Table of Contents

Foreword .		3
Chapter 1:	Introduction and Summary	11
	A. Introduction	11 11 12 14 17 19
Chapter 2:	Conceptual Framework	21
	A. The corporate income tax in an international setting B. Domestic issues C. The incidence of the corporation tax in an open economy D. International issues Notes and references	21 22 33 35 43
Chapter 3:	A Summary of Corporate and Other Relevant Tax Provisions	47
	A. Introduction	47 47 54 54 56 56
Chapter 4:	Effective Tax Rates on Domestic Investment in OECD Countries	87
-	A. Introduction B. Methodology C. The effects of different tax parameters D. Limitations of the King-Fullerton approach E. Results F. Sensitivity analysis G. Summary Notes and references	92 95 97 113 115

Chapter 5:	Effective Tax Rates on International Investment in OECD Countries	123
	A. Effective tax rates on transnational investment B. International tax parameters C. Results D. Sensitivity analysis E. Summary Notes and References	125 126 150 158
Chapter 6:	The Main Policy Choices	163
	A. Introduction B. Domestic issues C. International issues Appendix: Government statements on why they have changed their practices with respect to economic double taxation Notes and references	163 175 200
Annex 1:	Computing the cost of capital for domestic and transnational direct investment: methodology, parameters and a worked example	207
	Introduction	207 219 234 240
Annex 2:	Financial non-neutralities in OECD corporate tax systems and the measurement of the degree of mitigation of economic double taxation of dividends	245
	Part 1. Financial non-neutralities	254
Annex 3:	Taxation and the international allocation of capital: some theoretical observations	265
	 Tax wedges and capital flows in an open economy The potential gains from a reduction of surtaxes on international investment Capital export neutrality versus capital import neutrality Notes and references 	271
Annex 4:	Country Chapters	283
Annex 5:	Weights, inflation and investement flows.	455
	A. Introduction B. Asset and finance weights C. Direct investment flows D. Selected economic variables Notes and references	455 455

List of Tables and Charts

Chapter 2:
Table 2.1. Issues of double taxation at the domestic and international level
Chapter 3:
Table 3.1 Degree of Reduction of Economic Double Taxation (Central Government) 57 Table 3.2 Description of imputation systems where resident shareholders are given full or partial credit for corporation tax paid 58 Table 3.2 (cont) Description of imputation systems where resident shareholders are given full or partial credit for corporation tax paid 59 Table 3.3. The tax treatment of cash dividend received from domestic subsidiaries 60 Table 3.4. The treatment of corporate capital gains 61 Table 3.5. General investment reliefs 62 Table 3.6 Treatment of foreign source income from treaty countries 63 Table 3.7 Treatment of foreign source income from non-treaty countries 64 Table 3.8 Treatment of trading losses 65 Table 3.9 Depreciation systems 66 Table 3.10 Typical capital allowances for machinery used in the calculations 67 Table 3.11 Typical capital allowances for industrial buildings used in the calculations 68 Table 3.12 Net present values of depreciation allowances 70 Table 3.13 Inventories: Methods of evaluating cost 71 Table 3.14 Corporation tax rates (in per cent) 71 Table 3.14 Corporation tax rates (in per cent) 72
Table 3.15 Withholding taxes on dividends paid between member countries dividends. 73 Table 3.15 (cont) Withholding taxes on dividends paid between member countries dividends. 73
Table 3.16 (cont) Withholding tax on interest paid on a loan from a parent company to a wholly owned subsidiary between member countries interest
Table 3.21 Typical capital gains tax (CGT) facts on shares 480 shareholders in quoted companies)
Table 3.25 The main direct taxes related to business activities

Chapter 4:

	le 4.2 Required pre-corporate tax rates of return with a 5 per cent real interest rate in	96
Tab	Austria	
Tab Tab	le 4.4 Corporate tax wedges	100
Tab	rates	106 107
Tab Tab	weights	111 112 114
Chapter 5:	:	
Tab	le 5.1. Required pre-tax rates of return when the subsidiary is financed by retained	128
Tab	earnings	
Tab	earnings	
Tab	the parent	
Tab	equity from the parent	
	parent	
Tab	ole 5.4. Required pre-tax rates of return when the subsidiary is financed by one third loans from the parent, one third equity from the parent and one third retentions by the	
Tab	subsidiary	
Tab	the subsidiary	
Tab	ole 5.6 Average required transnational pre-tax rates of return when the subsidiary is financed through new equity from parent	
	ble 5.7 Average required transnational pre-tax rates of return when the susbidiary is financed through debt from parent	140
Tab	ole 5.8: Overall average required transnational pre-tax rates of return	14
Tab Tab Tab	rates	148 148 149

	Table 5.14 Overall pre-tax rates of return using fixed exchange rates but country-specific	
	inflation rates	54
	returns	50 57
Chapt	r 6:	
	Table 6.1 Changing approaches to economic double taxation 1962 to 1991	
	schedule	
	Table 6.4 Average required transnational pre-tax rates of return: subsidiary financed through new equity from parent	
	Table 6.5 Average required transnational pre-tax rates of return: subsidiary financed through	
	Table 6.6 Average required transnational pre-tax rates of return: subsidiary financed through	
	Table 6.7 Average required returns: the importance of withholding taxes in determining the	
	Table 6.8 Average tax wedge: the importance of withholding taxes in determining the size and	91
	Table 6.9 The effects of withholding taxes on the required pre-tax rates of return	94
Anne		
A nne	Fable A.1.1 Company discount rate under alternative financial regimes 2 Fable A.1.2 Corporation tax rates used in the calculations. 2 Fable A.1.3 Personal tax rates used in the calculations 2 Fable A.1.4 Capital gains tax rates on individual investors used in the calculations 2 Fable A.1.5 Capital allowances for industrial buildings used in the calculations 2 Fable A.1.6 Capital allowances for machinery used in the calculations 2 Fable A.1.7 Tax treatment of inventories. 2 Fable A.1.8 Treatment of foreign source income. 2 Fable A.1.9 Treatment of foreign source income from non-treaty countries. 2 Fable A.1.10 Withholding taxes on dividends paid between member countries dividends 2 Fable A.1.11 Withholding tax on interest paid on a loan from a parent company to a wholly owned subsidiary between member countries interest 2 Fable A.1.11 (cont) Withholding tax on interest paid on a loan from a parent company to a wholly owned subsidiary between member countries interest 2	222 223 225 226 227 228 229 230
Anne		260
	Γable A.2.1 Measuring financial non-neutralities — data input, percentages Γable A.2.1 (cont) Measuring financial non-neutralities — data input, percentages Γable A.2.2 Measuring financial non-neutralities — results (per cent) Γable A.2.3 Scenario 1 — Degree of mitigation assuming taxpayers face central government	252
	tax only, 1991	

Table A.2.5 Scenario 3 — Degree of mitigation assuming individuals face the average marginal tax rate on dividends, 1991	262
Annex 3:	
Chart A.3.1 The effect of the capital income tax wedge in a closed economy Chart A.3.2 Tax wedges and capital flows in an open economy Chart A.3.3 The welfare gains from international investment Table A.3.1 Effects of alternative tax instruments on tax wedges and international capital flows	. 275 . 276 . 277
Chart A.3.4 Welfare effects of a source-country tax on capital imports Chart A.3.5 The wealfare loss due to the absence of capital import neutrality under residence-	. 278 . 279
Chart A.3.6 The welfare lose due to the absence of capital export neutrality under source-based capital income taxation	
Annex 5:	
Table A.5.1 Proportion of total investment in each type of asset and proportion of total finance by each source of capital	
Table A.5.3. Inward flow weights within the G7 - percentage source of flows into each	. 460
Table A.5.4 Percentage of imports from other OECD countries accounted for by each exporting country	. 461
exporting country	. 402
importing country	. 100
importing country	. 466
Table A.5.7 Selected economic variables	. 468