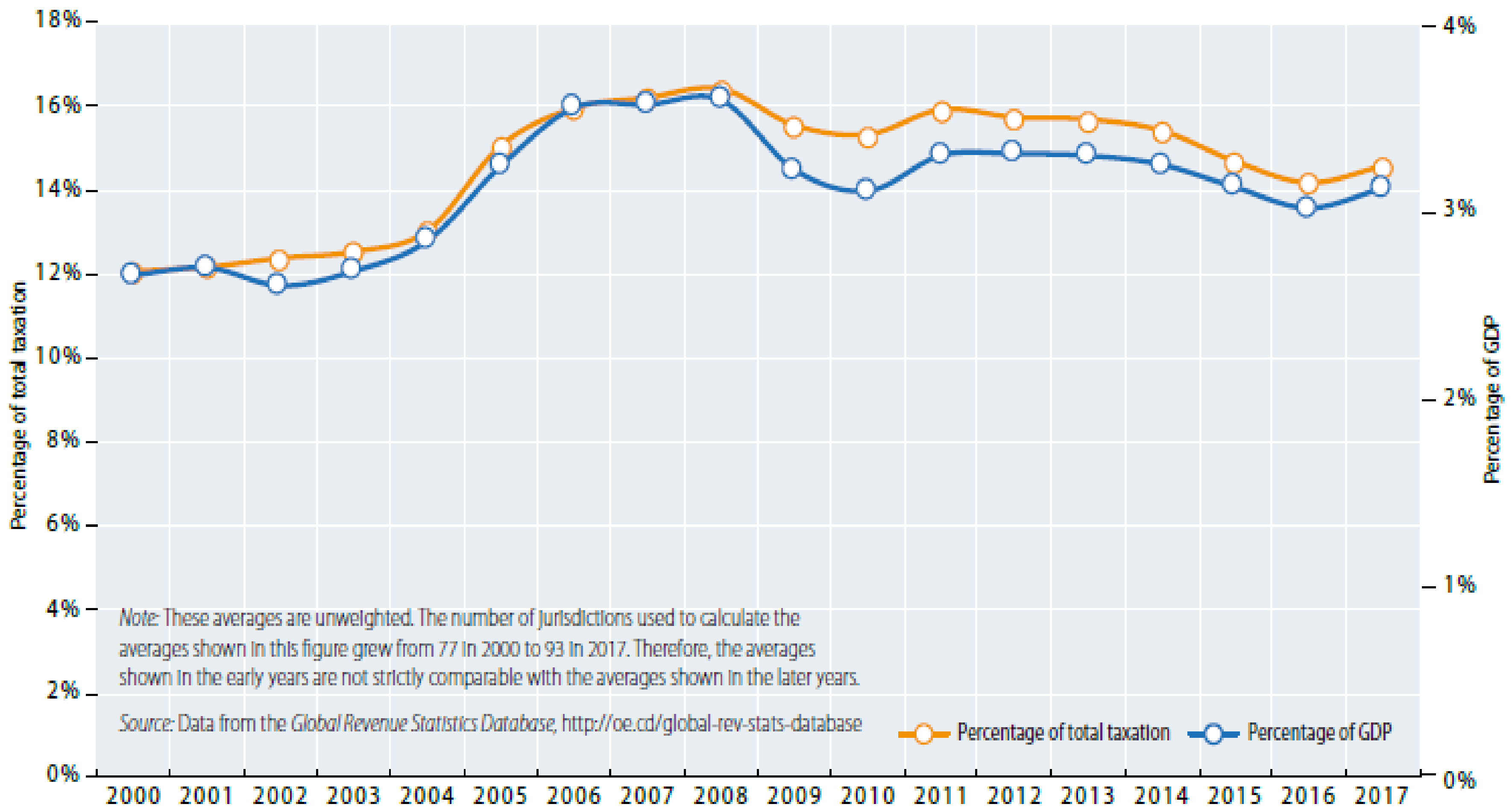
TAXATION OF FIRMS

- As well it is necessary to take into account the problem of the transfer of the accounting profit/loss on the tax base, which means the administrative burden and it leads to distortion of taxes.
- Multinational companies thus have even a bigger chance of manipulation with their tax bases which is made possible by complexity of the tax legislation in various countries , and the tax thus loses its neutral character.
- In contrast to the personal income tax the primary aim of the corporate taxes is not to ensure fulfilling of the principle of justice, also from this reason the rates are linear, mostly they are set by the percentage from the taxable profit. In this connection also the part of the tax which the firm pays before dividing the profit as the corporate tax weakens influencing the progressive personal income tax.

TAXATION OF FIRMS

- Supporters of the existence of the gain tax (the **absolutistic approach**) argue that especially big firms are the legal entity with their own decision; they have their taxable capacity and influence economic processes.
- The tax can also be understood as the compensation for the limited warranty of the owners of the firm for their obligations, though it contradicts the demand of the neutrality of the taxation.
- In connection with the principle of the benefit it is understood as the “payment” for using public services and the infrastructure on the territory where they carry their business.
- As well there are taxed profits which could eventually elude either legally or illegally on the level of taxation of natural persons.

CORPORATE INCOME TAX



BASIC MEASURES OF CIT

- The most basic measure of a corporate income tax is the **statutory tax rate**. This measure is widely used, although even defining this rate is less straightforward than might be expected. Corporate income taxes are often applied at more than one level of government. There may also be temporary or permanent supplementary taxes, and there may be special tax rules for small and medium-sized enterprises.
- In all countries, the definition of the **corporate tax base** is extremely complex, involving a vast range of legislation covering everything from allowances for capital expenditure, to the deductibility of contributions to pension reserves, the valuation of assets, the extent to which expenses can be deducted, and so on.

BASIC MEASURES OF CIT

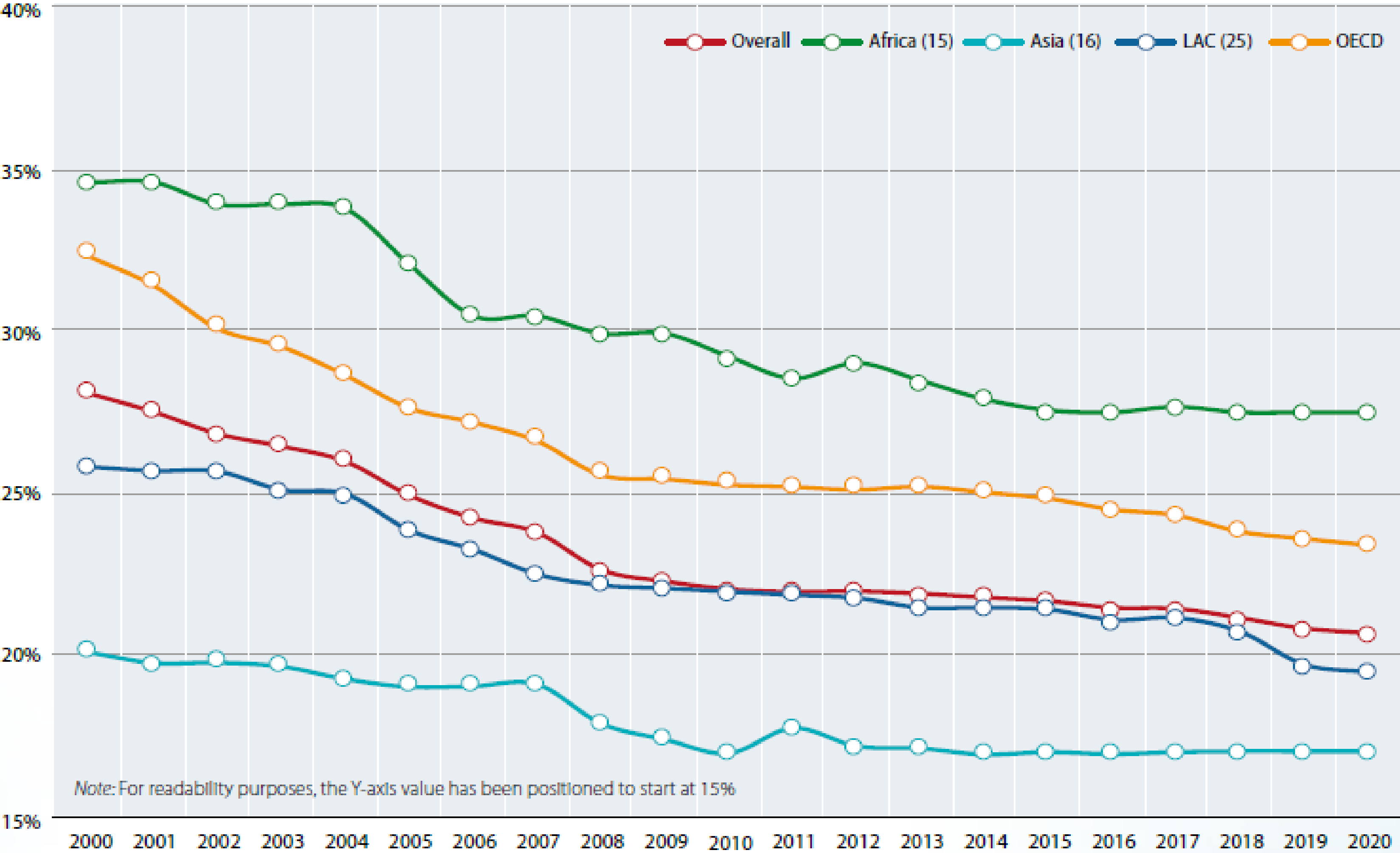
- Combination of elements of the tax rate and base presents two measures of **effective rates of tax**.
- The traditional method of measuring the impact of corporate income tax on the level of capital investment is through the user cost of capital – defined as the pre-tax real required rate of return on an investment project, taking into account the financial cost of the investment as well as depreciation (EMTR - effective marginal tax rate).

- The EATR (effective average tax rate) is the proportionate difference of the net present value of a profitable investment project in the absence of tax and the net present value of the same investment in the presence of tax

TAX BASE

- The corporate tax base is the measure of profits or income on which corporations are taxed.
- This is often referred to as ‘taxable profits’ or ‘taxable income’. It is important to realise that differences across countries in the tax base could lead to significant differences in tax payments on the same underlying activity, even if corporate tax rates were common.
- For example, relatively generous allowances for depreciation could make one country a more attractive location for investment, whilst a relatively generous treatment of profits earned abroad could make another country a favoured location for the (European) headquarters of international companies.
- We first consider the measurement of taxable profits for a firm that only has operations in the domestic jurisdiction and then consider some further issues that arise for firms with activities in more than one country.

CORPORATE INCOME TAX



Standard statutory CIT rates

Standard statutory CIT rates provide a snapshot of the corporate tax rate in a jurisdiction. However, jurisdictions may have multiple tax rates with the applicable tax rate depending on the characteristics of the corporation and the income.

Some jurisdictions:

- operate preferential tax regimes with lower rates offered to certain corporations or income types,
- tax retained and distributed earnings at different rates,
- impose different tax rates on certain industries,
- have progressive rate structures or different regimes for small and medium sized companies,
- impose different tax rates on nonresident companies than on resident companies,
- impose lower tax rates in special or designated economic zones,
- impose taxes on corporates based on multiple components using different tax rates.

CORPORATE INCOME TAX

20 Highest Statutory Corporate Income Tax Rates in the World, 2020

Country	Continent	Tax Rate
Comoros*	Africa	50%
Puerto Rico	North America	37.5%
Suriname	South America	36%
Chad	Africa	35%
Democratic Republic of the Congo	Africa	35%
Equatorial Guinea	Africa	35%
Guinea	Africa	35%
Kiribati	Oceania	35%
Malta	Europe	35%
Saint Martin (French Part)	North America	35%
Sint Maarten (Dutch part)	North America	35%
Sudan	Africa	35%
Zambia	Africa	35%
American Samoa	Oceania	34%
Brazil	South America	34%
Venezuela (Bolivarian Republic of)	South America	34%
Cameroon	Africa	33%
Saint Kitts and Nevis	North America	33%
Seychelles	Africa	33%
France	Europe	32.02%

20 Lowest Statutory Corporate Income Tax Rates in the World, 2020

(Excluding Jurisdictions with a Corporate Income Tax Rate of Zero Percent)

Country	Continent	Tax Rate
Barbados	North America	5.5%
Uzbekistan	Asia	7.5%
Turkmenistan	Asia	8%
Hungary	Europe	9%
Montenegro	Europe	9%
Andorra	Europe	10%
Bosnia and Herzegovina	Europe	10%
Bulgaria	Europe	10%
Gibraltar	Europe	10%
Kosovo, Republic of	Europe	10%
Kyrgyzstan	Asia	10%
Paraguay	South America	10%
Qatar	Asia	10%
The former Yugoslav Republic of Macedonia	Europe	10%
Timor-Leste	Oceania	10%
China, Macao Special Administrative Region	Asia	12%
Republic of Moldova	Europe	12%
Cyprus	Europe	12.5%
Ireland	Europe	12.5%
Liechtenstein	Europe	12.5%

CORPORATE INCOME TAX

Countries without General Corporate Income Tax, 2020

Country	Continent
Anguilla	North America
Bahamas	North America
Bahrain*	Asia
Bermuda	North America
British Virgin Islands	North America
Cayman Islands	North America
Guernsey	Europe
Isle of Man	Europe
Jersey	Europe
Saint Barthelemy	North America
Tokelau	Oceania
Turks and Caicos Islands	North America
United Arab Emirates*	Asia
Vanuatu	Oceania
Wallis and Futuna Islands	Oceania

CORPORATE INCOME TAX

Average Corporate Tax Rate by Region or Group, 2020

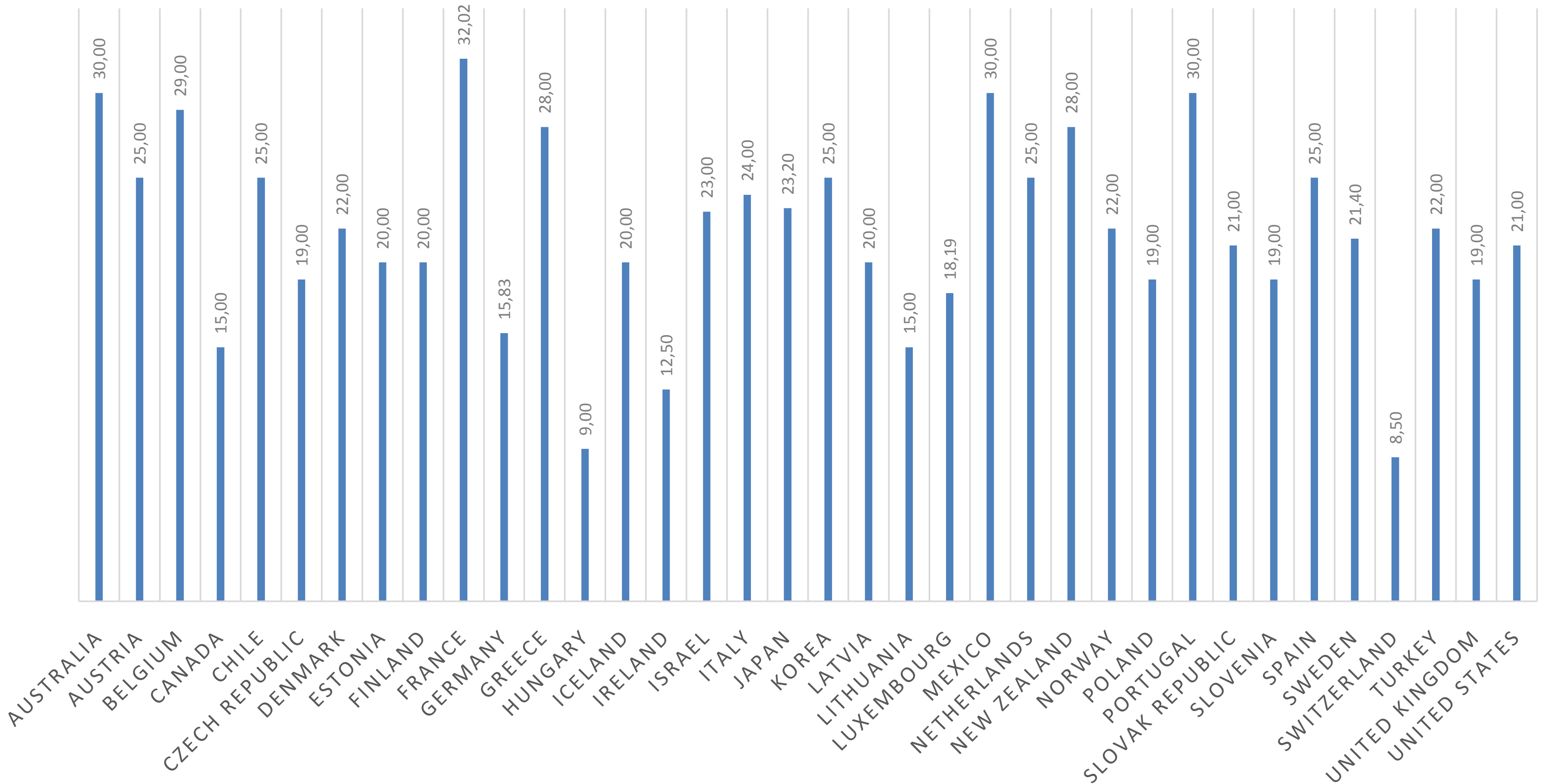
Region	Average Rate	Average Rate Weighted by GDP	Number of Countries Covered
Africa	28.50%	28.16%	50
Asia	20.06%	25.37%	46
Europe	19.99%	24.61%	39
North America	26.06%	26.13%	22
Oceania	23.75%	29.74%	8
South America	27.54%	31.83%	12
G7	27.24%	26.95%	7
OECD	23.51%	26.30%	37
BRICS	27.40%	26.49%	5
EU27	21.47%	26.46%	27
G20	26.96%	26.77%	19
World	23.85%	25.85%	177

Sources: Statutory corporate income tax rates are from OECD, "Table II.1. Statutory corporate income tax rate"; KPMG, "Corporate tax rates table"; and researched individually, see Tax Foundation, "worldwide-corporate-tax-rates." GDP calculations are from the U.S. Department of Agriculture, "International Macroeconomics Data Set."

TAX RATE

- The corporate income tax rate is one of many aspects of what makes a country’s tax code and economy attractive for investment.
- However, the rates may be misleading because of varying definitions of the tax base.
- Some countries have additional local income taxes, and taxes on bases other than income (e.g. the size of capital or assets).
- Reductions in corporate income tax rates in the past twelve years have occurred across the globe, reducing considerably the worldwide average tax rate. In 2003, the worldwide average was approximately 30 percent. By 2015, the average rate had declined by a little more than 7 percentage points to 22.8 percent.

CORPORATE INCOME TAX RATE IN OECD



Data extracted on 21 Mar 2020 21:24 UTC (GMT) from OECD.Stat

EATR

- An EATR is measured using a theoretical approach that incorporates key tax policy measures that impact business investment decisions. The EATR is the average tax burden that a business would face on a range of profitable investments.
- The cross-border and domestic effects are particularly important when considering the growth of trade and investment flows over the last century and how that has created more competition for domestic production.
- EATRs measure various tax policies that impact investment decisions. The approach used to measure cross-border EATRs includes the following key variables:
    - Corporate tax rates in both the foreign and domestic jurisdictions
    - Capital cost allowances in the foreign jurisdiction
    - Territorial provisions in the domestic jurisdiction
    - The tax treatment of foreign-earned dividends and interest payments back to the parent company in the domestic jurisdiction
- Purely domestic EATR measures include all the above except for territorial provisions and the tax treatment of dividends and interest payments back to parent companies. Domestic EATR measures also account for capital cost allowances in the domestic jurisdiction.

Domestic and Cross-border EATRs for European Countries, 2009 and 2019

	2009			2019		
		Cross-Border			Cross-Border	
Country	Domestic	Outbound	Inbound	Domestic	Outbound	Inbound
Austria	22.70	20.67	24.24	23.10	18.44	23.80
Belgium	24.70	20.29	25.33	24.90	18.46	25.61
Bulgaria	8.80	21.22	11.27	9.00	19.19	10.10
Croatia	16.50	23.17	18.03	14.80	18.97	16.10
Cyprus	10.60	22.21	12.61	13.40	16.75	14.26
Czech Republic	17.50	22.52	19.20	16.70	20.45	17.62
Denmark	22.60	20.80	23.65	19.80	18.90	20.45
Estonia	16.50	22.95	19.27	13.90	20.51	15.81
Finland	23.60	20.63	24.96	19.60	18.74	20.36
France	34.70	21.34	35.53	33.40	18.41	34.26
Germany	28.00	22.43	29.31	28.90	20.09	29.62
Greece	30.50	30.98	31.91	26.60	21.39	28.09
Hungary	19.50	20.86	20.66	11.10	19.19	12.06
Ireland	14.40	22.72	16.12	14.10	20.03	14.96
Italy	27.50	21.81	28.87	24.60	20.89	25.70
Latvia	13.80	21.02	15.89	16.70	29.41	18.51
Lithuania	16.80	20.77	18.15	12.70	18.92	13.40
Luxembourg	25.00	23.02	26.31	21.80	20.94	22.35
Macedonia	7.90	29.79	14.88	9.70	22.05	14.98
Malta	32.20	21.35	10.47	25.30	17.13	2.95
Netherlands	22.20	20.57	23.27	22.50	18.57	23.25
Norway	26.50	21.89	28.40	20.80	19.54	21.77
Poland	17.50	21.00	19.28	16.60	17.99	17.57
Portugal	23.70	21.26	25.76	21.40	16.35	22.55
Romania	14.80	21.13	16.96	14.70	20.51	15.56
Slovak Republic	16.80	22.35	18.09	18.70	20.41	19.30
Slovenia	19.10	21.49	20.78	17.30	19.49	18.25
Spain	32.80	20.82	33.82	30.10	19.24	31.06
Sweden	23.20	20.64	24.14	19.40	18.78	20.02
Switzerland	18.70	20.93	21.10	18.60	18.71	19.54
Turkey	18.60	26.43	27.56	12.70	23.16	19.65
United Kingdom	28.30	25.92	29.15	20.20	18.77	20.81
Average	**21.13**	**22.65**		**19.16**	**19.79**	

Note: Cross-border EATRs are averages of EATRs on outbound or inbound investment with other European countries.
Source: Spengel, et al., "Effective Tax Levels using the Devereux/Griffith Methodology"; author's calculations.

TAX RESIDENCE

- Under the residence principle, a country has the right to tax the worldwide income of a company which is tax resident.
- Not all countries take advantage of this right, opting instead to apply the principle of territoriality. This means they only tax their resident companies on profits earned in the country of residence, rather than on the worldwide profits.
- A company might not operate solely in the country where it is resident, companies are operating across country boundaries. In this case, a company may be liable to tax in two countries on the same profits.

THE APPROACHES TO DETERMINING TAX RESIDENCE

- There are two basic approaches to determining residence for tax purposes, the legal approach and economic one:
- Under the legal approach, tax residence is determined according to the country of incorporation/registry in the commercial register.
- Under the economic, or commercial connection, approach tax residence is determined according to one or more of these factor:
  - Place of management,
  - Principal business location,
  - Tax residence of shareholders (not widely used).

- Many countries use a combination of these two approaches.

CORPORATE TAX POLICY IN EU

- Unlike indirect taxes, the EC Treaty does not specifically call for direct taxes (income and corporate taxes) to be harmonised. However, Article 94 of the EC Treaty provides for approximation of such laws, regulations or administrative provisions of the Member States as directly affect the establishment or functioning of the common market. In any event, national tax rules must respect the fundamental freedoms provided for the EC Treaty.
- Since the founding of the European Communities, company taxation has received particular attention as an important element for the establishment and the completion of the Internal Market.
- The Single-Market driven approach was supplemented with the objectives of stabilising Member States' revenues and promoting employment which are now taken up and re-assessed in the 2001 Communication on the priorities of EU tax policy.

REASONS FOR A CLOSER COORDINATION OF CORPORATE TAX POLICIES IN THE EUROPEAN UNION

- Companies operating in the EU currently have to deal with different national tax systems, which gives rise to high compliance and administration costs.
- Differences in effective tax burdens across Member States distort economic activity in the EU.
- The growing importance of multinational companies makes it increasingly difficult to collect corporate tax based on separate accounting systems.
- Conflicts arise between national tax policies and EU law. In a number of cases, the European Court of Justice has declared national tax rules to be incompatible with EU law, in particular with the freedom of establishment granted by the EC Treaty.

INICIATIVES TO COORDINATE CORPORATE TAXATION

- Since the foundation of the EU, the European Commission has started several initiatives to coordinate corporate taxation. In 1975, 1984 and 1992 it has also submitted proposals for directives that would provide some harmonization of corporate tax rates and bases, but most Member States were very reluctant to give up some of their sovereignty in the field of corporate taxation, so the Commission eventually decided to withdraw its proposals.
- In its report on ‘Company Taxation in the Internal Market’ (2001), the Commission took a new initiative and proposed various options for the coordination of corporate income taxation in the European Union (EU), which included the project of introducing a Common Consolidated Corporate Tax Base (CCCTB). The ensuing debate has largely focused on the CCCTB proposal.

A COMMON CORPORATE TAX SYSTEM FOR THE EU

- Different tax systems in EU can be complicated and expensive for companies to operate in more than one country.
- Small businesses in particular find it hard to take full advantage of the single market – set up to enable people, goods, services and capital to move freely throughout the EU.
- More generally, obstacles to doing business in the single market run counter to the EU's priorities for smart, sustainable and inclusive growth.
- The European Commission has put forward a proposal to create a common consolidated corporate tax base.

A COMMON CORPORATE TAX SYSTEM FOR THE EU

- Businesses operating (or planning to operate) in more than one EU country will benefit from:
  - a single set of rules for calculating how much tax they must pay – covering all EU countries
  - the ability to "consolidate": if they earn a profit in one country but lose money in another, they can offset the profits against the losses and pay taxes on the net amount only.
- Companies in the EU will be able to opt for the common consolidated corporate tax base (or stick with the different national systems), helping make the EU a true single market from the corporate tax perspective.

- Corporate tax rates in the EU will not change. EU countries will continue to decide on their own corporate tax rate.

A COMMON CORPORATE TAX SYSTEM FOR THE EU

- Taxation affects investment choices because it drives a wedge between the cost of capital faced by companies and the net return on a project required by investors. Whereas the corporate income tax rate is very visible in this context, and varies widely between EU Member States, the tax wedge depends on both the tax rate at which profits are taxed and on other tax provisions determining the tax base and the overall level of tax paid.
- Member States use a variety of tax exceptions and exemptions, with a wide range of objectives, including as a way of incentivizing investment.

ACTION PLAN ON CORPORATE TAXATION

- In June 2015, the Commission presented its action plan on corporate taxation. It put forward a number of proposals designed to make corporate taxation in the EU fairer and more efficient. The proposals included:
  - re-introducing the common consolidated corporate tax base (CCCTB),
  - providing Member States with additional ways of maintaining their tax bases;
  - improving the business environment by removing tax obstacles and making it more attractive for businesses to operate across borders;
  - and simplifying and improving EU-level governance on tax matters.

TAX TRANSPARENCY PACKAGE

- The fight against corporate tax avoidance is central to the European Commission's political priority to ensure a fairer Single Market.
- It is closely linked to the agenda to tackle tax fraud and evasion.
- Corporate tax avoidance is understood as a situation when certain companies use aggressive tax planning in order to minimise their tax bills.
- It often entails companies exploiting legal loopholes in tax systems and mismatches between national rules, to artificially shift profits to low or no tax jurisdictions.
- As such, it goes against the principle that taxation should reflect where the economic activity occurs.
- Corporate tax avoidance can result in the erosion of Member States' revenues and undermine fair burden-sharing between taxpayers (in particular between companies and private citizens) and fair competition for businesses.