2004

Ernst & Young

Quality In Everything We Do

Worldwide Corporate Tax Guide

PREFACE

The *Worldwide Corporate Tax Guide* summarizes the corporate tax systems in more than 145 countries. The content is based on information current to 1 January 2004, and is supplied by our professionals in the jurisdictions covered. The guide also contains a directory of international tax contacts in offices of our practices around the world.

Ernst & Young is a leading international professional services organization with more than 20,000 tax professionals located in 670 locations in more than 130 countries.

Tax Information

This publication should not be regarded as offering a complete explanation of the tax matters referred to and is subject to changes in the law. Local publications of a more detailed nature are frequently available, and readers are advised to consult their local Ernst & Young professionals for further information.

Ernst & Young also publishes a companion volume on personal tax systems and immigration rules for executives.

Directory

Office addresses, telephone numbers and fax numbers, as well as names, telephone numbers and e-mail addresses of international tax contacts, are provided for each country.

Symbols that precede the names of some tax contacts designate that the individuals hold the following functions:
★ National director of the listed tax specialty
◆ Director of the listed specialty in the local office

The listing for each tax contact includes an office telephone number, which is a direct dial number if available. Mobile telephone numbers are listed for many tax contacts below the office telephone numbers.

The international telephone country code is listed in each country heading and, if presented as part of a telephone or fax number, is surrounded by brackets. Telephone and fax numbers are presented with the city or area code in parenthesis, and without the domestic prefix (1, 9, or 0) sometimes used within a country.

A Technical Assistance firm is not a member of Ernst & Young International.

Internet Site

Further information concerning Ernst & Young may be found at www.ey.com.

Ernst & Young
January 2004

Ernst & Young, a global leader in professional services, operates with the highest levels of integrity, quality and professionalism to provide solutions for clients. Its 103,000 people in more than 140 countries around the globe are committed to restoring the public's trust in professional services firms and the quality of financial reporting by getting the right information, making the right judgments and taking the right actions — every time, on every engagement, everywhere in the world. Ernst & Young provides services based on financial, transaction and risk management knowledge in audit, tax and corporate finance. The firm also provides legal services in those parts of the world where permitted. A collection of Ernst & Young's views on a variety of business issues is available at www.ey.com/perspectives. Ernst & Young refers to all the members of the global Ernst & Young organization, including the U.S. firm of Ernst & Young LLP.

CONTENTS

ERNST & YOUNG GLOBAL

LONDON **GMT**

In or about June 2004, Ernst & Young Global's London office is expected to move to the following address:

Becket House
1 Lambeth Palace Road
London SE1 7EU
England

The phone numbers are expected to remain the same, but the fax numbers may change. Before sending mail or a fax to any of the London contacts listed below, please confirm the address or fax number.

Ernst & Young Global
Devonshire House
Mayfair Place
London W1J 8AJ
England

[44] (20) 7951-8800
Fax: [44] (20) 7951-8829

Ernst & Young Global Tax

Sam H. Fouad, *Global Vice Chair – Tax*
[44] (20) 7951-0498
Mobile: [44] 7776-490-946
Fax: [44] (20) 7951-8829
E-mail: sam.fouad@uk.ey.com

Global Specialty Services

International Tax Services

James J. Tobin, *Global Director*
(resident in New York)
[1] (212) 773-6400
Mobile: [1] (917) 365-9466
Fax: [1] (212) 773-5116
E-mail: james.tobin@ey.com

Jeanine DiMaria, *Operations*
(resident in New York through 31 March 2004)
[1] (212) 773-0673
Mobile: [1] (303) 668-0673
Fax: [1] (212) 773-5562
E-mail: jeanine.dimaria@ey.com

(resident in London beginning 1 April 2004)
[44] (20) 7951-8800
Fax: [44] (20) 7951-8829

Indirect Tax

Peter S. Jenkins, *Global Director*
[44] (20) 7951-2299
Mobile: [44] 7887-833-525
Fax: [44] (20) 7951-2490
E-mail: pjenkins1@uk.ey.com

Human Capital

Curt Fochtmann, *Global Director*
(resident in Atlanta)
[1] (404) 817-4410
Mobile: [1] (404) 488-6263
Fax: [1] (404) 817-4306
E-mail: curt.fochtmann@ey.com

Global Tax Operations

Ken C. Brown, *Americas Leader*
(resident in Dallas)
[1] (214) 969-9760
Mobile: [1] (214) 707-2642
Fax: [1] (214) 754-3316
E-mail: ken.brown@ey.com

Ian Sadler, *European Area Leader*
[44] (20) 7951-8127
Mobile: [44] 7811-944-871
Fax: [44] (20) 7951-4109
E-mail: isadler@uk.ey.com

EYG Tax Central Team

Regional/Area Markets and Operations

Asia Pacific

John F. Nicolai — **[852] 2629-3831**
(resident in Hong Kong) — **Mobile: [1] (415) 810-1621**
Fax: [852] 2157-6891
San Francisco Voicemail: [1] (415) 951-3106
San Francisco Fax: [1] (415) 989-4704
E-mail: john.nicolai@hk.ey.com

Europe

Nick Prentice — **[44] (20) 7951-0089**
Fax: [44] (20) 7951-8829
E-mail: nick.prentice@uk.ey.com

Latin America

Dean L. Ruehle — **[1] (214) 969-8613**
(resident in Dallas) — **Mobile: [1] (214) 668-7964**
Fax: [1] (214) 754-3232
E-mail: dean.ruehle@ey.com

Communications

Anne Bost — **[44] (20) 7951-1497**
Mobile: [44] 7776-474-818
Fax: [44] (20) 7951-8829
E-mail: anne.bost@uk.ey.com

Ronald Anes, *Editor of Worldwide Corporate Tax Guide* — **[1] (732) 516-4551**
(resident in Metropark) — **Fax: [1] (732) 516-4583**
E-mail: ronald.anes@ey.com

Knowledge

Rob Thomas — **[44] (20) 7951-1570**
Mobile: [44] 7909-896-897
Fax: [44] (20) 7951-8829
E-mail: rob.thomas@uk.ey.com

Learning and Development

Claire Allum — **[44] (20) 7951-0680**
Mobile: [44] 7802-567-197
E-mail: callum@uk.ey.com

Marketing

Meg Salzetta — **[1] (312) 879-3683**
(resident in Chicago) — **Mobile: [1] (773) 817-9012**
Fax: [1] (312) 879-4055
E-mail: meg.salzetta@ey.com

Nordic Priority Accounts

Damian Walsh — **[44] (20) 7951-8787**
Mobile: [44] 7769-672-037
Fax: [44] (20) 7951-8829
E-mail: damian.walsh@uk.ey.com

Quality and Risk Management

Nick Prentice — **[44] (20) 7951-0089**
Fax: [44] (20) 7951-8829
E-mail: nick.prentice@uk.ey.com

Sales

Steve Whicher — **[44] (20) 7951-1787**
Mobile: [44] 7810-153-677
Fax: [44] (20) 7951-8829
E-mail: steve.whicher@uk.ey.com

Technology

Andy Quayle — **[44] (20) 7951-2970**
Fax: [44] (20) 7951-9178
E-mail: aquayle@uk.ey.com

Area Tax Leaders

Americas

Mark Weinberger (resident in Washington, D.C.)
[1] (202) 327-7720
Mobile: [1] (202) 744-1998
E-mail: mark.weinberger@ey.com

Central Europe

Dr. Thomas Borstell (resident in Duesseldorf)
[49] (211) 9352-10601
Mobile: [49] (160) 9391-0601
E-mail: thomas.borstell@de.ey.com

Continental Western Europe

Hervé Labaude (resident in Paris)
[33] (1) 46 93 62 11
Mobile: [33] (6) 86 18 02 34
E-mail: herve.labaude@fr.eylaw.com

Far East

Pok Soy Yoong (resident in Singapore)
[65] 6421-8899
Mobile: [65] 9723-4670
E-mail: soy-yoong.pok@sg.ey.com

Japan

Shigeru Nomura (resident in Tokyo)
[81] (3) 3506-2415
Mobile: [81] (90) 2655-7032
E-mail: shigeru.nomura@jp.ey.com

Netherlands

Han Oosters (resident in Rotterdam)
[31] (10) 406-8511
Mobile: [31] (6) 53-14-52-73
E-mail: han.oosters@nl.ey.com

Nordic

Maria Landén (resident in Stockholm)
[46] (8) 520-590-04
Mobile: [46] (70) 351-78-11
E-mail: maria.landen@se.ey.com

Oceania

Joseph Carrozzi (resident in Sydney)
[61] (2) 8295-6269
Mobile: [61] 411-853-100
E-mail: joseph.carrozzi@au.ey.com

Switzerland

Stephan Kuhn (resident in Zurich)
[41] (58) 286-44-26
Mobile: [41] (58) 289-44-26
E-mail: stephan.kuhn@ch.ey.com

United Kingdom

Aidan O'Carroll (resident in London)
[44] (20) 7951-7420
Mobile: [44] 7768-911-551
E-mail: ao'carroll@uk.ey.com

ERNST & YOUNG'S FOREIGN TAX DESK NETWORK

Ernst & Young's Foreign Tax Desks represent a unique network of experienced international tax experts. Generally at the partner level, these experts are assigned to E&Y offices in foreign cities, either major centers of international business, such as New York or London, or other important trading centers. The Foreign Tax Desks offer our clients a tremendous resource — accessible, timely and innovative tax-planning advice on cross-border investments. In major centers we have developed "clusters" or groups of Foreign Tax Desks, providing our clients worldwide with a forum for information and idea exchange as well as offering high-level international tax reviews for multinationals. Any number of desks may be involved in a single project. Our Foreign Tax Desks are on call at the numbers listed below.

Australia

Melbourne

Netherlands Desk

Jean-Paul Donga (Transfer Pricing)	[61] (3) 9288-8065

Sydney

New Zealand Desk

Andrew Babbage	[61] (2) 9248-4787

United Kingdom Desk

Paul D'Arcy	[61] (2) 9248-4175

United States Desk

Stephen J. Ferguson	[61] (2) 9248-4524
Tracy A. Fink	[61] (2) 9248-5761

Belgium

Brussels

United States Desk

Guy Sanschagrin	[32] (2) 774-98-70
Eric Sapperstein	[32] (2) 774-94-60

Bermuda

Hamilton

United States Desk

James Dockeray	[1] (441) 294-5392

Brazil

São Paulo

United States Desk

Erik B. Smith	[55] (11) 3165-5250

Canada

Calgary

United States Desk

Gilbert L. Lederhos	[1] (403) 206-5371
Terry D. Pearson	[1] (403) 206-5182

Montreal

United States Desk

Richard E. Felske	[1] (514) 874-4428
Daniel Lundenberg	[1] (514) 874-4411
George Tsitouras	[1] (514) 874-4427

Toronto

United States Desk

James K. Frank	[1] (416) 943-2080
George B. Guedikian	[1] (416) 943-3878
Stephen F. Jackson	[1] (416) 943-2340
Michael A. Nadler	[1] (416) 943-2697
Ron Wiltsie	[1] (416) 943-3350

Vancouver

United States Desk

Nelson Brooks	[1] (604) 891-8374

China

Shanghai

Australia Desk

Philip Anderson (Transfer Pricing)	[86] (21) 6219-1219

Germany Desk

Dr. Michael Pfaar	[86] (21) 6219-1219

United States Desk

Alice Chan-Loeb	[86] (21) 6219-1219, Ext. 293
William P.C. Seto	[86] (21) 6219-1219, Ext. 138

France

Paris

Germany Desk

Andreas Sinz	[33] (1) 46-93-62-36

United States Desk

Cedric Bernardeau	[33] (1) 46-93-85-62
Curt B. Kinsky (Transfer Pricing)	[33] (1) 46-93-65-71
Joseph B. Lee-Gilligan	[33] (1) 46-93-60-00
Lee A. Oster	[33] (1) 46-93-86-21
Jorge Pascual	[33] (1) 46-93-86-49
Sabine Wahl-Moriarty	[33] (1) 46-93-61-16

Germany

Duesseldorf

United States Desk

Mark Jones	[49] (211) 9352-10608

Frankfurt

France Desk

Jacques-Henry de Bourmont	[49] (69) 152-08-27449
Guillaume Rubechi	[49] (69) 152-08-27187

Munich

United States Desk

Elizabeth Alek	[49] (89) 14331-26694
Patrik Heidrich	[49] (89) 14331-13038
Harry A. Shannon III	[49] (89) 14331-13623

Greece

Athens

United States Desk

Christopher Kealy	[30] (210) 288-6402

Ireland

Dublin

United States Desk

David M. Allgaier	[353] (1) 479-2157

Israel

Tel-Aviv

United States Desk

David Abrahams	[972] (3) 623-2599
Jonathan E. Lubick (Transfer Pricing)	[972] (3) 568-8412

Italy

Milan

France Desk

Filippo di Carpegna	[39] (02) 851-4208

Japan Desk

Takahiro Kitte	[39] (02) 851-4230

Netherlands Desk
Gérard Prinsen [39] (02) 851-4225

United States Desk
Channing P. Flynn [39] (02) 851-4569
Alyce Nelson [39] (02) 851-4284

Japan
Tokyo

Australia Desk
John Kondos (Transfer Pricing) [81] (3) 3506-2596

Netherlands Desk
Tobias J. Lintvelt [81] (3) 3506-2423

United States Desk
Wayne H. Aoki [81] (3) 3506-2602
Mark T. Campbell (Transfer Pricing) [81] (3) 3506-2460
Bruce W. Miller [81] (3) 3506-2422

Netherlands
Amsterdam

United States Desk
Mark E. Bookman (Real Estate) [31] (20) 549-7431
David Colvin (Human Capital) [31] (20) 549-7472
Janette R. Cushman [31] (20) 549-7258
Bruce K. Handa [31] (20) 546-6415
Svetlana Ignatieva [31] (20) 549-7701

New Zealand
Auckland

Australia Desk
Peter Stinson [64] (9) 302-8574

Singapore

United States Desk
Lisa C. Lim [65] 6421-8643
Christopher Newman [65] 6421-8041

Switzerland
Zurich

Germany Desk
Heiko Kubaile [41] (58) 286-31-77

United States Desk
Shelley R. Lugon-Moulin [41] (58) 286-31-08
Jason Max [41] (58) 286-31-49
Lee A. Odden (Financial Services) [41] (58) 286-31-69

United Kingdom
London

Australia Desk
Emma Boyd-Boland [44] (20) 7951-0293

Luxembourg Desk
Raymond Krawczykowski [44] (20) 7951-0198

Netherlands Desk
Ard Groot [44] (20) 7951-7925
Roderik Rademakers [44] (20) 7951-8235
Erwin Sieders [44] (20) 7951-1481
Sandra van Loon [44] (20) 7951-0350

United States Desk

Steven C. Browning	[44] (20) 7951-7876
Andrew Cooper	[44] (20) 7951-3272
Stephen Curtis (Transfer Pricing/Tax–Effective Supply Chain Management)	[44] (20) 7951-4556
Kevin Glen	[44] (20) 7951-7945
Philip Green	[44] (20) 7951-1518
Craig Hillier (Structured Finance)	[44] (20) 7951-4618
Yumiko Morita	[44] (20) 7951-1556
Laynie Pavio	[44] (20) 7951-2351
Edward Rieu	[44] (20) 7951-1514
James W. Sanderson, Jr.	[44] (20) 7951-7927
Mark Siegel	[44] (20) 7951-8712
Robert Spence	[44] (20) 7951-8393

United States

New York

(also see page 951 for listings of the Asian Business Group and Latin American Business Group)

African Desk

Dele Olaogun	[1] (212) 773-2546

Australia Desk

Tony Cooper	[1] (212) 773-5280
Richard Goodwin	[1] (212) 773-4562

Belgium/Luxembourg Desk

Steven Claes	[1] (212) 773-7907

Canada Desk

Robin Mark Coleman	[1] (212) 773-7685
Terry J. McDowell	[1] (212) 773-3330

Caribbean Desk

Gregory Hannays	[1] (212) 773-9390

European VAT/Customs Desk

Robin Maxwell	[1] (212) 773-3350

France Desk

Phillipe Paul-Boncour	[1] (212) 773-9164
Frederic Vallat	[1] (212) 773-5889

Germany Desk

Thomas Eckhardt	[1] (212) 773-8265
Ilona Kahl	[1] (212) 773-0350
Jörg Menger	[1] (212) 773-5250
Uwe Woywode	[1] (212) 773-2452

Hungary Desk

Tibor Palszabo	[1] (212) 773-1395

Ireland Desk

Declan Gavin	[1] (212) 773-8744

Israel Desk

Lior Harary	[1] (212) 773-1984

Italy Desk

Mario Ferrol	[1] (212) 773-6516
Christian Serao	[1] (212) 773-4602

Netherlands Desk

Simone Admiraal	[1] (212) 773-5812
Bas Leenders	[1] (212) 773-1974
Edvard Rinck	[1] (212) 773-2711

Shannon Smit	[1] (212) 773-1297
Frank van Hulsen	[1] (212) 773-2006
Edwin Van Keulen (Transaction Advisory Services)	[1] (212) 773-0466
Eric Westerburgen	[1] (212) 773-6677
Jurjan Wouda Kuipers	[1] (212) 773-6464

Portugal Desk

Francisco Almada	[1] (212) 773-9417

Spain Desk

Carlos Heredia	[1] (212) 773-8692

Sweden Desk

Rikard Ström	[1] (212) 773-8597

Switzerland Desk

Alfred Preisig	[1] (212) 773-6475

United Kingdom Desk

Nigel D. Fleming	[1] (212) 773-8764
Jonathan W. Fox	[1] (212) 773-6564
Robert D. Moncrieff (Structured Finance)	[1] (212) 773-5021

Chicago

European VAT/Customs Desk

Hugo Dams	[1] (312) 879-5742
Robert Smith	[1] (312) 879-6916

Netherlands Desk

Nico Derksen	[1] (312) 879-5508

Miami

(see pages 964 and 965 for a listing of the Latin American Business Group)

San Jose

European VAT/Customs Desk

Howard Lambert	[1] (408) 947-6717

ALBANIA

(Country Code 355)

All inquiries regarding taxation in Albania should be directed to Christos Seferis in the Athens office.

TIRANA **GMT +1**

Ernst & Young Albania Sh.A
Rruga A. Toptani
Torre Drin – 3rd Floor
Tirana
Albania

Corporate Tax

Christos Seferis *(resident in Athens)*	**[30] (210) 288-6315** **Mobile: [30] (694) 441-7581** **E-mail: christos.seferis@gr.ey.com**

Because of frequent changes to the tax law and the rapidly changing economic situation in Albania, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Profits Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	10/15*
Interest	10/15*
Royalties from Patents, Know-how, etc.	10/15*
Rental Income from Leases	10/15*
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

* The 10% rate applies to payments to residents; the 15% rate applies to payments to nonresidents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. Nonresident companies are subject to tax on their Albanian-source income only.

Rates of Corporate Tax. The standard rate of profits tax is 25%.

Capital Gains. Capital gains are included in ordinary income and are subject to profits tax at the regular rate.

Administration. The tax year is the calendar year.

An annual tax return must be filed by 31 March of the year following the tax year. Tax assessments with respect to irregularities or violations contained in the return are issued within 15 days after the filing of the return.

Companies must pay profits tax in monthly installments during the tax year. The installments are due on the 15th day of each month. Any balance of tax due shown on the annual tax return must be paid at the time of filing the tax return.

Dividends. Dividends paid are subject to withholding tax at a rate of 10% for payments to residents and 15% for payments to nonresidents.

Remittances of branch profits are not subject to withholding tax.

Companies must include dividends received from Albanian and foreign companies in taxable income.

Foreign Tax Relief. Under its tax treaties, Albania usually agrees to exempt foreign-source income from tax. Foreign taxes are creditable against Albanian tax only as provided in tax treaties.

C. Determination of Trading Income

General. Taxable income is based on the annual profit reported in financial statements prepared in accordance with the accounting law and regulations issued by the Minister of Finance. Taxable income does not necessarily equal the profit shown in the financial statements, however, because certain specified adjustments are required for tax purposes.

All necessary and reasonable expenses incurred in carrying out business activities are deductible except for the following:

- Costs of purchasing or improving land;
- Costs of purchasing, improving, renewing or reconstructing fixed assets;
- Expenses in excess of rates set by law or the Ministry of Finance (see *Tax Depreciation* below for depreciation rates);
- Fines and penalties paid for the violation of laws or contractual provisions;
- Interest paid on loans in excess of the rates of the Bank of Albania; and
- Interest paid on late payments to the government.

Inventories. The inventory valuation rules provided in the accounting law also apply for tax purposes. Inventory is valued at historical cost, which is determined by using the weighted-average, first-in, first-out (FIFO) or other specified methods. The local tax authorities must approve a change in the adopted method.

Provisions. Companies may not deduct provisions.

Tax Depreciation. Buildings, structures and intangible assets must be depreciated using the straight-line method. The applicable rates are 5% for buildings and structures, and 10% for intangible assets. Computers, information systems, software and all other fixed assets must be depreciated using the pooling system. The applicable rates are 25% for computers, information systems and software, and 20% for all other fixed assets.

Assets that may not be depreciated include land and territory, artistic works, jewelry and precious metals.

Relief for Losses. Tax losses may be carried forward for three years. Loss carrybacks are not allowed.

Groups of Companies. The tax law does not contain any clear provisions for filing consolidated returns or relieving losses within a group. As a result, consolidated returns are not allowed.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; exempt supplies include leases of land and buildings and financial services	
Standard rate	20
Exports, services rendered outside Albania for Albanian recipients by Albanian residents and supplies of goods and services relating to international transportation	0
Excise duties on specified goods	
Tobacco	60
Alcoholic drinks	50
Soft drinks	5
Benzene Super	90
Oil	50
Social security contributions, on monthly salary; paid by	
Employer	30.7
Employee	11.2

E. Foreign-Exchange Controls

In Albania, the currency market is a free market. The leke, the Albanian currency, is fully convertible internally (no symbol is provided for the leke).

Residents and nonresidents may open foreign-currency accounts in Albanian banks or foreign banks authorized to operate in Albania. Residents may also open accounts in banks located abroad. No limits are imposed on the amount of foreign currency that may be brought into Albania. Hard-currency earnings may be repatriated without the imposition of taxes.

F. Treaty Withholding Tax Rates

The rates of withholding tax in Albania's tax treaties are described in the following table.

	Dividends %	Interest %	Royalties %
Belgium	5/15 (a)	5	5
Bulgaria	5/15 (a)	10	10
Croatia (c)	10	10	10
Czech Republic	5/15 (a)	5	10
France	5/15 (a)	10	5
Greece (c)	5	5	5
Hungary	5/10 (a)	0	5
Italy	10	5 (b)	5
Macedonia	10	10	10
Malaysia	5/15 (a)	10	10
Malta (d)	5/15 (a)	5	5
Moldova	5/10 (a)	5	10
Norway	5/15 (a)	10	10
Poland	5/10 (a)	10	5
Romania	10/15 (a)	10 (b)	15
Russian Federation (c)	10	10	10
Sweden	5/15 (a)	5	5
Switzerland	5/15 (a)	5	5
Turkey (c)	5/15 (a)	10 (b)	10
Nontreaty countries	15	15	15

(a) The lower rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer; the higher rate applies to other dividends.
(b) Interest on government and central bank loans is exempt from withholding tax.
(c) These treaties have been ratified by the Albanian parliament but not by the parliaments of the other countries.
(d) These treaties have been negotiated, but not signed.

Albania is negotiating tax treaties with several other countries.

ANGOLA

(Country Code 244)

LUANDA **GMT +1**

Ernst & Young	**(2) 336-295**
Mail Address:	**[351] 217-912-000 (Lisbon)**
Apartado 50602	**Fax: (2) 336-295**
1700 Lisbon	**[351] 217-917-592 (Lisbon)**
Portugal	**E-mail: ernst.young-angola @netangola.com**

Street Address:
Avenue 4 de Fevereiro
95 – 2nd Floor
Luanda
Angola

Corporate Tax

Mário Barber	**(2) 336-295**
Cláudia Rodrigues *(resident in Lisbon)*	**[351] 217-949-324** **Mobile: [351] 937-912-708** **E-mail: claudia.rodrigues@pt.ey.com**

Natural Resources

Filomena Oliveira *(resident in Lisbon)*	**[351] 217-912-060** **Mobile: [351] 937-912-060** **E-mail: filomena.oliveira@pt.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)(b)
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	10 (c)(d)
Interest	15 (d)
Royalties	10
Payments for Services	3.5/5.25 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) Income from certain activities, such as agriculture, forestry and cattle raising, is subject to tax at a rate of 20%. Oil companies are subject to Oil Income Tax rather than Industrial Tax (corporate income tax). See Section B.
(b) The Ministry of Finance may provide a 17.5% rate for companies incorporated in the most disfavored regions of Angola and to companies setting up industries based on local resources.
(c) Certain dividends are exempt from tax (see Section B).
(d) A 2.5% rate applies to income derived from companies in fundamental areas of the economy.
(e) A 35% tax rate applies to 10% of payments for construction and related activities and to 15% of payments under contracts for other services.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies carrying out industrial and commercial activities in Angola are subject to Industrial Tax (corporate income tax).

An Angolan company, which is a company that has its head office or effective management and control in Angola, is subject to Industrial Tax on its worldwide profits.

Foreign entities with a permanent establishment in Angola are subject to Industrial Tax only on profits imputed to the permanent establishment. For this purpose, a generally applicable definition of permanent establishment follows the definition provided in the Organization for Economic Cooperation and Development (OECD) model treaty.

All companies, regardless of whether they have a permanent establishment in Angola, are subject to withholding tax on payments received for services rendered (for details, see *Rates of Corporate Tax* below).

Rates of Corporate Tax. The ordinary Industrial Tax rate is 35%.

Income from certain activities, such as agriculture, forestry and cattle raising, is subject to a reduced tax rate of 20%.

The Ministry of Finance may grant a reduced Industrial Tax rate of 17.5% to companies incorporated in most disfavored regions, or to companies setting up industries based on local resources. The reduced tax rate is granted for a maximum period of 10 years.

In addition, under the foreign-investment rules, tax reductions may be granted to certain types of foreign investments, as well as to companies that establish new industries in Angola. These tax reductions are generally granted for periods ranging from three to five years.

All companies, regardless of whether they have a permanent establishment in Angola, are subject to withholding tax on payments received for services rendered. If the payment for the services rendered is imputed to an entity with its residence, head office or permanent establishment in Angola, the withholding tax applies regardless of whether the services are rendered in or outside Angola. The rate of the withholding tax is the normal Industrial Tax rate of 35%. This rate is applied to 10% of payments for construction and related services, and to 15% of payments for other services. The payer must withhold the tax from each payment and remit the withholding tax to the Angolan government. The tax withheld is considered to be a payment on account if the recipient has a residence, head office or permanent establishment in Angola. Otherwise, the tax is final.

Income from oil extraction is subject to Oil Income Tax at a total rate of 65.75%. In addition, companies engaged in exploration for and production of oil, gas and similar products must pay royalties on concession rights and production at a rate of 16.67%.

Contracts, such as production-sharing agreements, between oil companies and the Angolan government may override the oil extraction tax and the royalty provisions and may set forth different taxes and applicable rates.

Capital Gains. Capital gains on profits derived from the sale of fixed assets are subject to Industrial Tax at the regular tax rate of 35%.

Administration. The tax year is the calendar year.

All companies engaging in activities in Angola must register or reregister with the tax department to obtain a taxpayer number.

Companies, including foreign companies with a permanent establishment in Angola, must file an annual tax return, together with their financial statements, by 31 May in the year following the tax year.

Companies must make monthly advance payments of Industrial Tax. The tax base for the monthly payments is 10% of the preceding month's turnover. The Industrial Tax rate of 35% is applied to this tax base to compute the amount of the advance payment. The advance payments are due on the last day of each month. If the total amount of the advance payments exceeds the tax due for the tax year, the excess may be carried forward as a tax credit against the tax payable into the following three years.

Penalties are imposed for failure to file tax returns and other required documents. If, on the final assessment, the tax authorities determine that a further payment is required and that the taxpayer is at fault, interest is imposed on the amount of the additional payment. If the tax due is not paid, additional interest is imposed from the date of the tax authorities' notice that an additional payment is due.

Dividends. In general, companies are subject to tax on the gross amount of dividends received.

Dividends received from Angolan companies subject to Industrial Tax are exempt from tax if, at the time of the distribution, the recipient owns at least 25% of the payer and has held the shares for at least two years or since the incorporation of the payer. In addition, dividends paid by Angolan companies to certain insurance companies or their holding companies are exempt from Industrial Tax.

A 10% withholding tax is imposed on taxable dividends and may be credited against Industrial Tax due on the annual return. A reduced withholding tax rate of 2.5% applies to dividends derived from companies operating in fundamental areas of the Angolan economy.

Foreign Tax Relief. No relief is granted for foreign taxes paid by Angolan taxpayers.

C. Determination of Trading Income

General. Taxable income is the income reported in companies' financial statements, subject to certain adjustments. Expenses considered indispensable in the production of income and the maintenance of a production unit are deductible. Representation expenses, such as travel expenses, deemed to be unreasonable by the tax authorities, as well as fines and penalties, are not deductible.

Inventories. Inventories may be valued by any currently acceptable method provided that the method is consistently applied and is based on documented purchase prices.

Provisions. Provisions for the following items are allowable:
- Bad debts, which cannot exceed 6% of the balance of receivables;
- Risks that cannot be insured and may have to be paid; and
- Depreciation in the value of inventory, provided it does not exceed 2.5% to 6% of the value of the inventory.

Tax Depreciation. Depreciation rates are provided in the law. The following are some of the currently applicable rates.

Asset	Rate (%)
Vehicles	33.33
Office buildings	2
Industrial buildings	4
Electric motors and mechanical engines	16.66
Furniture	10

These rates may vary depending on the industrial sector.

Relief for Losses. Companies may carry forward tax losses for three years. No carryback is allowed.

Groups of Companies. There are no tax regulations governing groups of companies (but see Section E).

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Training levy, on oil and gas exploration and production companies and their subcontractors	
Production companies	US$0.15 per barrel
Exploration companies	US$200,000 a year
Subcontractors under a contract with a term exceeding one year; levied on annual gross income	0.5%
Stamp duty, on the amount of receipts	1%
Consumption tax; rate varies according to type of good	2% to 30%
Social security contributions, on salaries and additional remuneration; paid by	
Employer	8%
Employee	3%

E. Miscellaneous Matters

Foreign-Exchange Controls. The Banco Nacional de Angola supervises all foreign-exchange operations. For certain transactions, such as the payment of dividends, prior authorization from the Ministry of Finance is required.

In general, repatriation of profits is permitted for approved foreign-investment projects. In certain cases, a time schedule for repatriation of profits may be imposed. Proceeds from the sale or liquidation of an investment may not be repatriated until six years after the capital was initially imported.

Antiavoidance Legislation. The tax authorities may adjust the taxable income of related parties.

F. Tax Treaties

Angola does not have any tax treaties in force. However, tax treaties with France and Portugal are expected to enter into force in the near future.

Angola has entered into an agreement with Portugal on the reciprocal promotion and protection of investments. However, this agreement does not provide any specific tax benefits.

ARGENTINA

(Country Code 54)

The e-mail addresses for the persons listed below who are resident in Argentina are in the following standard format:

firstname.surname@ar.ey.com

BUENOS AIRES **GMT -3**

Ernst & Young – Pistrelli, Henry Martin y Asociados SRL
25 de Mayo 487
C1002ABI Buenos Aires
Argentina

(11) 4318-1600
Fax: (11) 4312-8647, 4510-2220

National Director of Tax	
★ Guillermo Pérez	**(11) 4318-1680**
International Tax Services	
Carlos Casanovas	**(11) 4318-1619**
Gustavo Scravaglieri	**(11) 4510-2224**
Transfer Pricing	
Carlos Ochoa	**(11) 4318-1644**
Manuel M. Val Lema	**(11) 4318-1607**
Financial Services, Insurance and Healthcare Institutions	
Eduardo Cariglino	**(11) 4318-1603** **Mobile: (911) 4440-5966**
Jorge Lapenta	**(11) 4510-2249**
Energy	
Daniel Dasso	**(11) 4318-1694**
Osvaldo Flores	**(11) 4318-1640**
Guillermo Pérez	**(11) 4318-1680**
Legal Services	
Felipe Stepanenko	**(11) 4318-1658**
Customs	
Rubén Malvitano	**(11) 4318-1655**
Human Capital	
Florencia Fernandez	**(11) 4318-1662**
Jorge Gebhardt	**(11) 4510-2203**
Eduardo Perelli	**(11) 4318-1609** **Mobile: (911) 4471-3911**
Gustavo Pérez	**(11) 4318-1659**
Retail and Consumption	
Jorge Gebhardt	**(11) 4510-2203**
Media and Entertainment	
Francisco Antognini	**(11) 4318-1605** **Mobile: (911) 4448-3901**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35 (a)

Withholding Tax (%)	
Dividends	0 (b)
Interest	15.05/35 (c)
Royalties from Patents, Know-how, etc.	21/28/31.5 (c)
Branch Remittance Tax	0 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) A Tax on Minimum Presumed Income is payable to the extent it exceeds regular corporate income tax for the year. For details, see Section B.
(b) If the amount of a dividend distribution or a profit remittance exceeds the after-tax accumulated taxable income of the payer, a final withholding tax of 35% may be imposed on the excess.
(c) These are final withholding taxes imposed on nonresidents only. For details concerning the rates, see Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are taxed on worldwide income. Any profits, including capital gains, are taxable. Resident companies are those incorporated in Argentina.

Rates of Corporate Tax. Corporate tax is payable at a rate of 35%.

Tax on Minimum Presumed Income. The Tax on Minimum Presumed Income (TMPI) is imposed on resident companies and branches of foreign companies. The TMPI is payable to the extent it exceeds regular corporate income tax for the year.

The tax base for the TMPI is the resident company's or branch's worldwide assets at the end of the tax year. Certain specified assets are excluded from the calculation of the tax base.

The standard rate of TMPI is 1%, but special rates apply to certain types of companies.

TMPI that is paid may offset regular income tax in the following 10 tax years.

Capital Gains. Capital gains are included in the taxable income of a corporation and taxed at the regular corporate rate.

Capital gains on shares held by a non-Argentine company are subject to tax if the principal activity of the non-Argentine company, as a result of its legal nature, or under its bylaws, is to make investments outside the jurisdiction of the country where it was formed or if the legal regime or bylaws governing its activities expressly prohibits carrying out certain transactions or investments in such jurisdiction.

If the capital gains on the shares of a non-Argentine company are taxable, the gains are subject to a withholding tax equal to either 17.5% of the gross proceeds from the sale or 35% of the net gain from the sale. The taxpayer elects the type of taxation.

The validity of the tax rules discussed in the second and third paragraphs of this section is currently under discussion, as a result of several amendments to the tax law and guidance provided by the National Treasury Attorney. Under the latest opinion of the National Treasury Attorney, which is supposed to be respected by the tax authorities, the tax rules discussed in the second paragraph of this section are no longer applicable, effective from 2002. Taxpayers should monitor the status of this issue before engaging in any transactions.

Administration. The tax year for a company is its accounting year. Companies are required to make 10 advance payments of corporate income tax. The first payment is equal to 25% of the preceding year's tax and the other payments are each equal to 8.33% of such tax. The payments are due monthly beginning in the sixth month after the end of the accounting year. The due dates depend on the company's taxpayer registration number.

Under certain circumstances, advance payments of TMPI (see *Tax on Minimum Presumed Income* above) may be required.

Companies must file their tax returns and pay any balance due by a specified date in the fifth month after their accounting year. If the payment is late, interest is charged.

Dividends. In general, dividends and branch remittances are not subject to tax. However, if the amount of a dividend distribution or a profit remittance exceeds the after-tax accumulated taxable income of the payer, a final withholding tax of 35% may be imposed on the excess.

Withholding Taxes on Interest and Royalties. Final withholding taxes are imposed on interest and royalties paid to nonresidents.

A withholding tax rate of 15.05% applies to the following types of interest payments:

- Interest on loans obtained by Argentine financial entities.
- Interest on loans granted by foreign financial entities located in the following jurisdictions:
  - Jurisdictions not listed as tax havens under the Argentine income tax regulations; or
  - Jurisdictions that have signed exchange-of-information agreements with Argentina and have internal rules providing that no banking, stock market or other secrecy regulations can be applied to requests for information by the Argentine tax authorities.
- Interest on loans for the importation of movable assets, except automobiles, if the loan is granted by the supplier of the goods.
- Under certain conditions, interest on investments in Argentine financial entities.

The withholding tax rate for all other interest payments to nonresidents is 35%.

The general withholding tax rate for royalties is 31.5%. If certain requirements are satisfied, a 21% rate may apply to technical assistance payments and a 28% rate may apply to certain royalties.

Foreign Tax Relief. Resident companies may credit foreign income taxes against their Argentine tax liability, up to the amount of the increase in that liability resulting from the inclusion of foreign-source income in the tax base.

Direct and indirect foreign tax credits are available. To qualify for an indirect foreign tax credit, an Argentine company must own directly at least 25% of a first-tier subsidiary's shares. For a foreign tax credit regarding a second-tier subsidiary, an Argentine company must have an indirect ownership interest of at least 15%. The credit does not apply below the second tier.

C. Determination of Trading Income

General. Tax is applied to taxable income, which is the accounting profit (not adjusted for inflation) earned in the tax period after adjustments provided for by the tax law. Exemptions are usually insignificant.

Expenses are deductible to the extent incurred in producing taxable income, subject to certain restrictions and limitations, such as those applicable to the following: representation expenses; directors' fees; and royalties for patents and trademarks paid to nonresidents. Depreciation, rental payments and all other automobile expenses, such as license fees, insurance, fuel and maintenance, are also deductible, subject to certain restrictions. In general, certain limitations apply to the deductibility of interest payments subject to the withholding tax rate of 15.05% (see Section B).

Any expense incurred by an Argentine company in favor of a foreign related party that is deemed Argentine-source income for the recipient of the payment can be deducted for tax purposes in the year of accrual only if the payment is made by the date when the income tax return for that year is due. Otherwise, such expenses must be deducted in the year of payment. This limitation also applies to expenses paid to individuals or entities located in tax havens, regardless of whether they are related parties.

Foreign-Exchange Losses. Law 25,561, which was published in the *Official Gazette* on 7 January 2002 and took effect on 6 January 2002, devalued the Argentine peso against the U.S. dollar. Under the law, companies with equity greater than AR$8,125,425 or income in excess of AR$16,250,850 in a year must deduct foreign-exchange losses resulting from the devaluation over a five-year period. This measure applies only to foreign-exchange losses incurred as of 6 January 2002.

Inventories. Stock is valued according to procedures established by the tax law, which result in values nearly equivalent to market value at the end of the tax period.

Provisions. A provision for bad debts is allowed. However, it must be computed according to rules prescribed by the tax law.

Depreciation. Tangible assets may be depreciated using the straight-line method over the assets' expected lives. A method based on effective use may also be acceptable. In general, buildings are depreciated at an annual rate of 2%. However, a higher rate may be acceptable if it is established that, because of the materials used to construct the building, the expected useful life is less than 50 years. The law does not specify rates for movable assets. Intangible property may be depreciated, with exceptions such as goodwill and trade names.

Relief for Losses. Tax losses may be carried forward for five tax periods. Losses resulting from sales of shares or from foreign activities may offset only the same type of income. Loss carrybacks are not permitted.

Except for hedge transactions, losses resulting from the rights contained in derivative instruments or contracts may offset only the net income generated by such rights during the fiscal year in which the losses were incurred or in the following five fiscal years. For this purpose, a transaction or contract involving derivatives is considered a hedge transaction if its purpose is to reduce the impact of future fluctuations in market prices or fees on the results of the primary economic activities of the hedging company.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on goods delivered and services rendered in Argentina, on services rendered outside Argentina that are used or exploited in Argentina, and on imports	
Standard rate	21
Other rates	10.5/27
Tax on financial transactions; generally imposed on debits and credits with respect to checking accounts	
General rate	0.6
Other rates	0.075/0.25/0.5/1.2
Various local taxes on gross receipts, real estate and other items	Various
Social security taxes (including medical care contributions), on monthly salaries up to AR$4,800; paid by employer; portion creditable against VAT, which varies depending on where the employees render services	23/27
Export duties	5/10/20
Tax on personal assets; imposed on all legal persons and individuals domiciled abroad holding ownership interests in Argentine companies; tax is calculated based on the equity value of the Argentine company; tax is paid by the Argentine company, but the company may recover the tax paid from the foreign shareholder; certain exceptions may apply, depending on the country of the investor	0.50

E. Miscellaneous Matters

Foreign-Exchange Controls. The Executive Branch and the Central Bank have issued regulations that establish certain requirements for the transfer of funds abroad.

Exporters must repatriate into Argentina the cash derived from the exports of goods and services within a specified time period.

Importers generally need to observe minimum terms for the transfer of funds abroad to pay for import transactions. The terms (90 or 180 days) vary based on the tariff classification of the imported goods. Prepayments may be made for certain transactions.

Debt-to-Equity Rules. Under general principles, transactions between related parties must be made on an arm's length basis.

A debt-to-equity ratio of 2:1 applies to loans granted by foreign entities if both of the following conditions are met:

- The interest payments are subject to a withholding tax rate of 15.05%; and
- The foreign company is the controlling entity, as defined for transfer-pricing purposes.

Further guidance is expected on the application of this rule to interest paid to a foreign related party, which is generally subject to a withholding tax rate of 35%.

If the debt-to-equity ratio is applicable, interest paid on liabilities in excess of the ratio is nondeductible. The interest expenses disallowed as a deduction as a result of this limitation are treated as dividends and may not be deducted in future years.

Transfer Pricing. The Argentine law includes transfer-pricing rules that generally apply to transactions between related parties. In addition, transactions between unrelated parties may also be subject to these rules. Transactions with entities and individuals located in low-tax jurisdictions (the Executive Branch has published a list of countries and other jurisdictions qualifying as low-tax jurisdictions) are deemed to be not carried out at arm's length. The law provides for the following transfer-pricing methods:
- Comparable uncontrolled price method;
- Resale price method;
- Cost-plus method;
- Profit-split method; and
- Transactional net margin method.

If exports of agricultural commodities and other products with a publicly quoted price are made to related parties and if an international intermediary who is not the effective purchaser of the products participates in the transaction, the appropriate transfer price is deemed to be the higher of the market quote on the day the products are delivered and the price agreed to by the parties. This rule does not apply if the foreign intermediary meets the following requirements:
- It has a real presence and maintains a commercial establishment to manage its own activities in its country of residence, and it has assets, risks and functions (operations) that correspond with the volume of its transactions;
- Its principal source of income is not passive income, income from trading goods to or from Argentina, or income from intragroup trading; and
- Its intragroup operations do not exceed 30% of its annual transactions.

A taxpayer must submit the following to the tax authorities to demonstrate the reasonableness of its transfer-pricing policy: special tax returns; and a special report signed by an independent certified public accountant, which is based on a mandatory transfer-pricing study.

F. Treaty Withholding Tax Rates

Some of Argentina's tax treaties establish maximum tax rates lower than those under general tax law. To benefit from a reduced treaty withholding tax rate, certain formal requirements must be met. The following table shows the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest (c) %	Royalties %
Australia	10/15 (b)	0/12	10/15
Austria	15	0/12.5	15
Belgium	10/15 (b)	0/12	3/5/10/15 (d)
Bolivia	35	15.05/35	21/28/31.5 (f)
Brazil	35	15.05/35	21/28/31.5 (f)
Canada	10/15 (b)	0/12.5	3/5/10/15 (d)
Chile	35	15.05/35	21/28/31.5 (f)
Denmark	10/15 (b)	0/12	3/5/10/15 (d)
Finland	10/15 (b)	0/15	3/5/10/15 (d)
France	15	15.05/20	18
Germany	15	10/15	15
Italy	15	15.05/20	10/18 (e)
Netherlands	10/15 (b)	0/12	3/5/10/15 (d)
Norway	10/15 (b)	0/12.5	3/5/10/15 (d)
Spain	10/15 (b)	0/12	3/5/10/15 (d)
Sweden	10/15 (b)	0/12	3/5/10/15 (d)
Switzerland	10/15 (b)	0/12	0/3/5/10/15 (d)(f)
United Kingdom	10/15 (b)	0/12	3/5/10/15 (d)
Nontreaty countries	35	15.05/35 (g)	21/28/31.5 (g)

(a) The rates shown in the table apply to the amount of the dividend distribution exceeding the after-tax accumulated taxable income of the payer. Because tax treaties generally limit the withholding tax rate that may be applied to the gross amount of the dividends, it is not clear that the reduced rates in the table will be applied to the excess amount referred to in the preceding sentence. However, it appears that taxpayers will be able to apply the reduced treaty withholding tax rates listed in the table to the excess amount, even if the application of the statutory rate of 35% to the excess would result in a withholding tax that is less than the withholding tax resulting from application of the treaty rate to the gross amount of dividends.

(b) The 10% rate applies if the beneficial owner of the dividend is a company that controls, directly or indirectly, at least 25% of the voting power of the payer. The 15% rate applies to other dividends.

(c) The rates listed are the lower of the treaty or statutory rates. For details concerning the domestic rates, see Section B.

(d) In general, the rates apply to the following categories of payments: 3% for the use of, or right to use, news; 5% for the use of, or right to use, copyrights of literary, dramatic, musical or other artistic works (but not royalties with respect to motion picture films and works on film or videotape or other means of production for use in connection with television); 10% for the use of, or right to use, industrial, commercial or scientific equipment or patents, trademarks, designs, models, secret formulas or processes, or for the use of or information concerning scientific experience, including payments for the rendering of technical assistance; and 15% for other royalties. These categories may differ slightly from treaty to treaty.

(e) The 10% rate applies to royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works. The 18% rate applies to other royalties.

(f) Under a protocol to the treaty, as long as Swiss domestic law does not impose a withholding tax on royalties paid to nonresidents, royalties are taxable only in the contracting state where the beneficial owner of the royalties is resident.

(g) For details concerning these rates, see Section B.

ARUBA

(Country Code 297)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@an.ey.com

ORANJESTAD **GMT -5**

Ernst & Young **582-4050**
Mail Address: **Fax: 582-6548**
P.O. Box 197
Oranjestad
Aruba

Street Address:
Vondellaan 31
Oranjestad
Aruba

Corporate Tax

★ Angel R. Bermudez	**582-4050, Ext. 225** **Mobile: 993-0382**
Benno Oldenhof	**582-4050, Ext. 224** **Mobile: 562-3277**
Vanessa A. Quilotte	**582-4050, Ext. 226** **Mobile: 992-6534**

This chapter reflects measures in the New Fiscal Regime, which took effect on 1 January 2003. For further details, see Section B.

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	0/5/10*
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

* The 0% rate applies to dividends paid to residents. The 5% rate applies to dividends paid to nonresident publicly traded companies. The 10% rate applies to dividends paid to other nonresidents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Domestic corporations are taxed on worldwide income. A domestic corporation is one that is established in Aruba. Branches of foreign companies are taxed on Aruban-source income.

Tax is levied on total profits earned from all sources during the company's accounting period. "Profit" means the total of net gains, under any name or any form.

The New Fiscal Regime (NFR) took effect on 1 January 2003. The NFR introduced several tax changes, which are designed to eliminate Aruba's image as a tax haven and to modernize the Aruban tax law. The NFR features the following significant changes affecting companies:

- The introduction of a flat profit tax rate;
- The abolishment of the offshore and tax holiday regimes;
- The introduction of a dividend withholding tax;
- The imposition of restrictions on the deduction of interest and other payments; and
- The introduction of an imputation payment company facility.

Further details regarding these changes are provided in *Rates of Corporate Tax* and *Dividends* below.

Rates of Corporate Tax. Under the NFR, profit tax is imposed at a flat rate of 35%.

The NFR abolished the offshore and tax holiday regimes. However, established offshore companies and tax holiday companies have been grandfathered.

Companies operating in the free zone are subject to a profit tax rate of 2% on their export activities. The free zone is a defined trade territory where no duties are levied on imports if the goods are modified and then exported.

The Aruba Exempt Company (AVV) is exempt from profit tax.

The NFR introduced the Imputation Payment Company (IPC). The effective profit tax rate of an IPC could be as low as 2%. IPCs may engage in certain specified activities only.

Branch Profits Tax. Branches of foreign corporations are taxed at the same rate (35%) as resident corporations. No additional withholding taxes are imposed on the remittance of profits.

Capital Gains. Capital gains are taxed as ordinary income.

Administration. The profit tax return for the previous accounting period must be filed within 60 days after distribution of the tax return forms. The profit tax due is payable two months after receipt of the assessment.

Dividends. Effective from 1 January 2003, the participation exemption is amended. Aruban resident companies are exempt from profit tax on dividends and capital gains with respect to a qualifying participation.

A 10% withholding tax is imposed on dividends paid to nonresidents. The rate is reduced to 5% for dividends paid to publicly traded companies.

Foreign Tax Relief. Foreign tax relief is available through the Tax Regulation for the Kingdom of the Netherlands of which Aruba is a partner.

C. Determination of Trading Income

General. Commercial profits must be calculated in accordance with "sound business practice" and are determined using the following calculation: gross income minus returns, rebates and discounts equals net income; net income minus costs and expenses equals commercial profits before taxes.

Inventories. Inventories are generally valued using the historical-cost, first-in, first-out (FIFO) or weighted-average methods.

Depreciation. Depreciation may be calculated by the straight-line, declining-balance or flexible methods.

D. Foreign-Exchange Controls

The foreign-exchange market is regulated by the Central Bank, which carries out the necessary transactions as executor of exchange policy. Remittances abroad require an exchange license issued by the Central Bank.

E. Tax Treaty

The only provisions for double tax relief are found in the Tax Regulation for the Kingdom of the Netherlands, which contains provisions to avoid double taxation between the Netherlands, Aruba and the Netherlands Antilles regarding taxes on income, capital and so forth.

AUSTRALIA

(Country Code 61)

The e-mail addresses for the persons listed below who are resident in Australia are in the following standard format:

firstname.surname@au.ey.com

The e-mail addresses for persons who are not resident in Australia are listed below the respective persons' names.

SOUTHEAST REGION **GMT +10**

(A)
Ernst & Young **(2) 9248-5555**
The Ernst & Young Building **Fax: (2) 9248-5314**
321 Kent Street
Sydney, New South Wales 2000
Australia

(B)
Ernst & Young **(3) 9288-8000**
120 Collins Street **Fax: (3) 9654-6166**
Melbourne, Victoria 3000
Australia

(C)
Ernst & Young **(2) 6267-3888**
51 Allara Street **Fax: (2) 6246-1504**
Canberra
Australian Capital Territory 2601
Australia

Managing Partner – Tax

Joseph Carrozzi *(A)* **(2) 8295-6269**
Mobile: 411-853-100

International Tax Services – Core

Alf Capito *(A)* **(2) 8295-6473**
Mobile: 416-295-888

Stephen Chubb *(A)* **(2) 9248-4799**
Mobile: 411-641-405

Tony Cooper *(resident in New York)* **[1] (212) 773-5280**
Mobile: [1] (917) 400-3726
E-mail: tony.cooper@ey.com

Christopher Gibbs *(A)* **(2) 8295-6413**
Mobile: 403-178-599

Mark Hadassin *(A)* **(2) 8295-6219**
Mobile: 419-970-163

★ Michael R. Johnston *(A)* **(2) 9248-4911**
Mobile: 413-943-380

Vik Khanna *(B)* **(3) 8650-7273**

Michael Longes *(A)* **(2) 9248-5512**

David Scott *(B)* **(3) 8650-7537**
Mobile: 408-126-815

Ian Scott *(A)* **(2) 9248-4744**
Mobile: 411-552-304

Peter Stinson *(resident in Auckland)*	**[64] (9) 302-8574** **E-mail: peter.stinson@nz.ey.com**
Anthony Verzi *(A)*	**(2) 9248-4910** **Mobile: 413-750-546**
Michael Wachtel *(B)*	**(3) 8650-7619** **Mobile: 408-994-646**
Michael Whyte *(A)*	**(2) 9248-4721** **Mobile: 419-233-181**

International Tax Services – Transfer Pricing

Philip Anderson *(resident in Shanghai)*	**[86] (21) 6219-1219** **E-mail: philip.anderson@cn.ey.com**
Greg Crough *(A)*	**(2) 9248-4976** **Mobile: 403-043-488**
Mark Kenny *(A)*	**(2) 8295-6244** **Mobile: 419-205-001**
★ David Lewis *(B)*	**(3) 9288-8700** **Mobile: 417-113-892**

International Tax Services – Capital Markets

Tony Happell *(A)*	**(2) 9248-5561** **Mobile: 403-246-879**

Human Capital

Irene Ang *(B)*	**(3) 9288-8719** **Mobile: 411-883-719**
Robert Carrol *(B)*	**(3) 8650-7553** **Mobile: 418-479-650**
Gs Choong *(A)*	**(2) 9248-4919** **Mobile: 413-943-374**
Anne Giugni *(B)*	**(3) 8650-7624** **Mobile: 418-527-623**
★ Nick Pond *(A)*	**(2) 8295-6490** **Mobile: 414-266-669**

Foreign Desks

Andrew Babbage, *New Zealand (A)*	**(2) 9248-4787** **Mobile: 402-892-687**
Paul D'Arcy, *United Kingdom (A)*	**(2) 9248-4175** **Mobile: 413-614-993**
Stephen J. Ferguson, *United States (A)*	**(2) 9248-4524**
Tracy A. Fink, *United States (A)*	**(2) 9248-5761** **Mobile: 402-892-004**

Financial Services

Patrick Broughan *(B)*	**(3) 9288-8830** **Mobile: 402-893-300**
Scott Cameron *(B)*	**(3) 9288-8764** **Mobile: 408-007-895**
Kathryn Davy *(A)*	**(2) 9248-4762** **Mobile: 411-866-406**
Don Green *(A)*	**(2) 8295-6104** **Mobile: 412-346-104**
Paul O'Donnell *(A)*	**(2) 9248-4887** **Mobile: 413-943-386**
★ Greg Pratt *(A)*	**(2) 8295-6095** **Mobile: 419-723-410**
Richard R. Snowden *(A)*	**(2) 9248-4894** **Mobile: 413-943-370**

Insurance

Peter Capodistrias *(A)*	**(2) 9248-4624** **Mobile: 411-649-114**
Antionette Elias *(A)*	**(2) 8295-6251** **Mobile: 402-908-233**
Grant Peters *(A)*	**(2) 9248-5227** **Mobile: 413-617-110**

Minerals, Energy and Utilities

★ Graham Frank *(A)* **(2) 9248-4810**
Mobile: 421-059-235

Lorena Preo *(A)* **(2) 9248-4627**
Mobile: 413-870-605

David Williams *(A)* **(2) 8295-6232**
Mobile: 414-740-129

Technology, Communications and Entertainment

Chooi Ho *(A)* **(2) 9248-4788**
Mobile: 411-641-407

Peter Kotroni *(A)* **(2) 8295-6130**
Mobile: 414-569-494

David Laming *(A)* **(2) 9248-4707**
Mobile: 413-836-741

Ian Skinner *(A)* **(2) 9248-5510**
Mobile: 413-034-472

Simon Tonkin *(A)* **(2) 8295-6680**
Mobile: 411-880-003

Retail, Consumer and Industrial Products

Ian Betts *(A)* **(2) 9248-4872**
Mobile: 411-641-402

Mike Collett *(A)* **(2) 9248-4727**
Mobile: 413-870-605

Tom Dunne *(A)* **(2) 9248-4760**
Mobile: 413-758-187

Transaction Taxes

Gary Funston *(B)* **(3) 9288-8733**
Mobile: 418-535-764

Greg Hill *(A)* **(2) 8295-6432**
Mobile: 412-175-128

Rodger Muir *(B)* **(3) 8650-7330**
Mobile: 414-253-890

★ Mark Taft *(A)* **(2) 8295-6987**
Mobile: 410-600-490

Anastasia Tsekouras *(A)* **(2) 8295-6652**
Mobile: 417-221-012

ADELAIDE, SOUTH AUSTRALIA GMT +9½

Ernst & Young **(8) 8233-7111**
Level 21 **Fax: (8) 8231-8050**
91 King William Street
Adelaide, South Australia 5000
Australia

International Tax

Don Cormack **(8) 8233-7147**
Mobile: 413-737-025

Janet Finlay **(8) 8233-7117**
Mobile: 413-059-503

Chris Sharpley **(8) 8213-1685**
Mobile: 417-088-118

Human Capital

Chris Sharpley **(8) 8213-1685**
Mobile: 417-088-118

Minerals, Energy and Utilities

Janet Finlay **(8) 8233-7117**
Mobile: 413-059-503

Transaction Taxes

Amanda Hocking **(8) 8213-1671**
Mobile: 411-425-122

BRISBANE, QUEENSLAND — GMT +10

Ernst & Young — **(7) 3011-3333**
Levels 31 and 32 — **Fax: (7) 3011-3190**
Comalco Place
12 Creek Street
Brisbane, Queensland 4000
Australia

International Tax Services

Michael Hennessey	**(7) 3243-3691** **Mobile: 414-286-853**

Transaction Taxes

Bruce Hamilton	**(7) 3011-3206** **Mobile: 413-152-014**
Patrick Lavery	**(7) 3243-3694** **Mobile: 419-706-342**
Lindsay Somerville	**(7) 3011-3236, 3420-4313** **Mobile: 419-996-908**

Financial Services

Paul Laxon	**(7) 3243-3735** **Mobile: 419-706-353**

Minerals, Energy and Utilities

Michael Hennessey	**(7) 3243-3691** **Mobile: 414-286-853**
Paul Laxon	**(7) 3243-3735** **Mobile: 419-706-353**

Human Capital

Susan Lyons	**(7) 3243-3278** **Mobile: 416-033-931**

PERTH, WESTERN AUSTRALIA — GMT +8

Ernst & Young — **(8) 9429-2222**
Level 34 — **Fax: (8) 9429-2433**
Central Park
152-158 St. George's Terrace
Perth, Western Australia 6000
Australia

International Tax – Core

Harold Payne	**(8) 9217-1222** **Mobile: 417-933-201**

International Tax – Transfer Pricing

Ross Lyons	**(8) 9429-2496** **Mobile: 421-054-547**

Human Capital

Peter Hills	**(8) 9429-2429** **Mobile: 421-015-004**

Financial Services

Michael Minosora	**(8) 9429-2259** **Mobile: 413-056-909**

Transaction Taxes

Scott Grimley	**(8) 9429-2265** **Mobile: 419-968-237**
Tasso Papaelias	**(8) 9429-2283** **Mobile: 413-056-911**
Robin Parsons	**(8) 9429-2251** **Mobile: 413-056-929**

Minerals, Energy and Utilities

Frank Cooper	**(8) 9217-1208** **Mobile: 419-968-237**

Michael Minosora	(8) 9429-2259 Mobile: 413-056-909
Craig Robson	(8) 9429-2271 Mobile: 413-056-942

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends (a)	
Franked	0
Unfranked	30 (b)
Interest	10 (c)
Royalties from Patents, Know-how, etc.	30 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Indefinite

(a) Franking of dividends is explained in Section B.
(b) Final tax that is imposed on payments to nonresidents only. A reduced rate (generally 15%) applies to residents in treaty countries. An exemption from dividend withholding tax applies to unfranked dividends paid by Australian resident companies to nonresidents if the payer satisfies certain specified conditions.
(c) In general, this is a final withholding tax that is imposed on payments to nonresidents only. However, withholding tax is imposed in certain circumstances on interest paid to residents carrying on business overseas through a permanent establishment (branch).
(d) In general, this is a final withholding tax that is imposed on gross royalties paid to nonresidents. A reduced rate (generally 10% or 15%) applies to residents of treaty countries.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. An Australian resident corporation is subject to income tax on its nonexempt worldwide income. Noncash business benefits may be included as income in certain circumstances. A nonresident corporation is subject to Australian tax only on Australian-source income.

Corporations incorporated in Australia are residents of Australia for income tax purposes, as are corporations carrying on business in Australia with either their central management and control in Australia or their voting power controlled by Australian residents.

Rates of Corporate Tax. For the 2003-04 tax year, resident corporations are subject to tax at a rate of 30%. Income of nonresident corporations from Australian sources that is not subject to withholding tax or treaty protection is similarly taxable at 30%. However, a nonresident corporation not operating in Australia through a permanent establishment is generally subject to tax only on Australian-source passive income, such as rent, interest, royalties and dividends.

Capital Gains. Gains resulting from a capital gains tax (CGT) event may be subject to tax. The income tax law provides for 39 CGT events, including disposals of assets, and grants of options and leases. Capital gains or losses on the occurrence of CGT events may be disregarded if the asset was acquired before 20 September 1985 or if a lease was granted or renewed before that date.

Capital gains are determined by deducting the cost base of an asset, indexed for inflation, from the capital proceeds (money received or receivable or the market value of property received or receivable) with respect to the CGT event. Gains derived from sales of assets purchased and sold within 12 months are generally fully taxable without indexation of the acquisition cost for inflation. The indexation of the cost base of CGT assets was frozen at 30 September 1999, and indexation is denied for assets acquired after 21 September 1999.

Capital gains and losses on disposals of plant or other depreciating assets on or after 21 September 1999 are not subject to the CGT provisions. Instead, these amounts are treated as balancing adjustments under the depreciation rules (see Section C).

Assets acquired before 20 September 1985 are deemed to have been acquired on or after that date unless the Commissioner of Taxation is satisfied or considers it reasonable to assume that continuity of majority beneficial ownership in the assets of the company exists. Public companies must test periodically on prescribed dates to determine if a change in the majority beneficial ownership in the assets of a company has occurred since 19 September 1985.

Public companies that passed the test up to 30 June 1999 are deemed to fail the test on that date unless they can demonstrate continuity of ownership. A company that passes the test on 30 June 1999 will be deemed to have a change in its majority beneficial interest every five years thereafter or on the happening of abnormal trading in its shares unless it satisfies the Commissioner of Taxation that the majority beneficial interest in the assets of the company has not changed.

Rollover relief may be elected on certain specified transfers, with taxation deferred until the occurrence of a subsequent disposal for which the relief is not available. Under recent legislation, CGT rollover relief now covers scrip-for-scrip transactions occurring on or after 10 December 1999. The new rules provide that rollover relief may be available for share-for-share exchanges and trust unit-for-trust unit exchanges. However, exchanges of shares for trust units do not qualify for relief. The new rules also cover convertible notes and options.

Capital losses are calculated using the reduced cost base of assets without indexation for inflation. Capital losses are deductible only from taxable capital gains, not from ordinary income. However, trading losses are also deductible from net taxable capital gains, which are included in assessable income.

Nonresidents are subject to tax on capital gains only on assets with the necessary connection to Australia, which include the following:

- Real property in Australia;
- Shares in resident private companies;
- Assets of a business conducted through a permanent establishment in Australia; and
- Shares in a resident public company if, in general, the taxpayer was the beneficial owner of at least 10% of the issued share capital of the company at any time in the preceding five years (a similar provision governs units held in a resident unit trust).

Administration. The Australian tax year ends on 30 June. If the annual accounting period of a corporate taxpayer does not end on 30 June, the taxation authorities may agree to use a substituted period (instead of a tax year ending 30 June) if special circumstances exist.

A self-assessment tax collection system applies for companies, superannuation funds, approved deposit funds and pooled superannuation trusts. Companies are generally required to file an annual return of income by the first day of the sixth month after the end of their accounting period.

Under a pay-as-you-go (PAYG) installment system, in general, companies must make quarterly payments of income tax within 21 days after the end of each quarter of the tax year. The amount of each installment is based on the income earned in the quarter.

Dividends. Franked dividends received by a resident company from other Australian resident companies are effectively free from tax through a tax rebate equal to the tax on dividends received. However, an intercorporate dividend rebate is not available for the unfranked portion of dividends received by resident companies unless the dividends are paid within a wholly owned corporate group. The intercorporate dividend rebate regime was repealed with respect to franked dividends paid after 30 June 2002, with a new system introduced in its place.

In general, the intercorporate dividend rebate does not apply to unfranked dividends paid after 30 June 2003. However, the intercorporate dividend rebate also does not apply to the following companies with respect to unfranked dividends paid on or after the date they join a consolidated group:

- A company not previously a member of a consolidated group that joins a consolidated group when the group was formed if the group was formed before 1 July 2003; and
- A company not previously a member of a consolidated group that joins a consolidated group when the group was formed if the group was formed on the first day of the first income year of the group's head company that begins during the period of 1 July 2003 through 30 June 2004.

Dividends paid by Australian resident corporations are franked with an imputation credit to the extent that Australian income tax has been paid by the corporation at the full corporate rate on the income being distributed. Application of the imputation system varies depending on the category of the recipient shareholder.

Certain rules discourage companies from streaming imputation credits to those shareholders who can make the most use of the credits.

The government intends to introduce legislation that will grant franking credits to Australian corporations for tax withheld on foreign dividends, up to 15% of the gross amount of the dividends received. The introduction of this measure is now subject to the outcome of a general review of Australia's international tax arrangements.

Resident Corporate Shareholders. Under the imputation system, companies receiving franked distributions will gross up the amount received by the amount of the franking credit on the distribution.

This credit equals the tax paid by the paying entity. The grossed-up amount will be included in the assessable income of the company. The company is entitled to a tax offset (franking rebate) that may be used against tax payable. The tax offset is equal to the amount of the franking credit on the distribution. A corresponding credit equal to the amount of the gross-up will be creditable against corporate income tax payable on the distribution or other income. In addition the recipient company is allowed a franking credit in its own franking account, which may in turn be distributed to the company's shareholders.

The following illustrates the computation of the gross up, the tax offset and the franking account.

		Franking Account
Trading income	A$100	
Dividends received (fully franked)	A$70	A$30
Franking credit (gross up)	A$30	
Taxable income	A$200	
Tax at 30%	A$60	
Less: Tax offset	A$30	
Tax payable	A$30	A$30
Net profit for distribution (A$170 – A$30)	A$140	A$60

A recipient of unfranked nonportfolio dividends may claim a deduction with respect to such dividends if the dividends are in turn paid to its nonresident parent company and if certain other conditions are satisfied.

Imputation credits are not lost if the recipient company suffers a tax loss; they can be carried forward indefinitely. However, unused franking tax offsets are lost if a recipient company incurs a tax loss in the year the dividend is paid. Legislation has recently been introduced in parliament that will prevent the wasting of franking tax offsets in such circumstances.

Resident Individual Shareholders. The shareholder includes the dividend received plus the full imputation credit in assessable income. The imputation credit can be offset against personal tax assessed in the same year, up to the amount of tax payable. Excess credits relating to dividends paid on or after 1 July 2000 are refunded to the shareholder.

Nonresident Shareholders: Corporate and Noncorporate. Dividends paid or credited by resident companies to nonresidents are generally subject to a final 30% withholding tax (unless the rate is reduced by a tax treaty), deducted at source on the gross amount of the dividend. An exemption from dividend withholding tax applies to unfranked dividends paid by Australian resident companies to nonresidents if the following conditions are satisfied:

- The Australian company receives qualifying foreign-source dividend income (for example, dividends exempt under the controlled foreign company rules [see Section E]);
- The qualifying dividend income is credited to a Foreign Dividend Account (FDA); and
- The company makes an FDA declaration and pays the dividend from this account.

To the extent that dividends are franked, they are free from dividend withholding tax. No refund of an imputation credit is available.

Foreign Tax Relief. Australian residents are subject to Australian tax on their worldwide income, but they receive a foreign tax credit for the lesser of foreign taxes paid and Australian tax payable on foreign-source income. For controlled foreign companies (CFCs; see Section E), a modified system of foreign tax credits applies.

C. Determination of Trading Income

General. Taxable income equals assessable income less deductions. Assessable income includes income determined to be ordinary income under case law and statutory income, which consists of amounts that the tax law specifically includes in assessable income.

Significant categories of tax-exempt income include profits from foreign branches of Australian companies in other than low-tax countries, amounts paid out of income that was previously taxed under the CFC rules or under the foreign investment fund (FIF) regime (see Section E), and nonportfolio dividends (paid to shareholders holding at least 10% of the voting power of the payer) received from other than low-tax foreign countries.

Expenses are generally deductible to the extent they are incurred in the production of assessable income or are necessary in carrying on a business for the purpose of producing assessable income. However, expenses of a capital nature or those incurred in the production of exempt income are not deductible. Apportionment of expense items having dual purposes is possible.

A 125% deduction is available for all eligible expenditure on research and development (R&D) if the annual amount of such expenditure exceeds A$20,000. If the annual expenditure is below this threshold, the expenditure qualifies for a 100% deduction. Deduction at a rate of 175% is available for certain R&D expenditure incurred in the first income year beginning after 30 June 2001. Plant used for R&D is deductible over its effective life. One hundred-twenty-five percent of the normal depreciation deduction may be claimed for R&D plant if the R&D expenditure threshold of A$20,000 is met during the year. Otherwise, the deduction is equal to the normal depreciation deduction. For plant used partially for R&D, the increased rate applies to the portion of the plant used for R&D purposes.

Fringe benefits tax (see Section D) is deductible. Entertainment expenses are not deductible unless they represent fringe benefits provided to employees. Penalties and fines are not deductible.

Under rules dealing with the forgiveness of commercial debts, the net amount of debts forgiven during an income year (normally the same as an accounting period) reduces the debtor's accumulated revenue tax losses, capital losses, certain undeducted expenditure and cost bases of assets. The net amount forgiven is apportioned among companies related to the debtor in certain circumstances.

Foreign-Exchange Gains and Losses. A new regime for the taxation of foreign-currency gains and losses applies generally from 1 July 2003. The new measures do not apply to banks and other financial institutions. The following are key aspects of the measures:

- They ensure that foreign-currency gains and losses are brought to account when realized, regardless of whether an actual conversion into Australian currency occurs;
- They ensure that foreign-currency gains and losses generally have a revenue character and are either assessable or deductible for tax purposes when realized;
- They introduce specific translation rules for payments, receipts, rights and obligations denominated or expressed in a foreign currency; and
- They introduce functional currency rules under which an entity that operates predominantly in a particular foreign currency may determine its income and expenses in that currency, with the net results being translated into Australian currency for the purposes of calculating its Australian income tax liability.

Inventories. In determining trading income, inventories may be valued at cost, market selling value (the current selling value of an article of trading stock in the particular taxpayer's trading market) or replacement price at the taxpayer's option. The last-in, first-out (LIFO) method may not be used. If the cost method is elected, manufactured inventories must be valued using the full-absorption cost method.

Provisions. Provisions for leave entitlements of employees and similar accruals are generally not deductible until payments are made. Similarly, provisions for doubtful trading debts are not deductible until the debt, having been previously brought to account as assessable income, becomes bad and is written off during an income year.

Depreciation Allowances

Uniform Capital Allowance Regime. A new uniform capital allowance (UCA) regime is effective from 1 July 2001. It merges many of the separate capital allowance regimes that existed previously into a single system. The new UCA regime provides deductions to taxpayers for the decline in value of "depreciating assets" held by them during the year.

A "depreciating asset" is defined as an asset with a limited effective life that may be expected to decline in value over the time it is used. Land, trading stock and intangible assets that are not specifically included in the new regime are not considered to be depreciating assets.

The depreciation rate for a depreciating asset depends on the effective life of the asset. Taxpayers may choose to use either a reasonable estimate of the effective life or the effective life determined by the tax authorities. This choice is not available for certain intangible assets. The law prescribes the effective lives of these assets (for example, 15 years for a registered patent and 2½ years for in-house software).

Taxpayers may choose the prime cost method (straight-line method) or the declining-balance method for calculating the tax-deductible depreciation for all depreciating assets except intangible assets. For certain intangible assets, the prime cost method must be used. The depreciation rate for a depreciating asset is determined in accordance with the following formulas.

Declining-balance method: $\frac{150\%}{\text{Asset's effective life}}$

Prime cost method: $\frac{100\%}{\text{Asset's effective life}}$

The cost of a depreciating asset is generally the amount paid by the taxpayer plus further costs incurred while the taxpayer holds the asset. However, the depreciable cost of a car is subject to a maximum limit. For the 2003-04 income year, the limit is A$57,009. A taxpayer may choose to recalculate the effective life of a depreciating asset if the effective life that was originally selected is no longer accurate as a result of market, technological or other factors.

Taxpayers, other than those operating under the Simplified Tax System (STS) for small businesses, may choose to pool assets costing less than A$1,000 as well as assets that have been depreciated to less than A$1,000 under the declining-balance method. An entity is an STS taxpayer for an income year if it generates average turnover of less than A$1 million and holds depreciating assets with a total adjustable value of less than A$3 million at the end of that year. The pool balance is depreciable over four years using the declining-balance method. If the choice is not exercised, the relevant assets are depreciated on the basis of their respective effective lives.

Taxpayers may also choose to allocate expenditure on developing software to a software development pool. The expenditure is deductible over two and one-half years beginning in year following the year of the expenditure.

Construction of Buildings. Capital expenditure on the construction of buildings and structural improvements may be depreciated. As shown in the table below, the deduction is either 2.5% or 4% of the construction expenditure, depending on the type of structure and the date when construction began.

Type of Structure	**Date Construction Began**	**Annual Deduction %**
Nonresidential income-producing buildings used for eligible industrial activities	On or after 27 February 1992	4
Other nonresidential income-producing buildings	20 July 1982 to 21 August 1984	2.5
	22 August 1984 to 15 September 1987	4
	On or after 16 September 1987	2.5
Residential income-producing buildings and short-term travel accommodations	22 August 1979 to 21 August 1984	2.5
	22 August 1984 to 15 September 1987	4
	16 September 1987 to 26 February 1992	2.5
	On or after 27 February 1992	4

Type of Structure	Date Construction Began	Annual Deduction %
Other residential income-producing buildings	18 July 1985 to 15 September 1987	4
	On or after 15 September 1987	2.5
Structural improvements	On or after 27 February 1992	2.5

Disposals of Depreciable Assets. Depreciation on assets other than buildings is recaptured if the proceeds received on the disposal of an asset exceed its adjustable value. Any amounts recaptured are included in taxable income. If the proceeds received on the disposal of an asset are less than its adjustable value, a deductible balancing adjustment is allowed. As a result of the removal of plant from the CGT regime (see Section B), the excess of disposal proceeds over the cost base (indexed to 30 September 1999) for items of plant disposed of on or after 1 September 1999 is included in taxable income.

Relief for Losses. Tax losses may be carried forward indefinitely against assessable income derived during succeeding years. Losses may not be carried back. A loss is generated after adding back net exempt income.

Corporations must satisfy either a continuity of ownership test (more than one-half of voting, dividend and capital rights) or a continuity of business test to claim a deduction for past losses. Losses may be transferred to another group member if both the transferor and transferee are Australian resident corporations under 100% common, but not necessarily Australian, ownership.

Groups of Companies. A consolidation regime is available for groups of companies and eligible trusts and partnerships. This regime taxes wholly owned groups of Australian resident companies on a consolidated basis. Consolidation is optional but Australian resident groups have little choice but to consolidate because the grouping provisions under prior law (such as the ability to transfer losses to other group members) have been repealed. Under consolidation, the head company of the consolidated group becomes the taxpayer and each subsidiary member of the group is treated as if it were a division of the head company. Transactions between members of a consolidated group are disregarded for Australian income tax purposes. The head company assumes the income tax liability as well as the associated income tax compliance obligations of the group.

A foreign-owned group of Australian entities may also be able to consolidate even if it does not include an Australian holding company. The resulting group is referred to as a multiple entity consolidated (MEC) group. The types of entities that may be members of an MEC group are the same as those for a consolidated group.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Goods and services tax	10
Fringe benefits tax on noncash employee benefits	48.5
Payroll taxes paid by employers (vary by state)	4.75 to 6.85

Customs duty is levied on imports of various products into Australia. Other significant taxes include stamp duty and land tax.

E. Miscellaneous Matters

Foreign-Exchange Controls. The Financial Transaction Reports Act 1988 requires each currency transaction involving the physical transfer of notes and coins in excess of A$10,000 (or foreign-currency equivalent) between Australian residents and overseas residents, as well as all international telegraphic and electronic fund transfers, to be reported to the Australian Transaction Reports and Analysis Centre (AUSTRAC). This information is then available to the Commissioner of Taxation, Federal Police, Australian Customs Service and other prescribed law enforcement agencies.

Transfer Pricing. Australia's tax legislation includes requirements to ensure that Australian taxable income associated with cross-border transactions is based on arm's length prices. Acceptable transfer-pricing methods include comparable uncontrolled price (CUP), resale price and cost-plus. In a tax ruling, the Commissioner of Taxation recommends the method that is most appropriate or best suited to the circumstances of the particular case. An adjusted CUP may be used even though there may be material but quantifiable differences between the dealing being reviewed and the dealings between parties considered to be comparable. The resale price method is more appropriate if there are no comparable uncontrolled sales, if the property or services sold are not used in a manufacturing process or if relatively little value is added prior to resale. The cost-plus method is more appropriate if components or unfinished goods are subject to substantial additional manufacturing, assembly, addition of trademarks and so forth prior to distribution. The Commissioner acknowledges that significant difficulties may arise in the application of these traditional transaction methods because of the obstacles to identifying and accessing relevant comparable data in the relatively small Australian economy. Consequently, other appropriate methods, including certain profit methods, may be used.

It is possible to reach transfer-pricing arrangements in advance with the tax authorities. A tax ruling with respect to the procedure for such arrangements has been released.

Debt-to-Equity Rules. Thin-capitalization measures apply to the total debt of Australian operations of multinational groups (including foreign and domestic related-party and third-party debt). The measures apply to the following entities:

- Australian entities that are foreign controlled and foreign entities that either invest directly into Australia or operate a business through an Australian branch; and
- Australian entities that control foreign entities or operate a business through an overseas branch.

For purposes of the measures, in general, 50% ownership by five or fewer entities is required for control.

The measures provide for a safe-harbor debt-to-equity ratio of 3:1. Interest deductions are denied for interest payments on the portion of the company's debt exceeding the safe harbor ratio. However, even if the company's debt-to-equity ratio exceeds the safe harbor ratio, interest is fully deductible, provided the company can satisfy an arm's length test. Under this test, the company must establish that an independent party would have incurred the debt. Separate rules apply to financial institutions.

Other measures distinguish debt from equity (debt/equity measures). The debt/equity measures focus on economic substance rather than on legal form. If the debt test contained in the new measures is satisfied, a financing arrangement is generally treated as debt, even if the arrangement could also satisfy the test for equity. The test is complex and goes well beyond an examination of whether a borrower has a noncontingent obligation to repay an amount of principal.

The debt/equity measures are relevant to the taxation of dividends (including the imputation requirements), the characterization of payments from nonresident entities, the thin-capitalization regime, and the dividend and interest withholding taxes and related measures.

Controlled Foreign Companies and Foreign Investment Funds. Under Australia's controlled foreign company (CFC) rules, the tainted income of a CFC is attributed to its Australian resident owners who are required to include such income in their assessable income. In general, the tainted income of a CFC is its passive income and income from certain related-party transactions.

Income is generally not attributable if the CFC passes an active-income test. To pass this test, the CFC's tainted income must not exceed 5% of the CFC's gross turnover.

Whether an amount earned by a CFC is attributable to Australian residents depends on the country in which the CFC is resident. The CFC rules establish two lists of foreign countries. One list is made up of "broad-exemption listed countries," which are countries whose tax systems are regarded as closely comparable to the Australian system. The second list is made up of "limited-exemption listed countries," which are countries that are not considered sufficiently comparable. Low-tax countries are referred to as unlisted countries.

If a CFC resident in a broad-exemption listed country fails the active-income test, its attributable income includes its tainted income that is designated as concessionally taxed. If a CFC resident in a limited-exemption listed country or a low-tax country fails the active-income test, its attributable income includes all of its tainted income, even if the tainted income has been taxed fully at the normal company tax rates.

Income that has been subject to attribution or was derived by a CFC resident in a broad-exemption listed country or limited-exemption listed country is exempt from Australian income tax when the income is remitted as dividends. Dividends paid out of income derived by a CFC resident in a low-tax country that has not been subject to attribution is subject to tax in the hands of Australian residents who may claim relief under the foreign tax credit system (see Section B).

The CFC rules also include the following elements:

- Designated tax concessions are listed for broad-exemption listed countries;
- Control rules provide that five or fewer Australian residents holding at least 50% of a foreign company or having de facto control of a foreign company trigger the CFC rules;
- The CFC rules are also triggered if a single Australian entity holds a 40% interest in a foreign company unless it is established that actual control does not exist; and
- Losses are quarantined according to four classes of income for each CFC, and losses from one class may not offset income in another class.

The foreign investment fund (FIF) provisions set forth rules for the taxation of interests held by Australian residents in foreign companies and trusts engaged in passive activities. These rules complement the CFC rules. They apply to situations in which the CFC rules do not apply because the taxpayer does not hold a controlling interest in the foreign entity.

In general, the FIF regime is designed to prevent tax avoidance by Australian residents that accumulate offshore income subject to tax at low rates and then convert that income into tax preferred capital gains.

Under the FIF regime, income of certain foreign companies and trusts in which Australian residents hold noncontrolling interests, as well as income accumulated offshore in foreign life insurance policies, is attributed to residents.

There are several exemptions, including an active business exemption.

Withholding Taxes. Interest, dividends and royalties paid to nonresidents are subject to Australian withholding tax. The 10% withholding tax rate on interest is generally the same as or lower than the tax treaty rate and is therefore unaffected by any double tax treaties. For dividends, the withholding tax of 30% applies only to the unfranked portion of the dividend. A reduced rate, generally 15%, applies if dividends are paid to residents of treaty countries. An exemption may be available for unfranked dividends (for details, see Section B).

A final withholding tax at a rate of 30% is imposed on gross royalties paid to nonresidents. The rate of the withholding tax may be reduced to 10% or 15% under a double tax treaty.

Demergers. The government has introduced legislation to provide tax relief for demergers occurring after 1 July 2002. Transitional rules apply to demergers in progress on that date. Capital gains tax exemptions apply if eligible company or fixed-trust groups divide into two separately owned entities. The demerging company (or fixed trust) must dispose of at least 80% of its ownership interests in the demerged entity. However, the underlying ownership interests (the interests of shareholders in the case of companies) must not change as a result of the demerger. The rules also provide to investors optional capital gains tax rollover relief, as well as dividend exemptions, which are available at the option of the demerging entity. The demerger group is also provided with limited capital gains tax relief.

Value Shifting. Effective from 1 July 2002, a general value-shifting regime replaced and extended the scope of the value-shifting and asset-stripping provisions of the income tax law.

F. Treaty Withholding Tax Rates

	Dividends (a) %	Interest %	Royalties %
Argentina	15 (b)	12	10/15
Austria	15	10	10
Belgium	15	10	10
Canada	15	10	10
China	15	10	10
Czech Republic	15	10	10
Denmark	15	10	10
Fiji	20	10	15
Finland	15	10	10
France	15	10	10
Germany	15	10	10
Hungary	15	10	10
India	15	10	10/15/20 (c)
Indonesia	15	10	10/15 (c)
Ireland	15	10	10
Italy	15	10 (d)	10
Japan	15	10	10
Kiribati	20	10	15
Korea	15	10 (d)	15
Malaysia	15	10	15
Malta	15	10	10
Netherlands	15	10	10
New Zealand	15	10	10
Norway	15	10 (d)	10
Papua New Guinea	15	10	10
Philippines	15/25 (e)	15	25
Poland	15	10	10
Romania	15 (f)	10	10
Singapore	15	10	10
Slovak Republic	15	10	10
South Africa	15 (g)	10	10
Spain	15	10	10
Sri Lanka	15	10	10
Sweden	15	10 (d)	10
Switzerland	15	10	10
Taiwan	15	10	12.5
Thailand	20 (h)	10	15
United Kingdom (j)	15	10	10
United States	15 (i)	10	5
Vietnam	15	10	10
Nontreaty countries	30	10	30

(a) Under Australian domestic law, no withholding tax is imposed on franked dividends. Consequently, for dividends paid by Australian resident companies, the rates in this column apply to unfranked dividends only. Franking of dividends is explained in Section B.

(b) In Australia, a 10% rate applies to franked dividends paid to a person holding directly at least 10% of the voting power of the payer.

(c) The rate varies according to category and circumstances.
(d) Interest derived by a central bank, a government or any other body exercising public functions in the contracting state is exempt from tax. For Sweden, this exemption also applies to interest derived by the National Debt Office of Sweden.
(e) The withholding tax rate is 15% if a tax rebate or credit is granted to the beneficial owner of the dividend. For other dividends, the withholding tax rate is 25%.
(f) The rate is 5% for franked dividends if the recipient is a company that holds directly at least 10% of the capital of the payer.
(g) The rate is 0% for franked dividends if the recipient is a company that holds directly at least 10% of the capital of the payer.
(h) This rate applies if the recipient is a company that holds directly at least 25% of the capital of the payer of the dividends. The rate is reduced to 15% if the condition described in the preceding sentence is satisfied and if the payer is engaged in an industrial undertaking.
(i) The rate is 5% or 0% if the recipient holds at least 10% or 80%, respectively, of the voting power of the payer.
(j) Australia has signed a new tax treaty with the United Kingdom, which has not yet been ratified. Under the new treaty, the dividend withholding tax rate will be reduced to 5% or 0% if the recipient holds at least 10% or 80%, respectively, of the voting power of the payer. The new treaty also provides a withholding tax rate for royalties of 5%.

AUSTRIA

(Country Code 43)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@at.ey.com

VIENNA GMT +1

Ernst & Young **(1) 21170-0**
Wagramer Str. 19 **Fax: (1) 216-2077**
IZD-Tower
A-1220 Vienna
Austria

Corporate Tax

Walter Baumann	**(1) 21170-1275**
Georg Bauthen	**(1) 21170-1200**
Esther Bieringer	**(1) 21170-1177**
Nina Doralt	**(1) 21170-1387**
Christine Haidinger	**(1) 21170-1260**
Christa Heintz	**(1) 21170-1263**
Stefan Kainberger	**(1) 21170-1261**
Klaus Pfleger	**(1) 21170-1179**
★ Roland Rief	**(1) 21170-1257**
Markus Schragl	**(1) 21170-1268**
Andreas Stefaner	**(1) 21170-1041**
Johannes Volpini	**(1) 21170-1270**

LINZ GMT +1

Ernst & Young **(732) 773-255-0**
Linz GmbH **Fax: (732) 783-012**
Landstraße 49/III
A-4020 Linz
Austria

Corporate Tax

Erich Abpurg	**(732) 773-255-0**

SALZBURG **GMT +1**

Ernst & Young **(662) 2055-0**
Salzburg GmbH **Fax: (662) 2055-100**
Mildenburggasse 6
A-5020 Salzburg
Austria

Corporate Tax
Astrid Wimmer **(662) 2055-221**

A. At a Glance

Corporate Income Tax Rate (%)	34 (a)
Capital Gains Tax Rate (%)	34
Withholding Tax (%)	
Dividends	25 (b)
Interest (from Bank Deposits and Securities only)	25 (c)
Royalties from Patents, Know-how, etc.	20 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (e)

(a) Applies to distributed and undistributed profits.
(b) In general, applicable to dividends paid to residents and nonresidents. Certain dividends paid to Austrian companies are exempt from tax (see Section B).
(c) For details, see Section B.
(d) Applicable to nonresidents.
(e) The offset of loss carryforwards against taxable income is limited to 75% of taxable income (see Section C).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. In general, all companies resident in Austria and foreign companies with a branch or permanent establishment in Austria are subject to corporate income tax. (For the scope of income subject to tax, see *Foreign Tax Relief* below.) A company is resident in Austria if it has its legal seat or its effective place of management in Austria. Nonresident companies are subject to tax on their Austrian-source income only.

Rates of Corporate Income Tax. The corporate tax rate is generally 34%.

All companies, including those incurring tax losses, are subject to the minimum tax. In general, the minimum tax is €1,750 for an Austrian private limited company (Gesellschaft mit beschraenkter Haftung, or GmbH) and €3,500 for a stock corporation (Aktiengesellschaft, or AG). For banks and insurance companies, the minimum tax is €5,452. Newly established companies are subject to a minimum tax of €1,092 for the first year of their existence. Minimum tax may be credited against corporate tax payable in future years.

Participation Exemptions. The Austrian tax law provides for national and international participation exemptions.

National. Dividends (including hidden profit distributions) received by an Austrian company from another Austrian company are exempt from corporate income tax (no minimum holding requirement is imposed). Capital gains derived from the sale of shares in Austrian companies are treated as ordinary income and are subject to tax at the regular corporate tax rate.

International. A recent tax reform amended the international participation exemption regime, effective from the 2004 fiscal year. These changes reduce the percentage of the holding and the length of the holding period required to qualify for the participation exemption.

Under the amended regime, an Austrian company is entitled to the international participation exemption if it holds at least 10% of the share capital of a foreign corporation that is comparable to an Austrian corporation for more than one year. The one-year holding period begins with the legal acquisition of the participation. The international participation exemption applies to dividends and capital gains.

Under the new regime, a decrease in the value of an international participation is not tax-deductible, but an Austrian company can opt for such tax-deductibility. If this option is selected, capital gains are not exempt from tax, but decreases in value and capital losses are tax-deductible. The selection of the option does not affect the tax treatment of dividends. If a decrease in value of an international participation has been previously deducted and if the option for tax-deductibility is not selected, the prior deduction must be reported in the corporate income tax return over a seven-year period.

If dividends are received before the end of the one-year holding period, the tax authorities issue a preliminary tax assessment. After the one-year holding period is completed, the tax authorities evaluate the applicability of the international participation exemption. If they determine that the international participation exemption applies, they issue a final assessment approving a refund of preliminary tax paid during the one-year holding period.

The recent tax reform introduced a change to the antiabuse rule, which will generally apply from the 2004 fiscal year. For companies incorporated before 2001, the new antiabuse rule will be effective from the 2006 fiscal year. Under the amended antiabuse rule, the international participation exemption does not apply if both of the following conditions are met:

- The subsidiary earns primarily the following types of passive income: interest; income from leasing property other than land and buildings; and capital gains (active business test).
- The subsidiary is not subject to income tax of more than 15% in its home country (subject-to-tax provision).

Effective from the 2004 fiscal year, the recent tax reform eliminated the third condition of the antiabuse rule, which required an Austrian resident to be the ultimate shareholder. As a result, all dividends derived from passive income in a company incorporated in a low-tax jurisdiction do not qualify under the Austrian international participation exemption. If the two conditions above are met, dividends and capital gains are taxed at the normal Austrian corporate tax rate of 34%. Income taxes paid by the foreign subsidiary, as well as withholding taxes imposed on the dividends, are credited against the income tax payable by the Austrian parent company (this represents a switch from the exemption method to the credit method).

Expenses. Because expenses relating to tax-free income are not tax deductible, interest and other expenses relating to participations governed by the national and international participation exemption are not tax deductible.

Capital Gains. Capital gains derived from sales of shares in Austrian companies are treated as ordinary income and are subject to tax at the regular corporate tax rate. Capital gains derived from sales of shares in non-Austrian companies may be exempt from tax under the international participation exemption (see *Rates of Corporate Income Tax* above); otherwise, they are treated as ordinary income and subject to tax at the regular corporate tax rate. Under certain circumstances, the amount of taxable capital gains may be deducted from the acquisition cost of intangible assets, except financial assets.

Withholding Taxes on Dividends and Interest

Dividends. In general, dividends paid by Austrian companies are subject to a withholding tax of 25%. However, this withholding tax does not apply to dividends (other than hidden profit distributions) paid to either of the following:

- An Austrian company holding directly an interest of at least 25% (10% if reciprocity exists) in the distributing company.
- A company resident in another European Union (EU) country if all of the following requirements are satisfied:
  - On the date the dividend is payable, the recipient of the dividends has held directly at least 25% of the distributing company for a period of more than one year and no abuse of law exists;
  - The parent company confirms in writing that its activities are not limited to asset administration, that it has own employees and that it uses office premises; and
  - The parent company provides a certificate of residence issued by the tax authorities of its home country.

The rate of withholding tax may be reduced for dividends paid to non-EU shareholders in accordance with tax treaties. Depending on the tax treaty, this reduction may be in the form of an up front reduction at source or a refund of withholding tax.

Interest. If a security is not issued at the grant of a loan (for example, in the case of intercompany loans), interest paid on the loan is not subject to withholding tax in Austria. A 25% withholding tax is imposed on interest income from bank deposits and securities held in Austrian banks. Interest paid to nonresident companies and individuals on bank accounts, savings accounts and similar accounts is exempt if the recipient confirms in writing that he or she is a nonresident. Interest on bonds received by nonresident companies is exempt from tax if the securities are deposited with an Austrian bank and if the owner of the bond confirms in writing that it is a nonresident.

Interest income earned by a company engaged in business in Austria through a permanent establishment is considered business income and must be included in the taxable income of the permanent establishment. For such companies, the 25% withholding tax is credited against corporate income tax due. If the withholding tax exceeds the tax due, it is refunded. The withholding tax is not imposed if a declaration of exemption stating that the interest is taxed as business income is filed with the Austrian tax office.

Administration. In principle, the Austrian tax year corresponds to the calendar year. However, other fiscal years are possible. The tax base is the income earned in the fiscal year ending in the calendar year. Annual tax returns must be filed by 31 March of the following calendar year. Extensions may be granted.

Companies are required to make payments on account for corporate income tax. The amount is generally based on the amount of tax payable for the preceding year, and payment is made in equal quarterly installments on 15 February, 15 May, 15 August and 15 November.

Interest is levied on the amount by which the final tax for the year exceeds the total of the advance payments if this amount is paid after 30 September of the year following the tax year. To avoid interest, companies may pay the amount due as an additional advance payment by 30 September of the year following the tax year.

Foreign Tax Relief. Resident companies are, in general, taxed in Austria on their worldwide income, regardless of where that income is sourced. There are, however, the following three exceptions:

- The Finance Ministry may, at its discretion, allow certain types of income having their source in countries with which Austria has no double tax treaty to be excluded from the Austrian tax computation, or it may allow foreign taxes paid to be credited against Austrian corporate income tax;
- Income earned in countries with which Austria has a double tax treaty is taxed in accordance with the treaty; and
- Dividends and capital gains derived from participations of 10% or more in foreign subsidiaries are exempt from corporate income tax under the international participation exemption (see *Participation Exemptions* above).

C. Determination of Trading Income

General. In general, taxable income is based on the profit or loss shown in the financial statements prepared in accordance with Austrian generally accepted accounting principles. The financial statement profit or loss must be adjusted in accordance with special rules set forth in the tax act. Taxable income is calculated as follows.

Profit per financial statements	X
+ Nondeductible taxes (such as corporate income tax)	X
+ Nondeductible expenses (such as donations and lump-sum accruals)	X
– Special allowances and nontaxable income (intercompany dividends and loss carryforwards*)	(X)
= Taxable income	X

* The offset of loss carryforwards against taxable income is limited to 75% of taxable income.

Deemed Interest Deduction. Companies may claim a deemed interest deduction equal to a percentage of the average increase in their equity each year. To calculate the deemed interest deduction, the difference between the weighted average tax equity for the fiscal year and the highest weighted average tax equity for the preceding seven years (beginning with 1998) is multiplied by the applicable interest rate. The Austrian Ministry of Finance determines annually the applicable interest rate. The amount deducted as deemed interest is subject to tax at a rate of 25% (instead of the regular corporate income tax of 34%). Companies pay the 25% tax.

Inventories. In determining trading income, inventories must be valued at the lower of cost or market value. Cost may, at the taxpayer's option, be determined using any of the following methods: historical cost; average cost; first-in, first-out (FIFO); or, under certain circumstances, last-in, first-out (LIFO). The highest-in, first-out (HIFO) method is not allowed.

Provisions. Accruals for severance payments and pension costs are allowable to a limited extent. Accruals for corporate income tax and lump-sum accruals are not deductible for tax purposes. Provisions with a term of 12 months or more are tax-deductible at a rate of 80%, except for accruals for severance payments and pension costs, which are tax-deductible to the extent of 100% of their tax value.

Depreciation. Depreciation must be calculated based on the useful life of the asset using the straight-line method. For certain assets, such as buildings and passenger cars, the tax law provides fixed rates. The following are some of the applicable rates.

Asset	Rate (%)
Buildings	2 to 3
Office equipment	10 to 25
Motor vehicles	12.5
Plant and machinery	10 to 20

Research and Development. A tax deduction of 125% of certain research and development (R&D) expenses (material costs, labor costs, energy costs and attributed interest) is allowed. For annual R&D expenditure exceeding the average R&D expenditure in the preceding three years, the percentage of the deduction for the amount of the excess is 135%. These deductions are known as innovation allowances. In general, to claim this deduction, a company must obtain a certificate from the Austrian Ministry for Economic Affairs, which confirms the value to the Austrian economy of the invention that is the subject of the research. This certificate is not required if patent protection for the invention has been obtained.

Effective from 2003, companies may claim a tax deduction of 115% of certain R&D expenses for projects not covered by the measures discussed above (for example, experimental development). Companies may claim instead an invention bonus amounting to 5% of the expenses described above. This bonus may be in the form of a tax credit or a cash payment.

Relief for Losses. Beginning in 1998, losses incurred by resident companies since 1991 may be carried forward without limitation. The offset of loss carryforwards against taxable income is limited to 75% of taxable income. The remaining balance of the loss carryforward may be offset against income in future years, subject to the same 75% limitation.

The loss carryforward is attributable to the company, not to the shareholders. Consequently, a change in shareholders does not affect the loss carryforward, provided no corresponding substantial change in the business and management of the company occurs. Losses may not be carried back. Foreign companies with permanent establishments in Austria may claim tax losses only under certain circumstances.

Groups of Companies. Organschaft is a tax concept that allows parent and subsidiary companies to consolidate their taxable income in Austria. To qualify for Organschaft, all of the following criteria must be satisfied:

- Financial integration: in general this means a direct ownership of 75% (50% may be sufficient if the other requirements are strongly satisfied).
- Economic integration: the subsidiary is integrated in the economic process of the parent company (for example, production and sales companies).
- Organizational integration: the management of the subsidiary is obeying the parent company's decisions (for example, the managers of the parent company are also the managers of the subsidiary).
- Profit-and-loss transfer agreement: this contract between the parent and subsidiary requires the subsidiary to distribute all profits to the parent and requires the parent to incur all losses of the subsidiary. The agreement must have a term of at least five years.

The first three criteria (financial, economic and organizational integration) must be fulfilled as of the beginning of the tax year of the subsidiary. Loss carryforwards of the controlled subsidiary that were sustained before the Organschaft can only be offset against profits of the controlled subsidiary derived while the Organschaft is in existence.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	
Standard	20
Reduced	10
Payroll taxes, paid by employer	
Family allowance fund; varies by state	4.88 to 4.96
Community tax	3
Real estate sales tax (including 1% registration fee)	4.5
Capital transfer tax, on contributions to capital of companies	1
Stamp duties, on certain legal transactions, such as loans, leases and hire contracts	0.8 to 1.5

E. Miscellaneous Matters

Foreign-Exchange Controls. No restrictions are imposed on the transfer of nominal share capital, interest and the remittance of dividends and branch profits. Royalties, technical service fees and similar payments may be remitted freely, but routine documentation may be required.

Debt-to-Equity Rules. Austrian law does not provide special debt-to-equity-rules. Although, in general, shareholders are free to determine whether to finance their company with equity or loans, the tax authorities may reclassify loans granted by shareholders, loans granted by group companies, and loans granted by third parties guaranteed by group companies as equity, if funds are transferred under legal or economic circumstances that typify equity contributions, such as the following:

- The equity of the company is insufficient to satisfy the liquidity requirements of the company, and the loan replaces equity from an economic point of view;
- The company's debt-to-equity ratio is significantly below the industry average;
- The company is unable to get any loans from outside parties, such as banks; or
- The loan conveys rights similar to shareholder rights, such as profit shares.

If a loan is reclassified (for example, during a tax audit), interest is not deductible for tax purposes, withholding tax on hidden profit distributions may become due, and company tax of 1% on the loan amount is imposed.

Transfer Pricing. Austria has accepted the Organization for Economic Cooperation and Development (OECD) transfer pricing guidelines. Under these guidelines, all transactions with related parties must be conducted on an arm's length basis. If a transaction is considered not to have been at arm's length, the transaction price is adjusted for corporate income tax purposes. This adjustment may be deemed as hidden profit distribution subject to withholding tax or a capital contribution.

Bonus on the Increase in Investments. In 2002, 2003 and 2004, companies may claim a bonus on the increase in investments in tangible fixed assets that have not been used (except buildings, minor assets deducted as current expenses, passenger cars and assets not used in Austria). The increase is calculated as the difference between the acquisition costs and costs of production in the applicable year (2002, 2003 or 2004) and the average acquisition costs and costs of production in the three preceding years. The bonus equals 10% of the increase. The bonus is booked to the account with the tax authorities.

F. Treaty Withholding Tax Rates

The following summary is intended purely for orientation purposes; it does not reflect the various special provisions of individual treaties or the withholding tax regulations in domestic tax law.

	Dividends		Interest (a)		Royalties	
	A	B	C	D	E	F
	%	%	%	%	%	%
Argentina	15	15	12.5	12.5	15	15
Australia	15	15	10	10	10	10
Azerbaijan	15	5/10 (h)	10	10	10 (i)	5/10 (i)
Belarus	15	5	5	5	5	5
Belgium	15	15	15	15	0	10
Brazil	15	15	15	15	15 (f)	15 (f)
Bulgaria	0	0	0	0	0	0

	Dividends		Interest (a)		Royalties	
	A	B	C	D	E	F
	%	%	%	%	%	%
Canada	15	5	10 (j)	10 (j)	10 (k)	10 (k)
China	10	7	10	10	10	10
Croatia	15	0	5	5	0	0
Cyprus						
From Cyprus	0	0	0	0	0	0
From Austria	10	10	0	0	0	0
Czechoslovakia (e)	10	10	0	0	5	5
Denmark	10	10	0	0	0	10
Egypt						
From Egypt	15	15	15	(b)	0	0
From Austria	10	10	0	0	0	0
Estonia	15	5	10	10	5/10 (q)	5/10 (q)
Finland	10	10	0	0	5	5
France	15	0	0	0	0	0
Germany	15	5	0	0	0	0
Greece	(b)	(b)	0 (l)	0 (l)	0	10
Hungary	10	10	0	0	0	0
India	(b)	(b)	(b)	(b)	(b)	(b)
Indonesia	15	10	10	10	10	10
Ireland						
From Ireland	15	0	0	0	0	0
From Austria	10	10	0	0	0	10
Israel	25	25	15	15	10	10
Italy	15	15	10	10	0	10
Japan	20	10	10	10	10	10
Korea	15	5	10	10	10 (n)	10 (n)
Liechtenstein	15	15	10	10	10	10
Luxembourg	15	5	0	0	0	10
Malaysia						
From Malaysia	special arrangements		15	15	10 (j)	10 (j)
From Austria	10	5	15	15	10	10
Malta						
From Malta	special arrangements		5	5	10	10
From Austria	15	15	5	5	10	10
Nepal	15	5/10 (r)	15 (s)	15 (s)	15	15
Netherlands	15	5	0	0	0	10
Norway	15	5	0	0	0	0
Pakistan	(b)	10 (o)	(b)	(b)	20	20
Philippines	25	10	10/15	10/15	10/15	10/15
Poland	10	10	0	0	0	0
Portugal	15	15	10	10	5	10
Romania	15	15	10	10	10	10
Russian Federation	15	5	0	0	0	0
Singapore	10	0 (m)	5	5	5	5
Slovenia	15	5	5	5	0	10
South Africa	15	5	0	0	0	0
Spain	15	10	5	5	5	5
Sweden	10	5	0	0	0	10
Switzerland	15	0	0	0	5	5
Thailand						
From Thailand	(b)	15/20	10/25	10/25	15	15
From Austria	(b)	10	10/25	10/25	15	15
Tunisia	20	10	10	10	15 (p)	15 (p)

	Dividends		Interest (a)		Royalties	
	A	B	C	D	E	F
	%	%	%	%	%	%
Turkey	35	25	15	15	10	10
Ukraine	10	5	2/5	2/5	5	5
USSR (d)	0	0	0	0	0	0
United Kingdom	15	5	0	0	0	10
United States	15	5	0	0	0 (g)	0
Uzbekistan	15	5	10	10	5	5
Nontreaty countries	25	25	25	0 (c)	20	20

A General.
B Dividends received from subsidiary company. Shareholding required varies from 10% to 95%, but generally is 25%.
C General.
D Mortgages.
E General.
F Royalties from 50% subsidiary.
(a) Under domestic tax law, a 25% withholding tax is imposed only on interest income from bank deposits and securities. However, interest paid to nonresidents is generally not subject to withholding tax. For details, see Section B.
(b) No reduced rate applies.
(c) No withholding tax is imposed, but the income is subject to tax at the regular corporate rate.
(d) Austria is honoring this treaty with respect to the republics comprising the Commonwealth of Independent States (CIS), except for those republics that have entered into tax treaties with Austria. Austria has entered into a tax treaty with Ukraine and has signed tax treaties with Azerbaijan, the Russian Federation and Uzbekistan. The withholding tax rates under these treaties are listed in the above table.
(e) Austria is honoring this treaty with respect to the Czech and Slovak Republics.
(f) Trademark royalties are subject to a 25% withholding tax. The withholding tax rate is 15% for royalties paid for literary, artistic and scientific items.
(g) The rate is 10% for royalties paid for the use of films or other means of production used for radio or television.
(h) The 5% rate applies if the participation of the recipient of the dividends exceeds US$250,000. The 10% rate applies if the participation of the recipient of the dividends exceeds US$100,000 but does not exceed US$250,000.
(i) The rate is 5% for royalties paid for technologies not older than three years.
(j) The withholding tax rate is 15% for royalties paid for literary and artistic items.
(k) Royalties paid for computer software, patents and know-how are exempt if the royalties are taxed in the state of residence of the recipient.
(l) Interest on government bonds may be taxed in the issuing state only. Interest paid to parent companies holding more than 50% of the capital of the subsidiary are subject to a 10% withholding tax.
(m) This rate applies to dividends received from a 10%-subsidiary.
(n) The rate is 2% for amounts paid for the use of commercial or scientific equipment.
(o) The rate is 20% for dividends paid by non-industrial Pakistani corporations.
(p) The rate is 10% for royalties paid for literary, artistic and scientific items.
(q) The 5% rate applies to amounts paid for the use of industrial or scientific equipment.
(r) The 5% rate applies to dividends received from a 25%-subsidiary; the 10% rate applies to dividends received from a 10%-subsidiary.
(s) The rate is 10% for interest paid to a bank if the interest arises from the transacting of bank business and if the recipient is the beneficiary of the interest.

AZERBAIJAN

(Country Code 994)

BAKU **GMT +4**

Ernst & Young Azerbaijan **(12) 90-70-20**
Hyatt International Centre **Fax: (12) 90-70-17**
Hyatt Tower III, 1st Floor
Izmir Street 1033
Baku 370065
Azerbaijan

Corporate Tax
Sanan Ismayilov **(12) 90-70-20**
Mobile: (50) 320-7117
E-mail: sanan.ismayilov@az.ey.com

Because of the rapidly evolving economic and political situation in Azerbaijan, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Profits Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Permanent Representation Tax Rate (%)	25
Withholding Tax (%)	
Dividends	10 (a)
Interest	10 (a)(b)
Royalties from Patents, Know-how, etc.	10 (c)
Management Fees	10 (c)
Income from International Transport of Goods by Sea	6 (c)
Insurance or Financial Lease Payments	4 (c)
Payments of Other Azerbaijani-Source Income to Foreign Companies	10 (c)
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) These are final withholding taxes applicable to payments to Azerbaijani and foreign legal entities.
(b) Interest paid on state bonds or securities is exempt from tax.
(c) This is a final withholding tax applicable to payments to foreign legal entities.

B. Taxes on Corporate Income and Gains

Corporate Profit Tax. Enterprises carrying on activities in Azerbaijan, including enterprises with foreign investment, are subject to tax. Enterprises with foreign investment include 100% foreign-owned subsidiaries, joint ventures and legal entities operating through a permanent representation.

Azerbaijani legal entities are subject to tax on their worldwide income. For tax purposes, Azerbaijani legal entities are entities incorporated in Azerbaijan, including 100%-owned subsidiaries of foreign companies.

Foreign legal entities are subject to tax on profits earned through a permanent representation (representative office) only. A permanent representation is defined as the following: any organization or natural person who represents a foreign legal entity in Azerbaijan; a bureau, office or agency; a location where activities are carried out relating to the development of natural resources; the rendering of consultation services; or a fixed base used for entrepreneurial activities.

The Azerbaijan Law on the Protection of Foreign Investments allows foreign investment in various forms, including investment through 100% foreign-owned subsidiaries, share participations in joint stock companies and in joint ventures with Azerbaijani legal entities and citizens, permanent representations and other types of participations.

Tax Rate. All entities operating in Azerbaijan are subject to corporate profit tax at a rate of 25%.

Capital Gains. Capital gains are included in taxable income and taxed at the regular rate.

Administration. The tax year is the calendar year. The tax year for newly created enterprises or permanent representations of foreign legal entities runs from the date of formation through 31 December of the year of formation.

All entities operating in Azerbaijan must make advance payments of corporate profit tax by the 15th day following the end of each quarter. Each advance payment must equal at least one-quarter of the profit tax liability for the prior tax year. Alternatively, the amounts of the advance payments may be determined by multiplying the company's revenues for the quarter by the company's effective tax rate for the prior year. The effective tax rate is equal to tax as a percentage of revenues.

If, at the end of the tax year, it is determined that the total of the advance payments exceeds the tax due for the year, the excess may be credited against future tax obligations or refunded. In practice, however, the tax authorities rarely, if ever, issue refunds. Consequently, entities generally credit overpayments against future taxes.

Dividends. Dividends paid are subject to income tax withholding at a rate of 10%. This is considered a final tax and companies do not include the dividends in taxable profits.

Foreign Tax Relief. Foreign income tax paid by taxpayers in Azerbaijan on income derived from sources outside Azerbaijan may be credited against Azerbaijani tax imposed on the same income, limited to the amount of Azerbaijani tax imposed on such income. In determining the amount of the allowable foreign tax credit, it is unclear if a limitation based on the country of source is imposed or if all foreign-source income is pooled.

C. Determination of Trading Income

General. Taxable profit is determined by computing the profit or loss from business activities and then adding income from non-trading operations, such as leasing income and capital gains, but excluding dividends received. Income received in foreign currency is converted into manats at the daily exchange rate determined by the National Bank of Azerbaijan.

The deduction of interest is limited to an amount calculated by applying 125% of the average level of interest rates determined by interbank loan auctions for loans issued in the same currency for a similar period.

Statutory norms limit the deductions for certain categories of expenses, such as business travel and repair expenses. Expenses for meals and entertainment as well as for the providing of food and housing to employees are completely disallowed.

Foreign legal entities doing business through a permanent representation in Azerbaijan are taxed on actual profits. If actual profits cannot be determined, the tax authorities may determine taxable profits based on either income or expenses, with a deemed profit margin of 20%.

Tax Depreciation. Fixed assets, other than buildings, are subject to depreciation by a group method. Under this method, fixed assets are allocated to groups, and the groups are depreciated in aggregate. Depreciation rates, which are specified by law, are applied to the aggregate book values for each of the groups. The depreciable balance for a group is reduced by the depreciation accrued for the year by the group. If any assets of a group are sold during the year, the depreciable balance of the group is reduced by the sales proceeds.

An acquisition of assets under a finance lease is treated as a loan from the lessor to the lessee and a purchase of assets by the lessee. The lessee may then claim depreciation on the assets.

Accelerated depreciation is allowed for capital expenditure incurred for production purposes, which includes expenditure on the construction of facilities directly involved in the production of goods.

Relief for Losses. Enterprises incurring a loss in a tax year may carryforward the loss to offset taxable profit in the following five years. Losses may not be carried back.

Groups of Companies. There are no provisions permitting related enterprises to offset profits and losses among members of a group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on goods sold and services rendered, in Azerbaijan; the tax law contains specific rules for determining when services are deemed to be provided in Azerbaijan; Azerbaijani taxpayers that make payments to entities that are not registered taxpayers in Azerbaijan for goods and services provided in Azerbaijan must withhold VAT from the payments	18
Assets tax, on the annual average net book value of fixed assets	1
Import tariffs	0 to 15

E. Foreign-Exchange Controls

The manat is a nonconvertible currency outside Azerbaijan. Enterprises may buy or sell foreign currency through authorized banks or foreign-exchange offices in Azerbaijan.

To receive foreign-currency income in Azerbaijan, an enterprise must obtain a license issued by the National Bank of Azerbaijan.

F. Treaty Withholding Tax Rates

Azerbaijan currently considers none of the tax treaties of the former USSR to be in force, with the exception of the USSR's treaty with Germany. Azerbaijan has entered into tax treaties with various countries.

The withholding rates under the Germany-USSR treaty and Azerbaijan's ratified treaties are listed below. Because of the recent reductions in domestic withholding tax rates, the tax treaties may now specify rates that are the same as, or in excess of, domestic rates and, consequently, offer little or no savings with respect to withholding taxes. The rates in the table reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties %
Austria	5/10	10	5/10
Belarus	15	10	10
Georgia	10	10	10
Germany	15	5	0
Kazakhstan	10	10	10
Moldova	8/10	10	10
Norway	10	10	10
Russian Federation	10	10	10
Turkey	12	10	10
Ukraine	10	10	10
United Kingdom	10	10	5/10
Uzbekistan	10	10	10
Nontreaty countries	10	10	10

Treaties with France, Pakistan and Poland are in the ratification stage. Azerbaijan has signed a tax treaty with Romania, but the treaty has not yet been ratified. It has initialed tax treaties with Belgium, Canada, Estonia, Italy, Latvia, Lithuania and Sweden. Azerbaijan is negotiating tax treaties with Iran, Kuwait, Luxembourg, the Netherlands and Switzerland.

BAHAMAS

(Country Code 1)

NASSAU **GMT -5**

Ernst & Young
Mail Address:
P.O. Box N-3231
Nassau
Bahamas

(242) 502-6000
Fax: (242) 502-6090
E-mail: info.ey@bs.ey.com

Street Address:
One Montague Place
East Bay Street
Nassau
Bahamas

Corporate Tax

Terrance A. Bain	**(242) 502-6039**
	Mobile: (242) 395-4097
Lorraine D. Burrows	**(242) 502-6013**
★ Maria M. Ferere	**(242) 502-6004**
	Mobile: (242) 357-8903

A. At a Glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

B. Taxes on Corporate Income and Gains

No taxes are levied on corporate income or gains.

C. License Fees and Other Duties

The rates of the license fees and other duties discussed below apply for the year ending 30 June 2004.

Business License Fees. For corporations designated resident for exchange-control purposes, business income within the Bahamas is subject to an annual license fee that varies according to turnover and gross profit. Businesses with turnover of B$50,000 or less are exempt from paying business license fees. Businesses with turnover of B$50,001 to B$250,000 pay annual fees ranging from B$250 to B$1,250. Businesses with turnover of B$250,001 to B$28 million pay fees ranging from 0.5% to 1.5% of turnover. For businesses with turnover in excess of B$28 million and a gross profit percentage of more than 75% of sales, the fees can range up to the greater of B$500,000 or 1.5% of turnover.

If a business with turnover of B$250,001 to B$1 million hires additional employees during a license year, it may claim a 5% rebate of the fee payable for each additional employee, up to a maximum of 10. For businesses with turnover in excess of B$1 million, this rebate is 3% for each additional employee, up to a maximum of 10.

Business license fees must be paid by 30 April each year, and proof of payment of real property tax must be produced before the license is issued.

Corporations regulated by specific legislation may not be subject to this fee.

Bank and Trust Company License Fees. Bank and trust company license fees vary according to the type of license held. The maximum annual license fee is B$310,000.

International Business Companies. International business companies (IBCs) pay an annual license fee based on authorized capital. The maximum fee is B$1,000. IBCs are exempt from all other taxes and stamp duties for a period of 20 years from the date of incorporation.

Limited Duration Companies. Limited duration companies (LDCs) pay an application fee of B$200 and an annual license fee based on authorized capital. LDCs may be classified as partnerships for U.S. tax purposes. By complying with certain formalities, an existing IBC may change its status to an LDC.

Insurance Companies. Insurance companies that are incorporated in the Bahamas pay stamp tax on authorized capital (for details, see Section D). They also pay the fees described below.

Resident insurance companies that write local business pay an initial registration fee of B$1,000 and a premium tax of 3% of gross premiums collected each quarter. The minimum tax is B$25.

Offshore insurance companies pay an initial registration fee of B$2,500 and an annual fee of B$2,500 in subsequent years. They also pay an annual fee of B$650 for each licensed resident underwriting management firm that provides the company with underwriting management and similar services. Offshore insurance companies are exempt from all other taxes for a period of 15 years from the date of registration.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Customs duties, on imported items; exemptions may be granted to businesses licensed under certain legislation; rate varies by type of item (average rate)	35%
Hotel guest tax, on room rate	12% plus B$10 per additional adult per day
Stamp tax	
On property conveyances; rate depends on selling price	2% to 8%
On remittances of funds in foreign currency from a Bahamian currency source	1.5%
On imported items (average rate)	7%
On authorized capital of a domestic limited company (payable at time of incorporation)	
First B$5,000	1.2%
Each additional B$1,000	0.3%
Real property tax; application of tax varies depending on appraised value, location, nationality of owner and development of property	1% to 2%
National insurance contributions on weekly wages up to B$400 or on monthly wages up to B$1,733; for employees earning B$60 or more a week; paid by	
Employer	5.4%
Employee	3.4%

E. Foreign-Exchange Controls

Corporations doing business in the Bahamas fall into the following two categories: resident and nonresident.

A resident company is one dealing in or holding assets in the Bahamas. Business is carried out in Bahamian dollars. All transactions requiring foreign currency need prior approval of the Central Bank of the Bahamas to convert Bahamian dollars into another currency.

A nonresident company is one whose shareholders are not designated residents of the Bahamas and whose principal business activity takes place outside the Bahamas. Bank accounts in all currencies other than the Bahamian dollar can be operated free of any exchange controls. Shares of nonresident companies incorporated under the Companies Act cannot be transferred without the prior permission of the Central Bank of the Bahamas. Exchange-control regulations do not apply to companies incorporated under the International Business Companies Act.

F. Tax Treaties

The Bahamas has not entered into a tax treaty with any other jurisdiction. However, on 25 January 2002, the Bahamas entered into a Tax Information Exchange Agreement (TIEA) with the United States. The TIEA enters into force on 1 January 2004 for criminal matters, and on 1 January 2006 for civil matters. The government of the Bahamas does not intend to enter into similar agreements with other jurisdictions.

BAHRAIN

(Country Code 973)

MANAMA **GMT +3**

Ernst & Young **535-455**
Mail Address: **Fax: 535-405**
P.O. Box 140
Manama
Bahrain

Street Address:
14th Floor
The Tower
Sheraton Commercial Complex
Manama
Bahrain

International Tax
M. Tariq Sadiq **535-455**
Mobile: 960-3681

A. At a Glance

Corporate Income Tax Rate (%)	0*
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

* Oil and gas companies are subject to a special income tax (see Section B).

B. Taxes on Corporate Income and Gains

Except for the income tax levied on oil and gas companies, no taxes are levied on corporate income or gains. Oil and gas companies are subject to tax on income derived from the sale of finished or semifinished products manufactured from natural hydrocarbons in Bahrain and from the sale of such raw materials if produced from the ground in Bahrain. The rate of tax is 46%.

C. Customs Duties

The Gulf Cooperation Council (GCC) countries have announced the unification of customs duties, effective from 1 January 2003. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The guidelines for implementation of the unified tariff are being developed.

Bahrain is applying the unified tariff in accordance with the H.S. Codes, issued by the World Customs Organisation (WCO). Under the unified customs tariff, for all products, except for tobacco and tobacco-related products, customs duties are calculated by applying percentage rates. For tobacco and tobacco-related products, the customs duty equals the higher of the following: an amount calculated by applying a rate of at least 100% to the value of the product; or an amount based on the quantity or weight.

Under the customs tariff, products are generally divided into four groups — free duty, 5% rate, 100% rate and 125% rate.

D. Foreign-Exchange Controls

Bahrain does not impose foreign-exchange controls.

E. Tax Treaties

Bahrain has entered into tax treaties with France and Malaysia.

BANGLADESH

(Country Code 880)

DHAKA **GMT +6**

S.F. Ahmed & Co.*
House 25, Road 13A
Block D, Banani
Dhaka 1213
Bangladesh

(2) 989-4346, 989-4258
Fax: (2) 882-5135, 881-4713
E-mail: sfaco@citechco.net
sfaco@bdonline.com

* Technical Assistance firm

Corporate Tax
★ M. Mushtaque Ahmed **(2) 881-6467**
(2) 881-5101

Human Capital
M.S. Jalal **(2) 989-4346**
Avijit Bhattacharjee **(2) 989-4346**

A. At a Glance

Corporate Income Tax Rate (%)	30/37.5/45 (a)
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	37.5/45 (a)
Withholding Tax (%)	
Dividends (b)	
Paid to Corporations	15
Paid to Resident Individuals	10
Paid to Nonresident Individuals	25

Interest	
On Bank Savings Accounts and Fixed Deposits	10 (c)
On Loans, if Remitted Abroad	37.5/45 (d)
Technical Service Fees, including Royalties from Patents, Know-how Fees and Technical Assistance Fees	10 (e)
Payments to Contractors and Suppliers	1 to 4 (f)
Professional Service Fees	5
Sales of Cigarettes by Manufacturers	3 (e)
Sales of Immovable Property	5 (e)(g)
Imports	3 (h)
Fees for Services Rendered by Doctors to Patients in Private Hospitals or Clinics	5
Commissions	
For the Opening of Letters of Credit	5
Paid to Agents of Foreign Buyers	2.5
Indenting	3.5
Shipping Agencies, Clearing and Forwarding Agencies, Stevedoring Agencies	5
Payments to Private Security Services Agencies	5
Fees and Other Payments to Surveyors of General Insurance Companies	5 (e)(i)
Branch Profit Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	6 (j)

(a) For details, see Section B.
(b) No withholding tax is imposed on dividends if the payer of the dividends pays the 10% distribution tax on the dividends.
(c) This withholding tax is imposed on residents. The withholding tax may be credited against the final income tax shown on the annual income tax return.
(d) This tax applies to payments to nonresident corporations. The withholding tax rate is the income tax rate applicable to the recipient. A 25% tax is imposed on payments to nonresident individuals. The withholding tax may be credited against the final income tax shown on the annual income tax return.
(e) This is a final tax imposed on resident and nonresident companies and individuals.
(f) This is a final tax imposed on gross payments to residents and nonresidents. The tax does not apply to payments to nonresident contractors of oil exploration companies or to payments to the subcontractors of such contractors.
(g) This tax is imposed on the gross sales proceeds.
(h) This tax is applied to the assessed value of the imported goods, which is the higher of the invoice value or the tariff value of the goods. The tax is imposed on the importer and paid to the customs authorities. This is a final tax.
(i) Surveyors conduct surveys for the settlement of general (nonlife) insurance claims.
(j) This is normal loss carryforward period. The loss carryforward period is increased to 10 years for losses from the exploration and extraction of minerals other than oil and gas.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident corporations are taxed on their worldwide income. Nonresident corporations, including their branches, are subject to corporate income tax on their income derived from Bangladesh sources. A corporation is resident if the control and management of its affairs are wholly situated in Bangladesh.

Rates of Corporate Tax. For the 2003-04 tax year (1 July 2003 to 30 June 2004), publicly traded companies with a registered office in Bangladesh are subject to tax at a rate of 30%. Banks, insurance companies and financial institutions are taxed at a rate of 45%. All other companies, including nonresident companies, are taxed at a rate of 37.5%. Certain rebates and allowances apply to the determination of the tax. For example, companies subject to the 30% rate are entitled to a rebate of 10% of tax payable if they declare a dividend of 20% or more of the face value of their shares. However, if companies normally subject to the 30% rate declare a dividend of less than 10% or fail to pay the declared dividend by the date fixed by the Securities and Exchange Commission, they are subject to corporate income tax at a rate of 37.5%. Companies are charged an additional income tax of 5% on their undistributed profit if they do not issue, declare or distribute dividends or bonus shares equal to at least 15% of their paid-up capital within six months after the end of their accounting year.

Banking companies are subject to an excess profit tax at a rate of 15% on their profits in excess of 50% of the sum of their capital and reserves.

Nonresident air transport companies are subject to a 3% tax on gross receipts. An 8% tax is imposed on the gross receipts of nonresident shipping companies. Nonresident companies engaged in oil exploration are taxed at the 37.5% rate on a deemed profit of 10% of gross revenue, with certain adjustments.

Tax holidays specified by the National Board of Revenue are available. The tax holidays extend through 30 June 2005. The National Board of Revenue grants tax holidays that are available for various industrial undertakings. Companies may continue to benefit from tax holidays only if they invest income that is exempt under the tax holiday in various areas. Forty percent of the tax-exempt income must be invested in prescribed items during the tax-holiday period or within one year of the end of the period. The level of required investment is reduced by the amount of dividends declared. Income from certain farming activities is exempt from tax. Income concessions are granted to certain industries set up in the export processing zones. Mutual funds are exempt from tax.

The tax holiday allowed to industrial undertakings and certain other companies is withdrawn for a tax year if, during the tax year, such undertaking or company (the first enterprise) engaged in a sale-of-goods transaction with another undertaking or company (the second enterprise) and if the following circumstances exist:

- The two enterprises have one or more sponsor-directors (a sponsor-director is an original promoter, subscriber or shareholder who is also a director of the company) in common; and
- The sale was for a price differing from the market price in order to reduce the income of the second enterprise.

The tax holiday for industrial undertakings and other companies does not apply to the dividend distribution tax (see *Dividends* below).

Capital Gains. Capital gains derived from the sale of assets are taxed at a rate of 15%. Capital gains on sales of government securities and shares of publicly listed companies are exempt from tax.

Capital gains derived from the transfer of plant and machinery used in a business or profession are exempt from tax.

Administration. The tax (assessment) year is the 12 months from 1 July to 30 June. Income tax is chargeable for a tax year on income earned in the basis year, which is generally the period from 1 July to 30 June preceding the tax year. If a company adopts an accounting year other than a year ending on 30 June, the basis period is the 12-month period ending between the period of 1 July to 30 June preceding the tax year. Corporations are required to file returns by 15 July following the end of their accounting year or within six months of the end of their accounting year, whichever occurs later.

Resident and nonresident corporations must pay tax in advance in four equal installments if their latest assessed income, other than agricultural income and capital gains, equals or exceeds Tk. 200,000. New corporate taxpayers must also pay advance tax in accordance with similar rules if their estimated income is likely to exceed Tk. 200,000. Any balance of tax due is paid at the time of filing the return. Interest is paid on excess advance payments, and penalties are imposed on defaults and deficits.

Income tax returns of corporations and financial institutions, accompanied by a certificate of total income computed by Chartered Accountants as auditors, are accepted as correct and complete, provided stringent conditions are fulfilled. The issuance of such certificates is subject to verification by the tax authorities on a random basis, and heavy penalties are imposed for the issuance of false certificates.

Dividends. Local companies declaring dividends must pay dividend distribution tax of 10% within 60 days of the date of declaration of the dividend. This tax does not apply to remittances of after-tax profits to head offices by branches of foreign companies or other payments or distributions made by local companies to shareholders, such as advances (an advance is a loan or payment to shareholders by a private company before it is due, to the extent the company has accumulated profit), loans or other benefits.

Unless otherwise specified by the government, a company cannot qualify for an exemption from, or reduction of, the dividend distribution tax.

No withholding tax is imposed on dividends subject to the dividend distribution tax. In addition, recipients are not required to include the dividends in taxable income.

Dividends of up to Tk. 25,000 received from a mutual fund or a unit fund are exempt from tax. Mutual funds are not subject to the dividend distribution tax.

Foreign Tax Relief. To avoid double taxation, a foreign tax credit is available. It is equal to the lower of the Bangladesh corporate tax rate applied to the foreign-source income and the actual amount of foreign tax paid on that income.

C. Determination of Trading Income

General. Taxable income is based on accounting income, adjusted for nondeductible expenses and statutory allowances.

Expenses incurred wholly and exclusively for business purposes are deductible, subject to certain limits on employees' perquisites. Expenses paid to nonresidents, including interest, are not deductible if taxes are not withheld on the payments. The deductibility of expenses for entertainment, foreign travel of employees and the distribution of free samples is restricted. Replantation costs for rubber plants are now fully deductible.

Branches of foreign companies may claim a deduction for head office expenses, limited to 10% of their annual taxable income, unless a tax treaty provides otherwise.

The deductibility of the sum of royalties, technical know-how fees and technical assistance fees paid during the year is limited to 2.5% of annual taxable income.

Inventories. Any acceptable method of valuing inventory is allowed, but it must be applied consistently from year to year.

Provisions. Provisions are generally not allowed for tax purposes. However, corporations may deduct the special provisions described below.

The maximum deduction for a loan loss provision of commercial banks and specialized agricultural finance banks is 2% of total outstanding loans. The deduction is extended through the 2004-05 tax year to allow banks to meet the required provision level. The required provision level for bad and doubtful debts is calculated at prescribed percentages of the total loans made by banks in accordance with circulars issued by the Bangladesh Bank (central bank) from time to time. The loan provision is not deductible if the government reimburses a bank for the provision or if the provision represents loans to the public sector or to a director of the lending bank or the director's nominee or dependent.

If the tax authority approves a gratuity fund for employees, the employer may deduct a provision for contributions to the fund. The provision is deductible regardless of whether the contributions are paid.

Tax Depreciation. Depreciation is calculated using the declining-balance method. The following table indicates the normal depreciation allowances for different classes of assets.

Class of Assets	Rate Applied to Depreciated Value (%)
Buildings (general)	10
Buildings (factory)	20
Medical apparatus and cinematographic machinery	20
Machinery and plant (general)	20
Office equipment	20
Furniture and fittings	10
Motor vessels	24
Motor vehicles (general)	20
Motor vehicles for hire	24
Professional and reference books, aircraft and photographic apparatus	30
Below-ground installations of mineral oil concerns	100
Above-ground installations of mineral oil concerns	30

The maximum depreciable cost of motor vehicles is Tk. 1 million.

Initial depreciation at a rate of 10% is allowed for buildings constructed after 30 June 2002 and at a rate of 25% for plant or machinery installed after that date.

If certain conditions are satisfied, accelerated depreciation may be claimed for plant and machinery used until 30 June 2005. Accelerated depreciation is allowed instead of a tax holiday. It may be claimed instead of the normal depreciation. For industrial companies, accelerated depreciation at a rate of 100% is allowed in the first year of commercial production. Expansion units of companies enjoying a tax holiday and industrial undertakings engaged in the treatment and disposal of toxic and environmentally hazardous wastes or in the collection or processing of biodegradable waste may claim the following accelerated depreciation: 80% in the first year of commercial production or operation; and 20% in the second year.

Depreciation allowances on plant and machinery and on buildings are subject to recapture to the extent that the lesser of the sales proceeds or the original cost exceeds the tax value after depreciation. The amount recaptured is included in business income in the year of disposal. If the sales proceeds are less than the depreciated value, the deficiency may be deducted as a business expense in the year of disposal.

Relief for Trading Losses. Operating losses and capital losses may be carried forward for six years and offset against the same type of income. Losses from the exploration and extraction of minerals other than oil and gas may be carried forward for 10 years. Unused depreciation may be carried forward indefinitely.

Groups of Companies. There are no group relief provisions. The losses of one corporation within a group may not be used to reduce the profits of another corporation in the same group.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; imposed on specified local products and services if the total annual turnover is Tk. 2 million or more, on all sales of goods in metropolitan and municipal areas, and on certain services and imports, regardless of whether the Tk. 2 million threshold is met	
Standard rate	15
Sales of goods in metropolitan and municipal areas	1.5
Turnover tax on local products and services if total annual turnover is less than Tk. 2 million	4
Supplementary duty, on local production and imports	
Certain luxury goods and services	15 to 350
Movie theaters, on sales of tickets	35

Nature of Tax	Rate (%)
Vehicles, including automatic rickshaws/ three-wheelers	15 to 250
Natural gas (local production and imports)	100
Liquor and cigarettes	350
Customs (import) duty, on imports	7.5 to 32.5
Stamp duty	
On certain documents	Various
On transfers of property	5

E. Miscellaneous Matters

Rapid Clearance of Imports. Mandatory preshipment inspection applies to most goods. All goods undergoing this inspection pass through a "green channel" at import points without customs inspection.

Foreign-Exchange Controls. Dividends may be remitted to nonresident shareholders. The repatriation of proceeds from sales of shares of companies listed on a stock exchange in Bangladesh may be made through an authorized bank if the investment in the shares was made through a Nonresident Investor's Taka Account (NITA). Remittances of proceeds from sales of shares of companies not listed on a stock exchange require the prior permission of Bangladesh Bank. The bank grants permission for amounts not exceeding the net asset value of the shares. These payments are subject to applicable withholding taxes. After-tax profits of corporations and their branches are allowed to be repatriated. A 10% final withholding tax is imposed on the repatriation of royalties, technical services fees and similar payments remitted to nonresidents. Nonresident personnel are allowed to remit 50% of their after-tax salaries as stated in service contracts approved by the Board of Investment.

As a result of relaxed foreign-exchange controls, Bangladesh Bank approval is no longer required for the following transactions:

- Remittance of branch profits to foreign head offices;
- Investment by nonresidents in shares and securities through stock exchanges located in Bangladesh and bank remittance of dividends and capital gains on those shares and securities;
- Bank remittance of technical fees and royalties that conform to Board of Investment guidelines;
- Transfer of shares from one nonresident to another nonresident;
- Remittance of dividends to nonresident investors setting up companies in new industries in Bangladesh; and
- Issuance of bank guarantees on behalf of local exporters favoring foreign buyers of specified merchandise.

Restrictions that were imposed on the remittance by foreign companies of capital gains on the sale of movable fixed assets and on the sale of other assets, such as corporate shares and securities, have been eliminated. Capital machinery may be imported free of duties and value-added tax, subject to certain conditions. The taka is convertible for current-account transactions, such as imports and exports of goods and services.

Debt-to-Equity Ratios. The following are acceptable debt-to-equity ratios: 60:40, 70:30 and 80:20; however, 80:20 is not acceptable for companies in developed areas of the country.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Belgium	15	15	10
Canada	15	15	10
China	10	10	10
Denmark	10/15	10	10
France	15	10	10
Germany	15	10	10
India	10/15	10	10
Italy	10/15	10/15	10
Japan	10/15	10	10
Korea	10/15	10	10
Malaysia	15	15	15
Netherlands	10/15	10	10
Pakistan	15	15	15
Poland	10/15	10	10
Romania	10/15	10	10
Singapore	15	10	10
Sri Lanka	15	15	15
Sweden	10/15	10/15	10
Thailand	10/15	10/15	15
United Kingdom	10/15	7.5/10	10
Nontreaty countries	15 (a)	37.5/45 (a)(b)	10

(a) The rates apply to payments to nonresident corporations. The rate is 25% on payments to nonresident individuals.
(b) Applicable to interest on bank savings accounts and fixed deposits and to interest remitted abroad on loans.

BARBADOS

(Country Code 1)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@bb.ey.com

BRIDGETOWN **GMT - 4**

Ernst & Young
Mail Address:
P.O. Box 261
Bridgetown
Barbados, W.I.

(246) 430-3900
Fax: (246) 426-9551, 429-6446
(246) 435-2079 (Tax)
E-mail: eybic@caribsurf.com

Street Address:
Worthing, Christ Church
Bridgetown
Barbados, W.I.

International Tax

★ Ben Arrindell	**(246) 430-3800** **Mobile: (246) 231-2515**
Wade George	**(246) 430-3803**
Winston Gibbs	**(246) 430-3802** **Mobile: (246) 231-4714**
Gregory Hannays *(resident in New York)*	**(212) 773-9390** **E-mail: gregory.hannays@ey.com**
Anna Mouttet *(resident in London)*	**[44] (20) 7951-1284** **E-mail: amouttet@uk.ey.com**
Maria Robinson	**(246) 430-3878** **Mobile: (246) 231-6888**

Value-Added Tax

Neville Badenock	**(246) 430-3875**

A. At a Glance

Corporate Income Tax Rate (%)	36
Capital Gains Tax Rate (%)	0
Branch of Nonresident Corporation (%)	36
Withholding Tax (%)	
Payments to Nonresidents	
Dividends	15*
Interest	15*
Royalties	15*
Rents	40
Management and Technical Services	15*
Payments to Resident Individuals*	
Dividends	12.5
Interest	12.5
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	9

* Final tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies and unincorporated associations that are resident in Barbados are subject to corporate tax. Resident companies are subject to tax on their worldwide income regardless of whether it is remitted to Barbados. Nonresident companies carrying on business through a branch pay tax only on Barbados-source income. Income is considered Barbados-source if the property that constitutes the source is physically located in Barbados.

A company is considered to be resident in Barbados if its management and control are situated in Barbados.

Rates of Corporate Tax. The following are the corporate tax rates.

Domestic Corporations	Rate (%)
Basic rate	36
Unit trusts	36
Building societies	36
Construction companies	36
Branch of nonresident corporations	36
Income from Barbados government securities	12.5

Nonresident Corporations	**Rate (%)**
Interest	15
Royalties	15
Dividends from taxed profits	15
Management and technical aid fees	15
Services other than management	25
Income from Barbados government securities	0

A branch operating in Barbados pays an additional 10% on its after-tax profits if those profits are remitted or deemed to be remitted.

International Business and Financial Services Sector	**Rate %**
International business companies	2.5 reducing to 1
Offshore banks	2.5 reducing to 1
International Societies with Restricted Liability	2.5 reducing to 1
Exempt insurance companies	0
Exempt insurance management companies	0

No tax is required to be withheld from the payment of dividends, interest, royalties, management fees and rents if paid to nonresidents by companies operating in the International Business and Financial Services Sector.

Foreign-Currency Earnings Credit. Companies subject to the Income Tax Act may claim a tax credit with respect to foreign-currency earnings derived from qualifying overseas construction projects or qualifying overseas professional services, including qualifying insurance activities. The tax credit may reduce the effective tax rate to 2.52%.

Small Business Development Act. Under the Small Business Development Act, small businesses qualify for the following tax benefits:
- A reduced corporate tax rate of 25%;
- Exemption from withholding tax on dividends or interest paid;
- Exemption from import duty on plant and equipment; and
- Exemption from stamp duty on the execution and registration of financial documents.

Only income directly related to the business qualifies for the above tax benefits.

To qualify as a small business, a company must meet the following requirements:
- It has majority local ownership, regardless of whether the company is managed by its shareholders;
- Its authorized capital does not exceed BDS$1 million;
- Its annual sales do not exceed BDS$2 million;
- It does not have more than 25 employees; and
- It is not a wholly owned or majority-owned subsidiary in a group of companies.

Capital Gains. Capital gains are not taxed in Barbados.

Administration. The fiscal (income) year extends from 1 January to 31 December. Tax is calculated on the profits for the accounting period that ends during the fiscal year.

A corporation is required to determine its own tax liability and to prepare and file a corporation tax return. Corporations with year-ends from 1 January to 30 September must prepay tax by 15 September and file their returns by 15 March of the following year. If the year-end is after 30 September, the tax must be prepaid on 15 December of the income year and on the following 15 March. The return is filed 15 June of the year following the income year. Each tax prepayment must be 50% of the previous year's tax. Any balance of tax due is paid when the return is filed.

The Commissioner of Inland Revenue may levy a penalty of BDS$100 plus 10% of tax payable and interest of 1% a month for failure to file a return and pay tax due, and a penalty of 10% and interest of 0.5% a month for failure to prepay corporate tax.

Dividends. Dividends received by a resident company from another resident company are not taxable. However, dividends received by a resident company from a nonresident company are subject to tax.

Foreign Tax Relief. A tax credit is allowed for taxes paid to foreign governments by Barbados resident companies if the related income arises in a country with which Barbados has concluded a double tax treaty. Some form of unilateral relief may be granted on income arising from British Commonwealth countries that provide reciprocal relief. Income received from a nontreaty country is taxed net of the foreign tax.

C. Determination of Trading Income

General. Taxable income is determined on the basis of accounts prepared in accordance with International Accounting Standards, subject to specific adjustments identified in the Income Tax Act.

Inventories. The authorities generally accept a method of valuation of inventory that conforms to standard accounting practice in the trade or business, provided it is applied consistently. Average cost or first-in, first-out (FIFO) are the generally accepted methods.

Provisions. Reserves or provisions of a general nature are not allowable. Write-offs of specific amounts or balances are generally allowed, provided the Inland Revenue is satisfied that they are irrecoverable.

Tax Depreciation. Depreciation and amortization reported in the financial statements are not allowed as deductions in calculating taxable income. However, a company may claim capital allowances. Annual allowances of between 5% and 33⅓% are given on the original cost of fixed assets, calculated on a straight-line basis. An initial allowance of 20% is given on the cost of equipment. Industrial buildings qualify for an initial allowance of 40% and an annual allowance of 4% of the cost. An allowance of 1% is given on the improved value of commercial buildings. Fifty percent of expenditure on intellectual property is deductible over a 10-year period.

An investment allowance of 20% is granted on the cost of capital expenditure on new plant and machinery to be used in a basic industry. A 40% allowance is granted for new plant and machinery to be used in manufacturing and refining sugar and in manufacturing products from clay and limestone.

Persons who export outside the Caribbean Common Market also qualify for an investment allowance of 40% of the cost of new plant and machinery purchased during the tax year.

The investment allowance is not deductible from the cost of the asset for the purpose of determining the annual allowance.

Relief for Losses. Losses may be carried forward nine years to offset income derived in those years. Losses may not be carried back.

Groups of Companies. A member of a group of companies (the surrendering company) may surrender current trading losses to another member of the group (the claimant company). The claimant company may then claim a deduction for the losses in calculating its taxable income.

To qualify for group relief, the surrendering company and the claimant company must be resident in Barbados and must be members of the same group throughout the fiscal year for which group relief is claimed. Two companies are members of the same group if one is a 75% subsidiary of the other or both are 75% subsidiaries of a third company. In determining whether a company is a 75% subsidiary of another company, share capital is excluded if profits from sales of such shares would be trading receipts of the direct owner of the shares. Share capital is also excluded if it is owned directly or indirectly in a company not resident in Barbados. In addition, the parent company must be beneficially entitled to at least 75% of the profits available for distribution to shareholders of the subsidiary and to at least 75% of the subsidiary's assets available for distribution to shareholders of the subsidiary on a winding up.

Trading losses may not be surrendered to the extent they include the following:

- The surrendering company's capital allowances; and
- Expenses payable to a group member that are claimed as deductions but are not included in the income of that group member for the same fiscal year.

Group relief is available only if the claimant company has used its capital allowances and offset its loss carryforwards against its current profits. A claim for group relief must be made within two years of the end of the surrendering company's fiscal year, and must be consented to by that company. Group relief is not available to international business companies, exempt insurance companies, societies with restricted liability, offshore banks and other companies granted special tax concessions, excluding companies operating under the Hotel Aids Act. Groups of companies that owe taxes or national insurance contributions are also ineligible for group relief.

Group consolidated returns may not be filed with the tax authorities.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on the supply of goods and services in Barbados and on goods imported into Barbados	
Standard rate	15
Hotel accommodation	7.5
Basic food items	0
Excise tax, on imports of vehicles; this tax is imposed in addition to the VAT	46.95 to 93.73
National insurance contributions, on monthly insurable earnings up to BDS$3,100; paid by	
Employer	10.25
Employee	9
Self-employed individual	14

E. Miscellaneous Matters

Foreign-Exchange Controls. Foreign-exchange controls in Barbados are administered by the Central Bank, which considers all applications. Certain small transactions and routine commercial matters are delegated to the commercial banks. The Central Bank generally allows the repatriation of funds previously registered as an investment if it has been established that all local tax liabilities have been met. Certain types of entities operating in the International Business and Financial Services Sector, such as offshore banks, exempt (captive) insurance companies, international business companies and International Societies with Restricted Liability, are effectively exempt from foreign-exchange regulations with respect to their offshore activities.

Debt-to-Equity Rules. There are no thin-capitalization rules in Barbados.

Antiavoidance Legislation. Antiavoidance provisions may be applied to transactions between related persons that are not carried out at arm's length and to artificial transactions if the primary purpose of the transaction is the reduction of taxable income.

F. Treaty Withholding Tax Rates

The following treaty withholding tax rates apply to income received in Barbados.

	Dividends %	Interest %	Royalties %
Canada (e)	15	15	10
China	5	10	10
Cuba	15 (f)	10	5
Finland	15 (b)	5	5
Malta	– (i)	5	5
Norway	15 (b)	5	5
Sweden (e)	15 (b)	0 (a)	5
Switzerland	35	– (c)	0 (a)
United Kingdom (e)	15	15	0 (d)
United States	15 (b)	5	5
Venezuela	10 (g)	15 (h)	10

(a) The income is exempt from withholding tax under the law of the other treaty country.
(b) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 10% of the voting shares of the payer of the dividends.
(c) The treaty does not contain an interest article. Consequently, the normal tax rate applies.
(d) The rate is 15% for royalties from motion picture or television films.
(e) Companies established in the International Business and Financial Services Sector are not entitled to the benefits provided under the double tax treaties with Canada, Sweden and the United Kingdom. Consequently, for these companies, the normal rates apply.
(f) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends.
(g) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 5% of the capital of the payer of the dividends.
(h) The rate is reduced to 5% for interest paid by banks.
(i) The withholding tax rate may not exceed the tax rate imposed on the income out of which the dividends are paid.

No tax is withheld from dividends, interest and royalties paid to nonresidents by international business companies, offshore banks, International Societies with Restricted Liability and exempt (captive) insurance companies. For payments from Barbados by other companies, the following treaty withholding rates apply.

	Dividends %	Interest %	Royalties %
Canada	15	15	10
China	5	10	10
Cuba	15 (d)	10	5
Finland	15 (a)	5	5
Malta	15 (e)	5	5
Norway	15 (a)	5	5
Sweden	15 (a)	5	5
Switzerland	15	– (b)	0
United Kingdom	0	15	0 (c)
United States	15 (a)	5	5
Venezuela	10 (e)	15 (f)	10
Nontreaty countries	15	15	15

(a) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 10% of the voting shares of the payer of the dividends.
(b) The treaty does not contain an interest article. Consequently, the normal tax rate applies.
(c) The rate is 15% for royalties from motion picture or television films.
(d) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends.
(e) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 5% of the capital of the payer of the dividends.
(f) The rate is reduced to 5% for interest paid by banks.

BELGIUM

(Country Code 32)

The e-mail addresses for the persons listed below who are resident in Belgium are in the following standard format:

firstname.surname@be.ey.com

The e-mail addresses for persons who are not resident in Belgium or who have addresses varying from the standard format are listed below the respective persons' names.

BRUSSELS **GMT +1**

Ernst & Young Tax Consultants **(2) 774-91-11**
Avenue Marcel Thiry 204 **Fax: (2) 774-90-90**
B-1200 Brussels
Belgium

International Tax Services – Core

Reginald Beyaert **(2) 774-93-63**
Mobile: (477) 37-94-63

Werner Huygen **(2) 774-94-04**
Mobile: (479) 97-83-21

◆ Herwig Joosten **(2) 774-93-75**
Mobile: (476) 49-09-49

International Tax Services Desks Abroad

Steven Claes *(resident in New York)* **[1] (212) 773-7907**
Mobile: [1] (203) 722-4925
E-mail: steven.claes@ey.com

Serge Huysmans **(2) 774-91-11**

International Tax Services – Supply Chain

Herwig Joosten **(2) 774-93-75**
Mobile: (476) 49-09-49

International Tax Services – Transfer Pricing

Guy Sanschagrin **(2) 774-98-70**
Mobile: (477) 98-06-78

International Tax Services – Transaction Support

Werner Huygen **(2) 774-94-04**
Mobile: (479) 97-83-21

International Tax Services – Mergers and Acquisitions

Guido Verhoeven **(2) 774-93-16**
Mobile: (497) 59-70-42

Global Financial Services

Herwig Joosten **(2) 774-93-75**
Mobile: (476) 49-09-49

Koen Marsoul **(2) 774-99-54**
Mobile: (475) 54-29-99

Real Estate Services

Brixius Kell **(2) 774-94-73**
Mobile: (474) 98-01-23

Corporate Tax

★ Jan De Decker **(2) 774-93-53**
E-mail: jan.de.decker@be.ey.com

Bruno Gernay **(2) 774-91-92**
Mobile: (475) 32-19-71

Jean Matton **(2) 774-98-08**
Mobile: (475) 46-00-83

Marc Olbrechts **(2) 774-93-64**
Mobile: (475) 28-55-93

John Puttemans **(2) 774-93-56**

Human Capital

◆ Werry De Backer **(2) 774-93-97**
Mobile: (476) 49-08-51
E-mail: werry.de.backer@be.ey.com

Herman Schepers **(2) 774-93-68**
Mobile: (476) 49-08-08

Herman Tackaert **(2) 774-90-64**
Mobile: (476) 59-47-80

Indirect Taxes and Customs

Yves Bernaerts	(2) 774-93-33 Mobile: (476) 49-08-52
◆ Danny Claeys	(2) 774-93-62 Mobile: (476) 40-06-69
Kristian Vanderwaeren	(2) 774-93-26 Mobile: (476) 49-08-99

Private Client Services

◆ Jef Buelens	(2) 774-93-93 Mobile: (475) 26-99-97

Foreign Tax Desks

Guy Sanschagrin, *United States*	(2) 774-98-70 Mobile: (477) 98-06-78
Eric Sapperstein, *United States*	(2) 774-94-60 Mobile: (475) 75-50-48

EY Law

★ Erwin De Deyn	(2) 774-61-58 Mobile: (475) 35-11-22 E-mail: erwin.de.deyn@be.eylaw.com
Herman De Wilde	(2) 774-99-67 Mobile: (475) 75-38-90 E-mail: herman.de.wilde@be.eylaw.com
Ilse Vande Velde	(2) 774-99-70 Mobile: (476) 28-09-85 E-mail: ilse.vande.velde@be.eylaw.com

ANTWERP GMT +1

Ernst & Young Tax Consultants
J. Englishstraat 54
B-2140 Antwerp
Belgium

(3) 270-12-50
Fax: (3) 235-31-45

Corporate Tax

Greet De Boeck	(3) 270-12-73 Mobile: (475) 56-46-29 E-mail: greet.de.boeck@be.ey.com
Jan De Monie	(3) 270-12-59 Mobile: (475) 90-25-18 E-mail: jan.de.monie@be.ey.com
◆ Paul Op de Beeck	(3) 270-12-66 Mobile: (475) 44-25-92 E-mail: paul.op.de.beeck@be.ey.com
Philippe Steurbaut	(3) 270-13-21 Mobile: (475) 62-05-93

Human Capital

Jan Lambrechts	(3) 270-12-72 Mobile: (476) 49-09-01

Indirect Taxes

Reinhart De Wolf	(3) 270-14-38 Mobile: (478) 23-25-31 E-mail: reinhart.de.wolf@be.ey.com

EY Law

Lieven Bultinck	(3) 270-14-37 Mobile: (479) 97-79-41 E-mail: lieven.bultinck@be.eylaw.com

GHENT GMT +1

Ernst & Young Tax Consultants
Moutstraat 54
B-9000 Ghent
Belgium

(9) 242-51-11
Fax: (9) 242-51-51

Corporate Tax

◆ Luc Cappelle	**(9) 242-51-56** **Mobile: (476) 44-05-33**

EY Law

Filip Luypaert	**(9) 242-52-60** **Mobile: (476) 49-08-06** **E-mail: filip.luypaert@be.eylaw.com**

HASSELT — GMT +1

Ernst & Young Tax Consultants **Herckenrodesingel 4 A (Box 1)** **3500 Hasselt** **Belgium**	**(11) 28-83-83** **Fax: (11) 24-75-55**

Corporate Tax

Franky Hillen	**(11) 24-75-34** **Mobile: (475) 75-41-87**

LEUVEN — GMT +1

Ernst & Young Tax Consultants **Koning Leopold I-straat 3/0201** **3000 Leuven** **Belgium**	**(16) 22-69-64** **Fax: (16) 22-67-68**

Corporate Tax

An Vranckx	**(16) 22-69-64** **Mobile: (497) 59-73-93**

LIÈGE — GMT +1

Ernst & Young Tax Consultants **Boulevard d'Avroy 38** **4000 Liège** **Belgium**	**(4) 273-76-00** **Fax: (4) 273-76-05**

Corporate Tax

◆ Jean-Luc Wuidard	**(4) 273-76-40** **Mobile: (477) 46-61-45** **E-mail: jean-luc.wuidard@be.ey.com**

Indirect Taxes

Bauduoin Thirion *(resident in Brussels)*	**(2) 774-93-50** **Mobile: (476) 49-08-80**

A. At a Glance

Corporate Income Tax Rate (%)	33 (a)(b)
Capital Gains Tax Rate (%)	33 (b)(c)
Branch Tax Rate (%)	33 (b)
Withholding Tax (%)	
Dividends	25 (d)
Interest	15
Royalties from Patents, Know-how, etc.	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (e)

(a) See Section B.
(b) In addition, a 3% surtax (crisis contribution) is imposed. The surtax is a temporary measure for which the expiration date has not yet been announced.
(c) Certain capital gains are exempt from tax (see Section B).

(d) The rate of withholding tax is reduced to 15% for certain dividends. Liquidation bonuses are taxed at a rate of 10%. For further details, see Section B.

(e) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income; nonresident companies pay tax only on Belgian-source income. A company is resident in Belgium if its central management or registered address is there.

Rates of Corporate Income Tax. Effective from the 2003 income year (the 2004 tax year), the general corporate income tax rate is 33%. Income below €323,750 is taxed at rates ranging from 24.25% to 34.5%. The reduced rates apply only if the company pays an annual fee of at least €24,500 to at least one director or partner and if the company does not use the services of an approved Belgian coordination center. They do not apply if the company is a holding company or is 50% or more owned by another company. In such cases, the 33% rate applies at all levels. The 33% rate also applies at all levels if dividends exceed 13% of paid-in capital. Branches are subject to tax at a rate of 33%.

In addition to the above rates, a 3% surtax (crisis contribution) is imposed. The surtax is a temporary measure for which the expiration date has not yet been announced.

Tax holidays are available in certain circumstances.

Special Corporate Tax Regimes. Special favorable corporate tax regimes were available for coordination centers, service centers and distribution centers if these entities met certain conditions. In 2002, it was not possible to file an application for the coordination center regime. Effective from 2003, a new system based on advance pricing agreements replaces the coordination center regime. A ruling may be requested regarding the tax base of service centers and distribution centers.

Capital Gains. Capital gains on shares are exempt from tax if dividends on the shares qualify for the participation exemption (see *Dividends* below). To qualify for the participation exemption for capital gains, only the taxation test needs to be satisfied. Neither a minimum holding period nor a minimum share ownership is required.

All other capital gains are taxed at the ordinary rate. If the proceeds are used for buying depreciable fixed assets within three years (or longer period in certain circumstances) and if certain other conditions are satisfied, the taxation of the capital gains is deferred over the period of depreciation of the newly acquired assets.

Administration. To avoid a surcharge, tax should be paid in advance in quarterly installments. For a calendar-year taxpayer, the quarterly installments are due in 2004 on 12 April, 12 July, 11 October and 20 December. A substantial surcharge is imposed on insufficient prepayments. For the 2003 income year, the surcharge is 6.75%.

The balance of tax payable is due within two months of receipt of the notice of assessment.

Advance Rulings. On 1 January 2003, a new general ruling system was introduced.

Under the previous system, advance rulings could be obtained for specific matters only. The new ruling system covers all matters under the jurisdiction of the tax authorities (Federal Finance Department). The philosophy behind the new approach is to increase up-front certainty for investors and to reduce controversies between taxpayers and tax authorities regarding the tax consequences of transactions.

The tax authorities must respond to a ruling request within a three-month period, which may be extended by mutual agreement. A ruling may be valid for a period of up to five years.

Advance rulings are not issued regarding the following:

- Operations that have already been implemented or that are in a tax litigation phase;
- Operations for which it is not appropriate to issue advance rulings, taking into account the legislative provisions (for example, tax avoidance; a royal decree is expected to elaborate on the scope of this exclusion);
- Questions regarding the collection of taxes;
- Operations that lack economic substance in Belgium; and
- Transactions, essential parts of which involve tax havens that do not cooperate with the Organization for Economic Cooperation and Development (OECD).

Ruling requests filed with the Belgian tax authorities that relate to multinational investments and transactions must disclose other ruling requests filed in European Union (EU) or treaty countries regarding the same matters and their outcomes.

The advance rulings issued under the new ruling procedure are published anonymously.

Dividends. Under the intercorporate dividend exclusion of the participation exemption, 95% of the dividends received by a qualifying Belgian company or Belgian branch is exempt from tax. The participation exemption applies only if a minimum participation test and a taxation test are satisfied. To satisfy the minimum participation test, the following requirements must be met:

- The recipient company must own a minimum participation of 10% or □1.2 million; and
- The beneficiary of the dividends must have owned the shares for at least one year and accounted for these shares as financial assets.

The minimum participation thresholds and the one-year holding period requirement are not applicable to dividends received by qualifying investment companies. Financial institutions and insurance companies receiving dividends need meet only the one-year holding period requirement to satisfy the minimum participation test.

Under the taxation test, the participation exemption does not apply to dividends paid by a subsidiary based in a country where the tax regime is "significantly more favorable" than the Belgian corporate tax regime. A foreign tax system is considered "significantly more favorable" if either of the following applies:

- The nominal tax rate applicable to company profits is less than 15%; or
- The actual tax burden resulting from the manner in which taxable profits are determined is less than 15%.

A blacklist, which specifies the countries matching the above description, has been published.

The tax regime for companies in other EU member states is not deemed to be "significantly more favorable" than the Belgian regime.

For dividends received from participations in companies deriving their income from foreign permanent establishments (PEs), the tax regime is not considered significantly more favorable than the Belgian regime if the profits derived by the foreign subsidiary through its foreign establishment are subject to an effective global tax rate (that is, both at the level of the branch and at the level of the head office) of at least 15%, or if both the company and its foreign establishment are located within the EU.

The normal statutory withholding tax rate for dividends paid by Belgian companies is 25%. Under most of Belgium's tax treaties, this rate is reduced. The rate of statutory withholding tax is reduced to 15% for dividends on certain shares issued on or after 1 January 1994, certain qualifying shares issued in 1982 or 1983 and shares of investment companies (SICAVs, SICAFs and OPCCs). For shares issued on or after 1 January 1994, the 15% rate applies if the shares are issued to the public, are registered or are deposited in registered form with a financial institution controlled by the Belgian Banking Commission. For qualifying shares issued in 1982 and 1983, the 15% rate generally applies if the distributing company revokes the corporate tax exemption attached to the dividends on such shares.

A 10% withholding tax is imposed on proceeds that are paid out as of the date of the complete or partial liquidation of a company or that are paid when a company redeems its own shares. The exemption from withholding tax under the European Union (EU) Parent-Subsidiary Directive for a participation of 25% that is held for one year, also applies to this withholding tax (see footnote [f] in Section F).

Foreign Tax Relief. Income earned abroad may be totally exempt under the provisions of a tax treaty because business profits derived from a permanent establishment situated in a country having a tax treaty with Belgium, and included in the financial statements of the Belgian corporation, are not included in the corporation's taxable income. If no tax treaty applies, foreign tax relief is not available.

C. Determination of Trading Income

General. Taxable income is based on income reported in the annual financial statements and includes all profits and losses, speculative and nonspeculative gains and losses, dividends, interest, royalties and rent.

Nondeductible business expenses include, among other items, excessive interest charges, corporate tax, social benefits (such as luncheon vouchers, sports clubs and corporate membership cards), 25% of automobile expenses (other than fuel and financing expenses) and 50% of restaurant and entertainment expenses.

Inventories. Stock values may not exceed the lower of cost or market value; cost is defined as the purchase price of raw materials plus direct and indirect production costs. The inclusion of indirect production costs, however, is optional. Accepted valuation methods are first-in, first-out (FIFO), last-in, first-out (LIFO) and weighted-average; valuation of stocks at replacement cost is not permitted.

Provisions. Provisions are tax deductible only if they are accounted for and if they relate to specific final losses that were incurred during the applicable financial year. Special tax provisions apply to vacation pay.

Depreciation. In principle, depreciation rates are determined based on the anticipated useful economic life of the assets. The following straight-line rates are generally accepted.

Asset	Rate (%)
Office buildings	3
Industrial buildings	5
Chemical plants	8 to 12.5
Machinery and equipment	10 to 20
Office furniture and equipment	10 to 15
Rolling stock (motor vehicles)	20 to 33
Small tools	33 to 100

The declining-balance method and accelerated depreciation are also allowed under certain circumstances. For assets acquired or produced on or after 1 January 1992 with an amortization period of less than five years, the annual depreciation rate under the declining-balance method may not exceed 40% of the acquisition value.

Audiovisual investments must be amortized using the straight-line or declining-balance method, with no minimum amortization period. Research and development investments must be amortized for tax purposes using the straight-line method over a period of at least three years. All other intangible assets must be amortized for tax purposes using the straight-line method over a period of at least five years.

Qualifying Belgian companies may claim a 3% investment deduction for up to €6.8 million of their investments during the 2003 income year. A company qualifies for the deduction if it is subject to Belgian corporate tax, if it does not benefit from the services of an approved coordination center and if 50% or more of its voting shares are owned by individuals. Resident and nonresident companies with less than 20 employees may claim a deduction equal to 10.5% of the tax depreciation taken on new investments in depreciable assets used in Belgium. The deduction may be claimed each year for which depreciation is taken on the assets. A 13.5% deduction is available for investments during the income year in scientific research, energy-savings and related patents by resident and nonresident companies. For investments in scientific research, a staggered investment deduction of 20.5% is available. Consequently, 20.5% of the annual amortization may be deducted each year.

If the company has insufficient taxable income, the investment deduction may be carried forward.

Tax shelters exist for investment in Belgian audiovisual works. Special tax incentives are also available for the shipping industry.

Relief for Losses. Companies may carry forward tax losses indefinitely.

The deduction of carryover losses is restricted in the case of a tax-free merger of a profitable company and a company with carryover losses. Losses may not be carried forward if control of a company changes unless the change of control can be justified by legitimate financial or economic reasons.

Tax losses may not be carried back.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, standard rate	21
Social security contributions, on gross salary	
Employer (approximately)	35
Employee	13.07
Real estate tax; rate depends on location (allowed as a deductible expense for corporate income tax purposes)	Various
Environmental tax; rate depends on the location and the activity or product; tax is not deductible for corporate income tax purposes	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. Payments and transfers do not require prior authorization. However, for statistical purposes, financial institutions are required to report all transactions with foreign countries to the National Bank of Belgium. Resident individual enterprises are also subject to this reporting obligation if they conclude the transactions through nonresident institutions or directly.

Transfer Pricing. The Belgian Income Tax Code (ITC) contains three antiavoidance provisions that relate to specific aspects of transfer pricing. Under the most significant of these provisions, all "abnormal and gratuitous advantages" granted by a Belgian enterprise are added to the taxable income of the Belgian enterprise. However, this rule does not apply if the advantages are directly or indirectly part of the taxable income of the recipient. This exception is not available for transfers to foreign corporations enjoying a favorable tax status in their country of residence. In general, the tax authorities have the burden of proof with respect to this antiavoidance rule. The ITC also contains antiavoidance provisions concerning royalties, interest on loans and other items, as well as a provision on the transfer of certain types of assets abroad. Under these provisions, the taxpayer must demonstrate the bona fide nature of the transaction.

Similar antiavoidance provisions are included in Belgium's tax treaties, which are based on the Organization for Economic Cooperation and Development (OECD) model convention.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties (c) %
Algeria	15	15 (i)	15 (i)(j)
Argentina	15 (m)	12	15 (h)(i)(k)
Australia	15	10	10
Austria	15 (f)	15	0 (g)
Bangladesh	15	15	10
Belarus	15 (m)	10	5
Brazil	15	15 (k)	25 (h)(i)
Bulgaria	10	10	5
Canada (l)	15	15	10 (j)
China	10	10	10 (i)
Côte d’Ivoire	15	15	10
Cyprus	15 (m)	10	0
Czech Republic	15 (m)	10 (i)	10 (n)
Denmark (l)	15 (f)(m)	10	0
Egypt	20 (m)	15	15 (i)
Estonia	15 (m)	10 (i)	10 (o)
Finland	15 (f)(m)	10	5 (h)
France	15 (f)(m)	15	0
Germany (l)	15 (f)	15 (p)	0
Greece	15 (f)	10	5
Hungary	10	15	0
Iceland	15 (m)	10 (i)	0
India	15	15 (i)	0
Indonesia	15	15 (k)	10
Ireland	15 (f)	15	0
Israel	15	15	10 (e)
Italy	15 (f)	15	5
Japan	15 (m)	10	10
Kazakhstan	15 (m)	10	10
Korea	15	10	10
Kuwait	10	0	10
Latvia	15 (m)	10 (i)	10 (o)
Lithuania	15 (m)	10 (i)	10 (o)
Luxembourg (l)	15 (f)(m)	15 (p)	0
Malaysia	15	15 (k)	10 (h)
Malta	15	10	10 (h)
Mauritius	10 (m)	10	0
Mexico	15 (m)	15 (k)	10
Mongolia	15 (m)	10	5 (i)
Morocco	15	15	10 (j)
Netherlands	15 (f)(m)	10 (i)	0
New Zealand	15	10	10
Nigeria	15 (m)	12.5	12.5
Norway	15 (m)	15	0
Pakistan	15 (m)	15	15 (j)
Philippines	15 (m)	10	15
Poland	10	10	10
Portugal	15 (f)	15	10
Romania	10 (m)	15	5
Russian Federation	10	10 (i)	0
Senegal	15	15	10
Singapore (l)	15	15	15 (i)
Slovak Republic	15 (m)	10	5

	Dividends (a) %	Interest (b) %	Royalties (c) %
Slovenia	15 (m)	10 (i)	5
South Africa	15 (m)	10	0
Spain	15 (f)(m)	10 (i)	0
Sri Lanka	15	10	10
Sweden	15 (f)	10	0
Switzerland	15 (m)	10	0
Thailand	20 (m)	25 (k)	15 (j)
Tunisia	15	15	15 (h)
Turkey	20 (m)	15	10
Ukraine	15 (m)	10	10 (i)
United Arab Emirates (q)	10 (m)	5	5
United Kingdom	10 (f)(m)	15	0
United States	15 (m)	15	0
USSR (o)	15	15	0
Uzbekistan	15 (m)	10 (i)	5
Venezuela	15 (m)	10	5
Vietnam	15 (m)	10	15 (i)
Yugoslavia (d)	15 (m)	15	10
Nontreaty countries	25	15	15

(a) The rate is reduced to 15% for certain dividends (see Section B).

(b) For securities issued or loans contracted on or after 1 March 1990, the withholding rate under Belgian domestic tax law is 15%. Interest paid on securities issued or loans contracted before that date is subject to withholding tax under Belgian domestic tax law at a rate of 25%. Please consult the relevant treaty for details concerning a possible exemption (Ukraine: exemption or 2% rate). Various exemptions under Belgian domestic tax law are not reflected in the table.

(c) For contracts concluded on or after 1 March 1990, the withholding rate under Belgian domestic tax law is 15%. Royalties paid on contracts concluded before that date are subject to a withholding tax of 25% under Belgian domestic tax law.

(d) Belgium is honoring the Yugoslavia treaty with respect to the new republics comprising the former Yugoslavia, except for Macedonia, Montenegro and Serbia.

(e) A lower rate applies to royalties for the use of works of art, science or literature, other than motion pictures. The lower rate is 5% under the Algeria treaty and 0% under the Israel treaty.

(f) Under the EU Parent-Subsidiary Directive, which has been incorporated in Belgian domestic law, no withholding tax is imposed on dividends paid by a Belgian subsidiary to a parent company in another EU state if the recipient owns at least 25% of the capital of the payer for at least one year.

(g) A 10% rate applies if the recipient owns more than 50% of the capital of the Belgian company.

(h) A 0% rate (Argentina and Tunisia, 5%) applies to copyright royalties.

(i) Please consult the treaty for further details.

(j) A 0% rate (Algeria, Morocco and Thailand, 5%) applies to copyright royalties other than for motion pictures.

(k) Please consult the treaty for details concerning the possible application of a 10% rate.

(l) Belgium has signed either a new tax treaty with this country, or an additional tax treaty. The new treaty has not yet been ratified. The rates listed in the table are those under the existing treaty.

(m) The following lower rates apply to dividends paid by subsidiaries if the recipient holds the indicated level of participation.

	Lower Rate %	Level of Participation
Argentina	10	25%
Belarus	5	25%
Cyprus	10	25%
Czech Republic	5	25%
Denmark	0	25%
Egypt	15	25%

	Lower Rate %	Level of Participation
Estonia	5	25%
Finland	10	10%
France	10	10%
Iceland	5	10% (1)
Indonesia	10	25%
Japan	5	25%
Kazakhstan	5	10%
Latvia	5	25%
Lithuania	5	25%
Luxembourg	10	€6,197,338.12
Mauritius	5	10%
Mexico	5	25%
Mongolia	5	10%
Netherlands	5	10%
Nigeria	12.5	10%
Norway	5	25%
Pakistan	10	20% (2)
Philippines	10	10%
Romania	5	25%
Russian Federation	5	25%
Slovak Republic	5	25%
Slovenia	5	25%
South Africa	5	25%
Spain	0	25%
Switzerland	10	25%
Thailand	15	25%
Turkey	15	10%
Ukraine	5	20%
United Arab Emirates	5	25%
United Kingdom	5	25%
United States	5	10%
Uzbekistan	5	10%
Venezuela	5	25%
Vietnam	5	50%
Vietnam	10	25% but less than 50%
Yugoslavia	10	25%

(1) The 5% rate does not apply to dividends distributed by an Icelandic company if such dividends are deductible from the tax base in Iceland or if they can be carried forward as an operating loss of the company in Iceland.
(2) The 10% rate applies only if the recipient is an industrial undertaking.

(n) A 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
(o) Belgium is honoring the USSR treaty with respect to the republics comprising the Commonwealth of Independent States (CIS). Belgium has entered into a tax treaty with the Russian Federation.
(p) A 0% rate applies to interest paid by a company to another company if the recipient has a direct or indirect participation in the payer of less than 25%.
(q) Belgium has signed a tax treaty with the United Arab Emirates, which is not yet in force, but is intended to take effect as of 1 January 1995. The withholding tax rates listed in the table are not yet applicable, but they can be claimed retroactively after the treaty has entered into force.

Belgium has signed tax treaties with Albania, Armenia, Ecuador, Croatia, Gabon, Georgia, Hong Kong and Poland, but these treaties have not yet become effective.

BERMUDA

(Country Code 1)

The e-mail addresses for the persons listed below are in the following standard format:

firstname_surname@ey.bm

HAMILTON **GMT - 4**

Ernst & Young
Mail Address:
P.O. Box HM 463
Hamilton HMBX
Bermuda

(441) 295-7000
Fax: (441) 295-5193

Street Address:
Reid Hall
3 Reid Street
Hamilton
Bermuda

International Tax
★ James Dockeray, *United States Tax* **(441) 294-5392**
Ryan Ross, *United States Tax* **(441) 295-7000**

A. At a Glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

B. Taxes on Corporate Income and Gains

Bermuda does not impose income taxes or withholding taxes.

C. Fees and Payroll Taxes

Annual Fee. An annual government fee, based on capital, is imposed on companies. The following is a schedule of the fees for exempted companies (see Section D).

Capital of Company Exceeding $	Capital of Company Not Exceeding $	Annual Fee $
0	12,000	1,780
12,000	120,000	3,635
120,000	1,200,000	5,610
1,200,000	12,000,000	7,475
12,000,000	100,000,000	9,345
100,000,000	500,000,000	16,695
500,000,000	–	27,825

Certain types of entities are not subject to the annual fee described above. These entities are required to pay the following annual fees.

Entity	Annual Fee ($)
Permit company whose principal business is	
Finance, insurance or operation of an open-end mutual fund	3,685
Any other business	1,780
Exempted partnerships	2,100
Unit trust management company	2,765

Payroll Taxes. The standard rate of payroll tax imposed on employers is 12.75% of the total value of cash and benefits paid to employees for services rendered in a tax period. Employers may withhold up to 4.75% employee remuneration to pay the payroll tax.

Items exempted from the payroll tax base include employers' contributions to social insurance, the Hospital Insurance Plan, approved retirement plans, hospital or health schemes, life insurance schemes and workers' compensation schemes.

Exempted undertakings are required to report actual remuneration up to a maximum annual remuneration of $225,000 per employee. However, they are allowed a quarterly reduction in remuneration of $600 per employee if the employee is on the payroll at the end of the tax period and if the employee has worked for the employer for a minimum of six consecutive weeks for 30 hours per week during the relevant quarter.

Incorporation Fees. The Bermuda Monetary Authority charge for an application to register a company is $226. The government filing fee is $67.

D. Miscellaneous Matters

Types of Companies. The limited liability company is the most common form of business entity in Bermuda. Limited liability companies may be local, exempted or permit, as described below.

Local Companies. Local companies must have Bermudian ownership of at least 60%. They may transact business worldwide or in Bermuda only.

Exempted Companies. Exempted companies may have Bermudian ownership of up to 20%. An exempted company is the most common form used by international businesses to transact business from Bermuda. In general, they may not compete with local companies in the Bermuda market nor own real estate in Bermuda. Examples of exempted companies include investment holding companies, trading companies, mutual fund companies, insurance companies and foreign sales corporations.

Under the Exempted Undertakings Tax Protection Act, 1966, an exempted company may apply for an undertaking by the government that taxation introduced in Bermuda will not apply to the exempted company until 28 March 2016. This undertaking is normally requested by exempted companies and routinely granted by the government.

Permit Companies. Permit companies are incorporated in jurisdictions other than Bermuda, but have a permit to transact business from Bermuda. Permits are obtained through a license granted by the Ministry of Finance. An example of a permit company is a ship-owning company that is incorporated and has ships registered in another country, but by permit conducts business from Bermuda.

Foreign-Exchange Controls. Exempted companies and nonresidents may trade and maintain bank accounts in any currency. Their remittance and repatriation of funds are not subject to exchange controls. Similarly, trust settlements on behalf of nonresidents are generally free from exchange controls.

The Bermuda dollar is pegged to the U.S. dollar at an equal exchange rate, and the two currencies are used interchangeably in Bermuda.

Exchange controls apply only to local companies and residents who work for local companies. The Bermuda-dollar accounts of residents and local companies are subject to a 0.25% tax on the purchase of a foreign currency.

Transfer of Shares. Although the consent of the Bermuda Monetary Authority is ordinarily required for the issue or transfer of any share or security, blanket permission for share issues and transfers may be granted, such as for publicly traded securities.

BOLIVIA

(Country Code 591)

LA PAZ **GMT -4**

Ernst & Young
Calle 14 #7995, Calacoto
Edificio Metrobol II, piso 2
Casilla 269
La Paz
Bolivia

(2) 279-7360, 279-7367
Fax: (2) 211-4925

Country Managing Partner
Oscar G. Caballero — **(2) 279-7360, 279-7367**
Mobile: 715-28613
E-mail: oscar.caballero@bo.ey.com

Corporate Tax
José Miguel Romero — **(2) 279-7360, 279-7367**
Mobile: 715-28209
E-mail: jose.m.romero@bo.ey.com

SANTA CRUZ **GMT -4**

Ernst & Young
Av. San Martín No. 1700
Centro Empresarial
Equipetrol, piso 8
Santa Cruz
Bolivia

(3) 343-8400
Fax: (3) 343-5044

Corporate Tax
Jorge Piñeiro — **(3) 343-8400**
Mobile: 773-52598
E-mail: jorge.pineiro@bo.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	25
Withholding Tax (%) (a)	
Dividends	12.5
Interest	12.5
Royalties	12.5
Services	12.5 (b)
Branch Remittance Tax	12.5
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (c)

(a) A 12.5% withholding tax is imposed on all payments of Bolivian-source income to foreign beneficiaries (see Section B).
(b) Under a proposed amendment, which is expected to be effective from 1 January 2004, this tax will also apply to payments for services rendered outside Bolivia.
(c) The carryforward period is four years for merging companies.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Bolivian companies and foreign companies with permanent establishments in Bolivia are subject to tax on their Bolivian-source income. Foreign-source income and dividends received from foreign companies subject to Bolivian corporate income tax are not taxed.

Rates of Corporate Tax. The standard rate of corporate income tax is 25%.

A 25% surtax is imposed on net income derived from mining and from the extraction of hydrocarbons, reduced by the following two special deductions:

- A percentage of up to 33%, which varies according to the type of business, of accumulated investment in exploration, development, assets that qualify for environmental incentives and environmental protection, which is directly related to mining and hydrocarbon extractive activities performed after the 1991 tax year.
- 45% of net income derived from nonrenewable natural resource extractive activities. This deduction is limited to Bs 250 million (this amount is adjusted annually to reflect changes in the Unidad de Fomento de Vivienda [UFV]; the UFV, which is published by Statistics National Institute [INE], is an index that reflects changes in the Consumer Prices Index [IPC]) for each extracting operation.

For companies that produce hydrocarbons, the net income for an extraction operation is the value of the production of oil from the petroleum field. For mineral producing companies, the net income for an extraction operation is the value of the commercialized product in the mining market.

Capital Gains. Capital gains are not taxed in Bolivia.

Administration. The law specifies the following tax year-ends, which vary according to the type of business.

Business	Tax Year-End
Industry (including oil and gas)	31 March
Agriculture and agribusiness	30 June
Mining	30 September
All other businesses	31 December

Annual tax returns and financial statements must be filed with Internal Revenue Service and income tax paid within 120 days after the end of the tax year. Advance payments are not required except for mining companies, which must make payments of income tax when it exports minerals or metals.

The Internal Revenue Service may carry out tax audits of private institutions within four years after the year a tax return is filed. This period is increased to seven years if an entity does not file tax returns or comply with the internal revenue requirements.

Fines and interest charges apply to late tax payments. A fine of 10% is imposed on late payments. An additional fine of 100% for fraud may also be imposed. Fraud is deemed to exist if a tax debt, adjusted by the UFV, is higher than Bs 10,000 (approximately US$1,440). The Internal Revenue Service publishes interest rates for late tax payments.

Withholding Taxes. Local entities, including Bolivian permanent establishments of foreign companies, that pay Bolivian-source income to foreign beneficiaries must withhold 12.5% of the amounts paid. For this purpose, Bolivian-source income includes dividends, interest payments, branch remittances, royalties, service fees (for technical, commercial or other advice), commissions and other income. In general Bolivian-source income is income that is derived from assets located, placed or economically used in Bolivia, or from activities in Bolivia. This rule applies regardless of the nationality, address, or residence of the recipient of the income or the parties involved in the activities, or where the relevant contract is executed.

For dividends paid by Bolivian companies, the withholding tax is payable when the dividends are actually remitted. However, branch profits are deemed remitted when the corporate income tax return is due (120 days after the end of the tax year; see *Administration* above).

Under proposed amendments to the tax law, which are expected to be effective from 1 January 2004, payments for services rendered abroad are subject to withholding tax.

Dividends. The 12.5% withholding tax on payments to foreign beneficiaries applies to dividends paid by Bolivian companies (see *Withholding Taxes* above). Dividends received from Bolivian companies subject to Bolivian corporate income tax are not taxed.

Foreign Tax Relief. The Bolivian tax code does not provide foreign tax relief.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements prepared in accordance with generally accepted accounting principles, subject to certain adjustments for tax purposes. In general, all expenses necessary to generate income and to maintain the existence of the company (for example, contributions to regulatory-supervisory organizations, contributions for social benefits and certain national and municipal taxes) are deductible. Donations and other gratuitous transfers to nonprofit organizations that are exempt from income tax may be deducted up to a maximum limit of 10% of taxable income derived in the year of the donation or gratuitous transfer.

Certain expenses are not deductible, including the following:
- Personal withdrawals by owners or partners.
- Corporate income tax.
- Bonuses and other benefits that are not paid to employees within the time period in which the annual form must be presented for the year of payment.

- Interest paid to related parties, to the extent it exceeds, for foreign loans, the London interbank offer rate (LIBOR), plus 3%, or, for local loans, the official lending rate. In addition, interest paid to related parties may not exceed 30% of the interest paid to third parties.

Revenue and expenses are reflected in the year they are accrued.

Inventories. Inventories are valued at the lower of market value or replacement cost.

Provisions. Provisions and reserves are not deductible for tax purposes, with the exception of annual charges with respect to termination compensation (see Section D).

Depreciation and Amortization. Fixed assets are generally depreciated using the straight-line method at rates specified by law. The following are some of the annual depreciation rates.

Assets	Rate (%)
Buildings	2.5
Machinery and equipment	12.5
Vehicles	20
Furniture and office equipment	10
Computer equipment	25

Trademarks and similar intangible assets may be amortized only if they are valued using the purchase price.

Depreciation charges resulting from changes in value based on professional appraisals carried out after 31 December 1994 are not deductible for tax purposes.

Groups of Companies. Groups of companies may not file consolidated returns in Bolivia.

Relief for Losses. Bolivian-source losses may be carried forward indefinitely to offset taxable income in future years. The carryforward period for merging companies is limited to four years.

Losses are adjusted by the UFV index (see Section B).

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, on all sales of goods and services and on imports	13%
Transactions Tax, on gross revenue; corporate income tax from the preceding year may be credited against Transactions Tax; under a proposed amendment, which is expected to be effective from 1 January 2004, the tax will not apply to sales of a limited liability partnership's capital quota	3%
Real estate tax, imposed annually on the assigned value of real property and vehicles	Various

Nature of Tax	Rate
Excise tax, on the production or importation of specified goods	
Beer, wine and liquor	Bs 1.5 per liter
Nonalcoholic beverages	Bs 0.19 per liter
Tobacco products; rate applied to the price	50%
Vehicles; rate applied to the price	10% to 18%
Special Tax on Hydrocarbons and Derived Products; imposed on the production or importation of specified products	
Premium gasoline	Bs 2.70 per liter
Special gasoline	Bs 1 per liter
Imported diesel oil	Bs 0.07 per liter
National diesel oil	Bs 0.355 per liter
Lubricating oil and grease	Bs 1.37 per liter
Complementary Tax on Minerals Activities; imposed on gross revenue; rates vary according to the type of mineral	Various
Social security contributions	
Employer	
Health care; on monthly gross revenue per employee	10%
Housing fund; on monthly gross revenue per employee	2%
Professional risk insurance; on monthly gross revenue per employee up to US$3,500	1.71%
Employee; on monthly total salary up to US$3,500 for pension (retirement) fund (expatriates do not pay this contribution if they can prove payment of such contribution in another country)	12.21%
Christmas bonus (Aguinaldo); generally paid between 1 December and 20 December each year; if employment is less than a year, the bonus is reduced prorata	One month's salary
Termination compensation; bonus for termination of employment; amount depends on length of employment and whether the employee was fired or resigned	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. The Bolivian currency is the boliviano (Bs).

No restrictions are imposed on foreign-exchange transactions, including the repatriation of capital and the remittance of dividends and royalties abroad. A system of free-floating exchange rates exists in Bolivia. No special registration requirements apply to foreign investment.

Transfer Pricing. Bolivian law does not contain transfer-pricing rules. However, branches and other legal establishments of foreign companies in Bolivia must maintain their accounting records separately from their head office and other branches and establishments abroad.

Transactions between "Bolivian companies comprised of foreign capital" and foreign companies and individuals who directly or indirectly control the company are deemed to be entered into by independent parties. For this purpose, control is defined as the holding of 50% or more of the capital or decision-making power in the company. The tax authorities may adjust the prices in the transaction to reflect normal market practices between independent entities.

For purposes of the above rules, a "Bolivian company comprised of foreign capital" is a company that is directly or indirectly controlled by individuals residing or established abroad.

Reorganizations. Profits arising from company reorganizations, which are mergers, divisions or transformations, are not subject to corporate income tax. Regulations on reorganizations are expected to be issued in the near future.

F. Tax Treaties

Bolivia has entered into tax treaties with Argentina, France, Germany, Spain, Sweden and the United Kingdom. It has also signed the Andean Pact, which includes a tax treaty, with Colombia, Ecuador, Peru and Venezuela.

BOTSWANA

(Country Code 267)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@za.ey.com

GABORONE **GMT +2**

Ernst & Young **397-4078**
Mail Address: **Fax: 397-4079**
Postal deliveries to this address only.
P.O. Box 41015
Gaborone
Botswana

Street Address:
2nd Floor
UN Place
Khama Crescent
Gaborone
Botswana

Corporate Tax

Josephine Banda	**397-4078**
Bakani Ndwapi	**397-4078**
Kanagaratnam Thanga-Raja	**397-4078**
★ Francis Thomas	**397-4078**

A. At a Glance

Corporate Income Tax Rate (%)	
Basic Rate	15 (a)
Additional Company Tax	10
Capital Gains Tax Rate (%)	25 (b)
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	15 (c)
Interest	15
Royalties	15
Management and Technical Fees	15
Payments under Construction Contracts	3 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0 (e)
Carryforward	5

(a) For approved manufacturing companies, the rate is 5%.
(b) See Section B.
(c) It may be offset against the 10% additional company tax.
(d) This tax is imposed on gross receipts derived from construction contracts. This tax is an advance payment that may be offset against the actual tax due.
(e) Only farming enterprises may carry back losses.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. All companies operating in Botswana are subject to tax on earnings in Botswana.

Rates of Corporate Tax. The corporate tax rate for companies other than manufacturing companies is 15% plus a 10% additional company tax (ACT). Approved manufacturing companies are subject to tax at a reduced basic tax rate of 5% plus a 10% ACT. The tax rate for a branch is 25%. The reduced 5% rate for approved manufacturing companies does not apply to branches. Botswana does not impose a branch remittance tax.

International Financial Services Centre (IFSC) companies (as defined) are taxed at an effective rate of 15%.

Diamond-mining companies are taxed in accordance with tax agreements entered into by the companies with the government. Other mining companies are taxed at a rate of 25% or at a rate determined by a formula, whichever is higher. The following is the formula:

$$70 - \frac{1500}{x}$$

$$x = \frac{\text{taxable income}}{\text{gross income}} \times 100$$

Capital Gains. The capital gains tax applies to gains on the sale of capital assets (immovable property) of a business carried on in Botswana and on the sale of corporate shares and debentures.

For computing gains on sales of immovable property acquired before 1 July 1982, the cost of acquisition and improvements is first increased by a 10% rate, compounded for each complete 12-month period from the date of acquisition to 1 July 1982. It is then indexed for inflation from 1 July 1982 to the date of sale. For computing gains on immovable property acquired on or after 1 July 1982, the cost of acquisition and improvements is indexed for inflation during the period of ownership.

Only 50% of the gain on the sale of shares is subject to tax.

Taxable capital gains are subject to tax at a rate of 25%.

Administration. All tax years end on 30 June. Companies are taxed on the profits reported in their latest completed financial year.

An advance payment of tax and self-assessment system is effective from the 2001-02 tax year. Under this system, companies must estimate their tax at the beginning of the tax year and pay the estimated tax in four equal quarterly installments on 30 September, 31 December, 31 March and 30 June. Tax returns must be filed, and any balance of tax due must be paid, by 30 September of the following tax year. Underpayments and late payments are subject to interest at a rate of 1.5% per month.

Dividends. A withholding tax of 15% is levied on all dividends paid to residents and nonresidents. It is a final tax and may be offset against the 10% additional company tax.

Dividends received by a resident company from a resident subsidiary are exempt from tax.

Dividends distributed by investment or similar companies are exempt from tax if they are paid out of dividends received that suffered withholding tax.

C. Determination of Trading Income

General. Taxable income is net income reported in the financial statements, modified by certain provisions of the tax law. Expenses are deductible to the extent incurred in producing taxable income.

The rules for determining taxable income for an IFSC company are different than those for a normal company.

Collective-investment undertakings (as defined) are subject to tax on their undistributed income only.

Inventories. For tax purposes, inventory is valued at the lower of cost or net realizable value.

Provisions. Specific identifiable provisions are allowable for tax purposes; general provisions are not allowed.

Depreciation. Depreciation is computed using the straight-line method. Official rates vary according to the type of asset. The following are some of the official straight-line rates.

Asset	Rate (%)
Industrial buildings	2.5
Office equipment	10
Motor vehicles	25
Plant and machinery	15 to 25

Capital allowances are subject to recapture on the sale of an asset to the extent that the sales proceeds exceed the tax value after depreciation.

Mining companies, other than diamond-mining companies, may deduct 100% of their mining capital expenditure (as defined) in the year in which the expenditure is incurred.

Relief for Losses. In general, tax losses may be carried forward for five years. Mining, prospecting and farming losses may be carried forward indefinitely. Only farming enterprises may carry back losses.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on almost all supplies of goods and services consumed in Botswana	10
Capital transfer tax, paid by the recipient on all gratuitous receipts of property, corporate shares and inheritances, less allowable deductions	12.5

E. Miscellaneous Matters

Foreign-Exchange Controls. Foreign-exchange controls have been completely abolished. However, certain forms must be completed for statistical purposes.

Debt-to-Equity Rules. Branches of nonresident companies or nonresident-controlled companies can borrow up to P 1 million. For borrowings in excess of P 1 million, the ratio of local borrowing to total effective capital cannot exceed 10:1. Effective capital consists of share capital, retained earnings, reserves, shareholders' loans and all other external loans.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %	Management and Technical Fees %
France	5/12 (a)	10	10	7.5
Mauritius	5/15 (b)	12	12.5	15
South Africa	15	15	15	0
Sweden	15 (c)	15 (c)	15 (c)	15 (c)
United Kingdom	15	15	15	0
Nontreaty countries	15 (d)	15	15	15

(a) The 5% rate applies if the recipient is a company that holds at least 25% of the share capital of the payer.
(b) The 5% rate applies if the recipient holds at least 25% of the shares of the payer.
(c) If the rate is lower under another of Botswana's treaties, the rate also applies under the Sweden treaty.
(d) See Section B.

BRAZIL

(Country Code 55)

RIO DE JANEIRO	GMT -3

Ernst & Young **(21) 2554-1400**
Mail Address: **Fax: (21) 2554-1501**
Caixa Postal 4660
20001-970 Rio de Janeiro, RJ
Brazil

Street Address:
Praia de Botafogo, 300
13th Floor
22250-040 Rio de Janeiro, RJ
Brazil

International Tax

José Manuel R. da Silva — **(21) 2554-1407**
Mobile: (21) 9985-3666
E-mail: jose.silva@br.ey.com

Marcello de Brysolla Jordão — **(21) 2554-1406**
Mobile: (21) 9806-5252
E-mail: marcello.jordao@br.ey.com

Human Capital

Tatiana Ponte — **(11) 3165-5288**
(resident in São Paulo) — **Mobile: (11) 9646-5241**
E-mail: tatiana.ponte@br.ey.com

SÃO PAULO — GMT -3

Ernst & Young **(11) 3165-5200**
Avenida Pres. Juscelino **Fax: (11) 3165-5401**
Kubitschek, 1830
Torre 1 – 8th Floor
04543-900 São Paulo, SP
Brazil

National Director of Tax

Luiz G. Frazão — **(11) 3165-5212**
E-mail: luiz.g.frazao@br.ey.com

International Tax

★ Carlos dos Santos Romero — **(11) 3165-5268**
Mobile: (11) 8149-1260
E-mail: carlos.s.romero@br.ey.com

★ Andrea Weichert — **(11) 3165-5438**
Mobile: (11) 9649-5869
E-mail: andrea.weichert@br.ey.com

★ Joseph Marc Wolf — **(11) 3165-5325**
New York: [1] (212) 773-6438
Mobile: (11) 9912-6006
E-mail: joseph.m.wolf@br.ey.com

Luiz Frederico Battendieri — **[34] 915-727-598**
(resident in Madrid) — **Mobile: [34] 619-254-739**
Fax: [34] 915-727-238
E-mail: luizfrederico.battendieri@es.ey.com

Gil F. Mendes — **(11) 3165-5466**
Mobile: (11) 8196-0258
E-mail: gil.f.mendes@br.ey.com

Márcia Saito — **[1] (212) 773-2609**
(resident in New York) — **Mobile: [1] (917) 687-8583**
E-mail: marcia.saito@ey.com

Jérôme van Staden — **(11) 3165-5545**
Mobile: (11) 9666-0523
E-mail: jerome.van-staden@br.ey.com

Luiz Sérgio Vieira — **(11) 3165-5571**
Mobile: (11) 9652-4384
E-mail: luiz.s.vieira@br.ey.com

International Tax Services – Capital Markets

Carlos dos Santos Romero	**(11) 3165-5268** **Mobile: (11) 8149-1260** **E-mail: carlos.s.romero@br.ey.com**

Transfer Pricing

Thorsten Reelitz	**(11) 3165-5589** **Mobile: (11) 9619-6829** **E-mail: thorsten.reelitz@br.ey.com**

Latin American Business Center

★ Joseph Marc Wolf	**(11) 3165-5325** **New York: [1] (212) 773-6438** **Mobile: (11) 9912-6006** **E-mail: joseph.m.wolf@br.ey.com**
Frank de Meijer	**(11) 3165-5413** **Mobile: (11) 9685-6947** **E-mail: frank-de.meijer@br.ey.com**

Foreign Desk

Erik B. Smith, *United States*	**(11) 3165-5250** **Mobile: (11) 9666-0519** **E-mail: erik.smith@br.ey.com**

International Customs Planning

Frank de Meijer	**(11) 3165-5413** **Mobile: (11) 9685-6947** **E-mail: frank-de.meijer@br.ey.com**

Human Capital

Tatiana Ponte	**(11) 3165-5288** **Mobile: (11) 9646-5241** **E-mail: tatiana.ponte@br.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%)	
Dividends	0
Interest	15 (b)(c)
Royalties from Patents, Know-how, etc.	15 (b)(c)(d)
Services	15 (b)(c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (e)

(a) A 10% surtax is also levied (see Section B).
(b) Withholding tax on payments, credits or remittances abroad.
(c) The withholding tax rate may increase to 25% if the recipient is resident in a jurisdiction that taxes income at a rate lower than 20% (that is, a low-tax jurisdiction for Brazilian tax purposes).
(d) A 10% Contribution for Intervention in the Economic Domain (Contribuição de Intervenção no Domínio Econômico, or CIDE) is imposed on royalties and on technical and administrative service payments. A CIDE tax credit is granted with respect to royalties paid for patents and trademarks. The applicability of the CIDE to pure services has been the subject of discussion. However, in accordance with recent administrative decisions, the CIDE is being levied on all types of services.
(e) For details, see Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Brazilian resident companies are subject to corporate income tax (CIT) on their worldwide income. Companies resident in Brazil are those incorporated under the Brazilian laws and managed in Brazil.

Foreign branches, agencies or representative offices of Brazilian companies are also subject to Brazilian tax on their income earned overseas. In general, foreign-source losses may not offset Brazilian-source income. A foreign tax credit is available (see *Foreign Tax Relief* below).

In addition to CIT, Social Contribution Tax (SCT) is imposed on worldwide income (see *Rates of Tax* below).

Rates of Tax

Corporate Income Tax. The basic rate of CIT is 15%, increased by a surtax of 10% on annual taxable profits exceeding R$240,000 (approximately US$82,760).

Exemption from, or reduction of, income tax is granted to businesses in certain underdeveloped areas.

Social Contribution Tax. SCT is levied at a rate of 9%.

SCT is not deductible in calculating CIT. The tax bases for SCT and CIT are basically the same. However, certain specific adjustments that are required for CIT purposes do not apply to SCT. The total effective tax rate on corporate profits is 34% (25% CIT plus 9% SCT).

Losses for SCT purposes are subject to the same tax rules applicable to losses for CIT purposes.

Capital Gains. Capital gains are treated as ordinary income and, accordingly, are subject to CIT and SCT.

Administration

Filing and Payment. The fiscal year is the calendar year. Companies must file returns in an electronic format by the last working day of June of the following year. Extensions to file returns are not available.

Companies may elect to pay CIT and SCT on an annual or quarterly basis. This election may not be changed during the calendar year. Companies that elect the annual basis must make advance monthly payments of CIT and SCT. The advance payments are equal to the income tax applicable to either the company's actual taxable income or the company's income calculated in accordance with an estimated method, whichever is lower.

For monthly payments of CIT that are calculated based on the estimated method, the tax base is generally 8% of the company's gross income. Different percentages apply to specific industries, such as the following: 16% for financial institutions and transportation services; 32% for services in general; and 1.6% for gas distribution.

For the purpose of computing the advance income tax payments, the applicable rate is 15%. An additional 10% rate is applied to monthly taxable income in excess of R$20,000 (approximately US$6,800).

The difference between the tax shown on the annual tax return and the amounts paid in advance must be paid by the last working day of March following the end of the fiscal year. If the amounts paid in advance exceed the tax shown on the annual tax return, the excess may be used to offset the tax due in a month following the fiscal year-end. Alternatively, a refund may be requested from the tax authorities within five years of the tax payment.

Alternatively, companies may pay tax quarterly based on actual quarterly income, computed under the accrual method.

The tax base for monthly estimated payments of SCT is generally 12% of gross income plus capital gains and other income, including financial income. This percentage is increased to 32% for service companies. SCT payments must be made at the same time as the income tax payments. The applicable tax rate is 9%.

Interest and Penalties for Late Payments. The late payment of taxes is generally subject to the following:

- Interest calculated at the rate applicable to the Special Liquidation and Custody System (Sistema Especial de Liquidacao e Custodia, or SELIC), which is published each month by the government; and
- A daily fine of 0.33% of the tax due, up to a maximum penalty of 20% of the tax due (excluding interest).

Assessments resulting from a tax audit are subject to a penalty of 75% on the tax due. The penalty increases to 150% in the case of fraud. These penalties can be reduced by 50% if the payment is made by the last day of the appeal period (other penalty reductions are available during the appeal process).

Dividends. Withholding tax is not imposed on dividends paid to residents and nonresidents out of profits generated on or after 1 January 1996.

Foreign Tax Relief. A foreign tax credit is available to Brazilian companies on income taxes paid overseas. In general, the foreign tax credit is limited, up to the amount of Brazilian CIT and SCT on the foreign income.

C. Determination of Taxable Income

General. CIT and SCT are due on a company's taxable income, which is the net book income, as adjusted by the tax law. In general, operating expenses are deductible if they are necessary and usual to the company's activity. However, the following expenses are not deductible:

- Expenses related to fixed assets, including financial and operating lease payments, depreciation and amortization, if the assets are not directly used in the production or commercialization of products and services.
- Fringe benefits furnished to shareholders and officers if the beneficiaries are not identified and individualized (a 35% [effective rate of 53.84%] withholding tax is imposed on such payments). Neither the fringe benefits nor the withholding tax is deductible.
- Donations in general, gifts and other noncompulsory payments.

Simplified methods are available for calculating the tax liability applicable to small businesses.

Inventories. Companies that have an integrated cost system must value inventory for tax purposes at the lower of cost or market value, using either the average cost or the first-in, first-out (FIFO) method. Direct cost and last-in, first-out (LIFO) methods cannot be used. In general, companies that do not have an integrated cost system must value finished products at 70% of the highest sales price used in the tax period. Work-in-process must be valued at either 80% of the finished product cost or 1.5 times the highest cost of the material content. Supermarkets and similar enterprises that sell a large number of goods may use a specific system for inventory valuation based on periodic and simplified counting.

Provisions. In general, the only deductible provisions are those for vacation pay and the 13th month salary (annual bonus). Other provisions are not deductible, with the exception of the technical provisions of financial institutions.

Depreciation. Fixed assets may be depreciated using the straight-line method at rates provided by the Brazilian tax authorities. The following are some of the annual depreciation rates: real estate assets, 4%; machinery and equipment, 10%; vehicles, 20%; and computer hardware and software, 20%. Companies that operate two work shifts per day may depreciate machinery and equipment at 1.5 times the normal rate. If the company operates three shifts, it may double the normal rate.

Tax Losses. Tax losses may be carried forward indefinitely, but can only offset up to 30% of the company's taxable income for a tax period. No carryback is allowed.

Tax losses may be jeopardized if a company experiences a change in business activity and ownership control between the period in which losses were generated and the period in which losses would otherwise be used to offset taxable income. In general, nonoperating tax losses can be offset only against nonoperating gains. In a corporate restructuring involving a merger, the tax losses of the merged company must be written off.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
State value-added tax (ICMS)	0 to 25
Basic rate if goods shipped within a southeastern Brazilian state	17/18
Basic rate if goods shipped within another Brazilian state	7 to 12
Exports	Exempt
Federal value-added tax (IPI); the top rate applies to luxury goods such as cigarettes	0 to 365.6
Tax on Financial Operations (IOF)	0 to 25
Social Integration Program (PIS) tax, levied on gross income; effective from 1 December 2002, this tax is a noncumulative (VAT-type) tax	0.65 to 1.65
Social security financing contribution (COFINS); levied on gross income; in February 2004, this tax will become a noncumulative (VAT-type) tax for certain taxpayers; certain companies, including local financial institutions, will remain subject to the cumulative regime and make the contribution at a 3% rate	3 to 7.6

Nature of Tax	Rate (%)
Municipal Service Tax (ISS)	2 to 5
Social security contributions, on monthly salary; paid by	
Employer	26.8 to 28.8
Employee, depending on amount of remuneration (amount may not exceed approximately US$70 a month)	7.65 to 11
Severance Pay Indemnity Fund (FGTS), on monthly salary	8 plus 0.5
Bank Transactions Tax (Contribuição Provisória sobre Movimentação Financeira, or CPMF); imposed on cash withdrawals from Brazilian bank accounts	0.38
Withholding tax on local payments of professional service fees (creditable by the recipient against corporate income tax)	1.5
Contribution for development of cinematographic and video phonographic works (Condecine); in general, tax rate applied to amounts paid to producers, distributors and intermediaries abroad for the exploitation of cinematographic and video phonographic works	11

E. Miscellaneous Matters

Foreign Investment. All foreign investments, such as equity or debt investments, must be registered with the Central Bank of Brazil (BACEN) to assure the payment of dividends and interest, or the repatriation of capital. Effective from 1 January 2003, nonresidents holding assets and rights in Brazil, such as equity investments, portfolio investments and debt investments, must register with the Brazilian tax authorities. On registration, the nonresidents obtain a tax identification (CNPJ).

Contracts for the supply of technology and technical services, and for the use of trademarks and patents between residents and nonresidents must also be registered with BACEN and the National Institute of Industrial Property (INPI). The registration allows Brazilian companies to pay the royalties and deduct the royalties up to the amounts prescribed by law.

Transfer Pricing. Brazilian transfer-pricing rules apply only to cross-border transactions entered into between Brazilian companies and foreign related parties. A transaction entered into between a Brazilian company and a resident of a low-tax jurisdiction is also subject to the transfer pricing rules, even if the parties are not related. In general, Brazilian transfer-pricing rules do not follow the transfer pricing guidelines outlined in the Organization for Economic Cooperation and Development (OECD) Model Convention and the U.S. rules. For example, Brazilian transfer pricing rules adopt fixed-profit margins on transactions carried out between related parties. Safe harbor measures may be applied to Brazilian exports.

Controlled Foreign Companies. The profits realized by a controlled foreign company (CFC) of a Brazilian company are subject to income taxation on 31 December of each year regardless of any actual distribution by the CFC.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties (j) %
Argentina	0	15 (c)	15
Austria	0	15 (c)	15 (b)
Belgium	0	15 (a)(c)	15 (b)
Canada	0	15 (a)(c)	15
Chile (k)	0	15	15
China	0	15 (c)	15
Czechoslovakia (g)	0	15 (c)(e)	15
Denmark	0	15 (c)	15
Ecuador	0	15 (c)	15
Finland	0	15 (c)	15 (b)
France	0	15 (a)(c)	15 (b)
Germany	0	15 (a)(c)	15
Hungary	0	15 (c)(f)	15
India	0	15 (c)	15
Israel (i)	0	15 (c)	15 (h)
Italy	0	15 (c)	15
Japan	0	12.5 (c)	12.5 (d)
Korea	0	15	15
Luxembourg	0	15 (a)(c)	15
Netherlands	0	15 (a)(c)	15
Norway	0	15 (c)	15
Paraguay (i)	0	15 (c)	15
Philippines	0	15 (c)	15
Portugal	0	15 (c)	15
Spain	0	15 (c)(e)	15 (b)
Sweden	0	15 (c)	15
Ukraine (i)	0	15 (c)	15
Nontreaty countries	0	15	15

(a) The withholding rate is 10% for interest on certain bank loans with a minimum term of seven years.
(b) The withholding rate is 10% for royalties for copyrights of literary, artistic or scientific works, or for films or videotapes for television or radio broadcasting produced by a resident of a contracting state.
(c) Interest paid to the government of the other contracting state, a political subdivision thereof or any agency (including a financial institution) wholly owned by that government or political subdivision thereof is exempt from tax.
(d) The withholding rate is 15% for royalties arising from copyrights of cinematographic films and films or tapes for radio or television broadcasting.
(e) The withholding rate is 10% for interest on certain long-term (at least 10 years) bank loans.
(f) The withholding rate is 10% for interest on certain long-term (at least eight years) bank loans.
(g) Brazil is honoring the Czechoslovakia treaty with respect to the Czech and Slovak Republics.
(h) This rate applies to royalties related to the use, or the right to use, trademarks. For other royalties, the rate is 10%.
(i) This treaty has been signed, but it has not yet been ratified.
(j) The tax treaties do not apply to the CIDE (see footnote [d] to Section A).
(k) This treaty is effective from 3 October 2003.

Brazil signed a tax treaty with Mexico on 25 September 2003, but this treaty has not yet been ratified.

BRITISH VIRGIN ISLANDS

(Country Code 1)

TORTOLA **GMT - 4**

Ernst & Young
Trust Corporation (BVI) Ltd.
Mail Address:
P.O. Box 3340
Road Town
Tortola
British Virgin Islands

(284) 494-6004
Fax: (284) 494-6404
(246) 429-6446 (Barbados)
E-mail: eybvi@vg.ey.com

Street Address:
Barclays House – 3rd Floor
Wickhams Cay
Road Town
Tortola
British Virgin Islands

International Tax

★ Ben Arrindell *(resident in Barbados)*	**(246) 430-3800** **Mobile: (246) 231-2515** **E-mail: ben.arrindell@bb.ey.com**
Winston Gibbs *(resident in Barbados)*	**(246) 430-3802** **Mobile: (246) 231-4714** **E-mail: winston.gibbs@bb.ey.com**
Gregory Hannays *(resident in New York)*	**(212) 773-9390** **E-mail: gregory.hannays@ey.com**
Anna Mouttet *(resident in London)*	**[44] (20) 7951-1284** **E-mail: amouttet@uk.ey.com**
Maria Robinson *(resident in Barbados)*	**(246) 430-3878** **Mobile: (246) 231-6888** **E-mail: maria.robinson@bb.ey.com**
★ Connie Smith	**(284) 494-6004** **Mobile: (284) 496-6157** **E-mail: connie.smith@vg.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	15*
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	15
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties	
Paid to Nonresident Individuals	14
Paid to Nonresident Companies	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

* See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. A company is resident in the British Virgin Islands (BVI) if it is effectively managed and controlled in the BVI. For companies incorporated under the Companies Act of the BVI, effective management and control are deemed to be in the BVI if a majority of the company's directors are resident there. Nonresident companies are subject to tax only on income remitted to or derived from the BVI.

International Business Companies (IBCs) are statutorily exempt from BVI taxes, and consequently they represent a major exception to the above rules. A company qualifies as an IBC if it complies with the International Business Companies Ordinance, 1984, as amended. In general, an IBC may not transact business with persons resident in the BVI or own interests in real property situated in the BVI. It may not carry on business as a bank, trust company, insurance company or reinsurance company without a license.

Rates of Corporate Tax. The standard income tax rate is 15%. A 1% rate applies to income derived by resident companies from outside the BVI if the income is exempt from tax in any foreign jurisdiction other than under a tax treaty to which the BVI is a party.

IBCs are exempt from BVI taxes. However, such companies must pay an annual license fee (see Section D).

Capital Gains. Capital gains are not subject to tax.

Administration. For companies incorporated under the Companies Act with a fiscal year-end after 30 August, tax returns must be filed within the first 120 days of the following calendar year. Other companies must file within 90 days after the end of their fiscal year.

Fifty percent of the tax due must be paid within 30 days after the date of assessment, and the balance must be paid within 90 days of such date.

Dividends. Residents are subject to tax on dividends received from IBCs. Dividends paid by a company incorporated under the Companies Act are exempt from tax. Dividends received from abroad are taxable.

Foreign Tax Relief. A tax credit is allowed for foreign taxes paid. The credit is limited to the lower of the amount of the foreign tax paid and the BVI tax on the foreign income.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements, subject to certain adjustments.

Nonresidents are exempt from tax on interest income arising in the BVI if the interest rate is reasonable.

Inventories. There are no tax rules for the valuation of inventory. Inventory may be valued using any method in accordance with generally accepted accounting principles.

Provisions. Specific provisions for definite liabilities and specific bad debts are deductible.

Tax Depreciation. The tax authorities have not promulgated any rules concerning permissible depreciation methods, but they normally accept reasonable methods. The Commissioner of Income

Tax has recommended the following annual rates under the straight-line method.

Asset	Rate (%)
Buildings and structures	3 to 15
Furniture and fittings	10 to 15
Hotel equipment and furnishings	15
Machinery and equipment	10 to 33
Motor vehicles	20 to 25
Ships and boats	15
Aircraft	25

Relief for Losses. Companies may carry forward losses indefinitely. No carryback is allowed.

Groups of Companies. There are no provisions for group relief.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Annual license fees	
Corporations incorporated under the Companies Act of the BVI	
Resident corporations owning no assets abroad	US$25
Resident corporations owning assets abroad, on gross book value of such assets; maximum fee of US$10,000 applies if value of such assets exceeds US$9 million (approximate rate)	0.1%
Nonresident corporations	US$250
International Business Companies, with authorized share capital of	
Up to US$50,000 or foreign-currency equivalent	US$300
Exceeding US$50,000 or foreign-currency equivalent	US$1,000
General banking license	US$10,000
Insurance company license	US$2,000
General trust license	US$4,000
Restricted trust license	US$10
Stamp duties, on various instruments and transfers of ownership	
Real estate, on higher of consideration or market value	
Sales to belongers (individuals born in the BVI or those granted BVI status and BVI companies that are at least 67% owned by such persons and do not have any nonbelongers as directors)	4%
Sales to nonbelongers	8%
Other instruments and transfers	0.2% to 5%

E. Foreign-Exchange Controls

The BVI has no foreign-exchange control regulations.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Switzerland	0	0	0
Nontreaty countries	0	0	14/15*

* The 14% rate applies to payments to individuals; the 15% rate applies to payments to companies.

BRUNEI DARUSSALAM

(Country Code 673)

BANDAR SERI BEGAWAN **GMT +8**

Ernst & Young
Mail Address:
P.O. Box 2162
Bandar Seri Begawan BS 8674
Brunei Darussalam

(2) 223-9139, 223-9140, 223-9141
Fax: (2) 223-9142
E-mail: ey@brunet.bn

Street Address:
4th Floor, Room 408B
Wisma Jaya
Jalan Pemancha
Bandar Seri Begawan BS 8811
Brunei Darussalam

Corporate Tax
Lim Teck Guan **(2) 223-9139**

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	0
Interest	20 (b)
Royalties	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

(a) This is the standard rate. The rate of petroleum income tax is 55%.
(b) Applicable to payments to nonresident companies. For the definition of a nonresident company, see Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Limited companies, regardless of whether they are incorporated overseas or locally or are registered as a branch of a foreign company, are subject to a tax on income accruing in, derived from or received in Brunei Darussalam.

Branches of foreign companies are taxed on their profits arising in Brunei Darussalam at the same rates as corporations. Financial accounts of branches need not be audited, but should be prepared to support the tax computations.

Rate of Corporate Income Tax. The income tax rate is 30% for resident and nonresident companies, except for those engaged in petroleum operations. The rate of petroleum income tax is 55%.

Certain enterprises and industries may be exempted from taxation by the Sultan-in-Council if they are considered essential for the development of the country.

Capital Gains. Capital gains are not taxed. Capital losses are not deductible. However, if assets have been acquired for resale rather than for a company's use, any profit from the sale is regarded as taxable income.

Administration. The tax year is the calendar year.

Corporations must file annual tax returns within three months of the date stamped on the tax return. Extensions of time to file may be obtained.

Interest. A 20% withholding tax is imposed on interest paid to nonresident persons, which include companies and bodies of persons. A nonresident company is one that is not incorporated in Brunei Darussalam and does not have a place of business there.

Foreign Tax Relief. Foreign income that is not received in Brunei Darussalam is free from tax. Brunei Darussalam has entered into double tax treaties with Indonesia and the United Kingdom. Both resident and nonresident companies may also apply for unilateral relief on income arising from British Commonwealth countries offering reciprocal relief. However, the maximum relief cannot exceed half the Brunei Darussalam rate.

C. Determination of Trading Income

General. The following sources of income are subject to tax:
- Gains or profits from any trade, business, profession or vocation;
- Gains or profits from employment;
- Net annual value of land and improvements occupied or used rent-free for residential or enjoyment purposes;
- Dividends, interest or discounts;
- Pensions, charges or annuities; and
- Rents, royalties, premiums and any other profits arising from property.

In computing taxable income, normal business expenses may be deducted.

Interest expenses are allowed as a deduction only if the loan generating the charge is used for the production of taxable income.

Provisions. Provisions for debts are tax-deductible only if they are made against specific bad debts.

Tax Depreciation. Depreciation charged in the financial accounts is not deductible for tax purposes. Instead, capital allowances (tax depreciation) are permitted.

Industrial Buildings. An initial allowance of 10% of the qualifying expenditure is given on industrial buildings in the year of expenditure, with a further annual allowance of 2% of qualifying expenditure provided on a straight-line basis until the total expenditure is written off.

Plant and Machinery. An initial allowance of 20% of the cost of plant or machinery is given in the year of expenditure, with an annual allowance given on the declining value of the asset. The rates depend upon the type of asset and range from 3% to 25%.

Mining. All expenditure incurred in connection with the working of a mine or other source of mineral deposit of a wasting nature is considered qualifying mining expenditure. An initial allowance of 10% of the qualifying expenditure is given in the year of expenditure, with annual depletion allowances deductible over the life of the mine. These are determined by multiplying the residue of the capital expenditure by the greater of 20% and the following fraction:

$$\frac{\text{Output for the year}}{\text{Output for the year plus estimated future output}}$$

Disposals. When an asset is sold, scrapped or destroyed, a balancing allowance or charge is made, based on the difference between the disposal price and the depreciated value on disposal. The balancing charge may be deferred if the plant and machinery disposed of are replaced by similar assets.

Relief for Losses. Losses may be carried forward for up to six years to offset future profits. Continuity of trade or ownership is not required to carry forward losses. Losses in one trade or business may be set off against other sources of income for the same year of assessment.

Unabsorbed capital allowances may be carried forward indefinitely, provided the company continues to carry on the same trade or business.

Groups of Companies. No special rules or reliefs apply to groups of companies; each company is taxed on its own income as appropriate.

D. Double Tax Treaties

Brunei Darussalam has entered into double tax treaties with Indonesia and the United Kingdom. These treaties do not provide reduced withholding tax rates for interest paid from Brunei Darussalam to companies resident in Indonesia or the United Kingdom.

Under domestic tax law, Brunei Darussalam imposes a 20% withholding tax on interest paid from Brunei Darussalam to nonresident persons (see Section B). Dividends and royalties paid from Brunei Darussalam are not subject to withholding tax.

BULGARIA

(Country Code 359)

SOFIA **GMT +2**

Ernst & Young
National Palace of Culture
1 Bulgaria Square
P.O. Box 120
Sofia 1463
Bulgaria

(2) 986-2622
Fax: (2) 980-1536
E-mail: office.sofia@bg.ey.com

Corporate Tax

Emil Delchev	**(2) 986-2622** **E-mail: emil.delchev@bg.ey.com**
Anelia Dinova	**(2) 986-2622** **E-mail: anelia.dinova@bg.eylaw.com**

The following chapter reflects changes for 2004 to the Corporate Income Taxation Act.

A. At a Glance

Corporate Income Tax Rate (%)	19.5 (a)
Capital Gains Tax Rate (%)	19.5 (b)
Branch Tax Rate (%)	19.5
Withholding Tax (%)	
Dividends and Liquidation Proceeds	15 (c)(d)
Interest	15 (d)(e)
Royalties from Patents, Know-how, etc.	15 (d)(e)
Fees for Technical Services	15 (d)(e)
Remuneration Paid Under Management Contracts to Members of Management and Control Bodies of Bulgarian Legal Entities	15 (d)(e)
Rents, Payments Under Lease, Franchising and Factoring Agreements Derived from Sources in Bulgaria	15 (d)(e)
Gains on Sales of Immovable Property, Shares, Government Bonds and Financial Assets	15 (e)(f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (g)

(a) A one-off tax is imposed on certain expenses. For details, see Section C.
(b) See Section B.
(c) This tax does not apply to profits distributed to individuals in the form of new shares or as an increase in the nominal value of existing shares.
(d) This withholding tax is imposed on gross income.
(e) This withholding tax applies to income derived by nonresidents.
(f) The tax base is the difference between the sales price and the acquisition price of the asset or, in the case of immovable property, the updated acquisition price. For immovable property, the acquisition price must be supported by documentation. Gains derived from sales of shares or tradable rights to shares of public companies on a regulated Bulgarian securities market are exempt from tax.
(g) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Bulgarian companies are subject to corporate tax on their worldwide income. Bulgarian companies are companies incorporated in Bulgaria. Foreign companies with a permanent establishment in Bulgaria are subject to profits tax on their income derived from Bulgaria only.

Rates of Corporate Tax. The profits tax rate is 19.5%.

Insurance companies are subject to a final tax at a rate of 7% on premiums (except life insurance premiums which are taxable at a rate of 2%), as well as on gross revenues derived from other activities.

Organizers of gambling games are subject to a final tax at rates of 8% or 12%, depending on the type of the game. The rates are applied to the amount of the bets or to the remuneration of the supplier of the telephone service or the telecommunication service under the contract with the operator.

A one-off tax is imposed on certain expenses (see Section C).

Tax Incentives. Corporate tax due is reduced by 10% of the amounts contributed to establish a company or increase the capital of a company if all of the following conditions are satisfied:
- The amounts are used to improve, modernize or reconstruct fixed tangible assets, which are large buildings, facilities, transmitting devices, electric power carriers, communication lines, machines and production equipment, computers and software;
- The investments are made in municipalities in which the unemployment rate is at least 50% higher than the average rate in the country for the two preceding years; and
- The company does not owe any public liabilities.

If the amount of the tax reduction exceeds the corporate tax due for a tax year, the excess may be carried forward to the following five tax years. For investments extending for a period of more than one year, the reduction is allocated among the years, according to when the contributions are invested.

The 2004 changes to the Corporate Income Taxation Act (CITA) contain the tax incentives described below.

Companies may deduct from their financial result before tax adjustments an amount equal to the sum of the following:
- The mandatory national insurance contributions for the respective year paid by the employer for individuals employed under employment contracts; and
- An amount determined by applying to the financial result the percentage of the increase in the average number of personnel employed under employment contracts in the current year in comparison with the number of such employees in the preceding year.

The amount of the above deduction cannot be higher than the difference between the mandatory national insurance contributions for the current year paid by the employer and those paid for the preceding year. To qualify for the above relief, a company must satisfy the following requirements:
- It must not have any outstanding liabilities for tax and national insurance contributions when the relief is claimed; and
- It must be located in municipalities where the unemployment rate for the preceding year was 50% higher than the average unemployment rate for the country.

Under another tax incentive, production companies qualify for a 100% reduction of corporate tax on income derived from production activities for five consecutive years if all of the following conditions are met:
- The company and its assets (except for the cash in banks and shares in other companies) are located in municipalities where the unemployment rate for the preceding year was 50% higher than the average unemployment rate for the country. The Minister of Finance issues a list of such municipalities annually.

- The average number of the company's personnel hired under employment contracts who permanently reside within the above-mentioned municipalities represents at least 80% of the average number of the personnel employed under employment contracts.
- The company does not have any outstanding liabilities for tax and national insurance contributions or penalty interest for delayed payments in the year of the tax reduction.
- The tax is accounted for as a reserve and, by the end of the year following the year of the tax reduction, the company incurs expenses from these reserves for the acquisition of long-term fixed assets, intangible and current assets for production activities, as well as for the payment of salary under employment contracts.

The company must prove the use of the reserves for the above-mentioned purposes by enclosing references with the annual corporate tax return, and it must also enclose a certificate from the tax authorities and national insurance authorities stating that no tax or social security liabilities are due.

Capital Gains. Residents include in their taxable income gains derived from disposals of shares and securities of Bulgarian companies, government bonds, immovable property and financial assets. A 15% withholding tax is imposed on such gains derived by nonresidents. Tax is imposed on the difference between the sale price and the acquisition price or, in the case of immovable property, the updated acquisition price. For immovable property, the acquisition price must be supported by documentation.

Gains or losses derived from transactions in shares, or tradable rights to shares, of public companies that are performed on a regulated Bulgarian securities market (stock exchange) are added to, or deducted from, taxable income.

Administration. The tax year is the calendar year.

Companies subject to tax must make monthly advance payments of tax. For the period of 1 January through 31 March, the tax base for the advance payments is one-twelfth of the company's taxable income for the tax year two years before the current tax year. For the period of 1 April through 31 December, the tax base is one-twelfth of the taxable income for the preceding tax year. The tax rate for calculating the advance payments is 19.5%. Companies that did not earn profits in the preceding tax year or are established during the current tax year must make quarterly advance payments on the basis of their actual taxable income for the respective quarters. However, a quarterly payment is not required for the fourth quarter.

Monthly advance payments are due on the 15th day of the respective month; quarterly advance payments are due on the 15th day after the end of the respective quarter.

For insurance companies, the tax period is the calendar month. Insurance companies must pay tax by the 15th day of the following month. They must submit declarations for each quarter, except for the fourth quarter.

Companies must pay corporate tax due for the tax year, less the advance installments, by 31 March of the year following the tax year.

The one-off tax on certain expenses (see Section C) is payable on the 15th day of the month following the month of payment of the expenses.

Dividends. A 15% withholding tax is imposed on dividends paid by Bulgarian companies to Bulgarian individuals and nonprofit organizations and to foreign companies, individuals and partnerships.

Remittances of profits by branches to their home countries are not subject to withholding tax.

Foreign Tax Relief. In the absence of relief under double tax treaties, Bulgarian companies are entitled to a unilateral tax credit for identical or similar foreign taxes imposed abroad. The tax credit is limited to the amount of Bulgarian tax that would have been paid in Bulgaria on the income subject to the foreign taxes.

C. Determination of Taxable Income

General. Taxable income is based on annual accounts prepared in accordance with Bulgarian accounting principles. However, taxable income does not equal the profit shown in the accounts, because certain adjustments to expenses are required for tax purposes.

One-off Tax on Expenses. A one-off tax is payable monthly on certain expenses paid by companies. The payments are not taxable to the recipients. The tax is due on the 15th day of the following month. The following are the expenses subject to the tax.

Expense	Rate (%)
Representation and entertainment	20
Gifts and sponsorship accounted for as expenses	20
Social benefits under the Labor Code, accounted for as expenses	20
Expenses incurred on current repairs, maintenance and use of automobiles in activities not in the core business of the company	20
Contributions for voluntary pension security, health insurance, security against unemployment and life insurance (tax is imposed on amounts exceeding BGN 40 per month for each insured person)	20
Donations to churches and religious and certain nonprofit organizations registered under Bulgarian law	15

Inventories. Bulgaria does not have tax rules for the valuation of inventories. Taxable income is subject to increase by the amount of a write-down of inventories representing a temporary difference that could be realized on the sale of the written-down inventories.

Provisions. Provisions are not deductible for tax purposes. The temporary difference, which arises following provision accrual, may be reversed only on reintegration of the provision in profit or on payment of the liability for which the provision has been made.

Tax Depreciation. Tax depreciation of fixed assets is determined using the straight-line method. The law provides the following tax depreciation rates for categories of assets.

Category	Assets	Rate (%)
1	Steady buildings, facilities, communication devices, electricity carriers and communication lines	4
2	Machines, manufacturing equipment and apparatus	30
3	Transportation vehicles, excluding automobiles, road coverings and aircraft runways	10
4	Computers, software and the right to use software	50
5	Automobiles	25
6	Other tangible assets	15
7	Intangible assets subject to legal restrictions over the period of use	–*

* The rate depends on the period of use, with a maximum rate of 25%.

Effective from 1 January 2003, companies must prepare tax depreciation plans. The 2004 changes to the CITA include measures regarding such plans

Relief for Losses. Tax losses may be carried forward for five years. Banks may carry forward losses for 10 years. Losses may not be carried back.

Groups of Companies. Bulgarian law does not include provisions for filing consolidated returns or relieving losses within a group.

D. Value-Added Tax

Value-added tax (also known as goods and services tax) is imposed on all goods, services and imports. The rate is 20%.

E. Foreign-Exchange Controls

The Bulgarian currency is the leva (BGN). The exchange rate of the leva is fixed at BGN 1.95583 = □1.

Under recent amendments to the Bulgarian Currency Act, each business transaction between local and foreign persons that involves financial credits or direct investment of a local company or sole proprietor abroad, must be declared for statistical purposes to the Bulgarian National Bank (BNB) within 15 days after the date of the transaction.

The Bulgarian customs authorities are required to create a customs register for all data concerning commercial import or export credits and financial leases between local and foreign individuals and entities.

A six-month transitional period, which began on 7 July 2003, has been introduced for Bulgarian persons and entities to file a declaration with respect to financial credits (including financial leases) received from foreign persons.

Under the act, bank payments of BGN 25,000 may be made freely after the payer declares the purpose of the payments. For payments over BGN 25,000, certain requirements must be satisfied, including the submission of certain documents to the bank.

The act does not restrict the amount of foreign currency that may be purchased or imported into Bulgaria. Bulgarian and foreign individuals may export foreign currency of up to the equivalent of BGN 5,000 without filing a declaration. The individual must file a declaration for exports exceeding BGN 5,000. For exports of foreign currency exceeding the equivalent of BGN 25,000, the individual must file a customs declaration indicating the origin of the exported currency and a certificate from the tax authorities stating that no tax liabilities are due.

Regulations for the implementation of the act have been introduced.

F. Treaty Withholding Tax Rates

The rates of withholding tax in Bulgaria's tax treaties are described in the following table.

	Dividends %	Interest %	Royalties %
Albania	5/15 (h)	10	10
Armenia	5/10 (m)	10	10
Austria	0	0	0
Belarus	10	10	10
Belgium	10	10	5
Canada	10/15 (n)	10	10
China	10	10	7/10 (a)
Croatia	5	5	0
Cyprus	5/10 (r)	7	10
Czech Republic	10	10	10
Denmark	5/15 (b)	0	0
Finland	10 (c)	0	0/5 (d)
France	5/15 (e)	0	5
Georgia	10	10	10
Germany	15	0	5
Greece	10	10	10
Hungary	10	10	10
India	15	15	15
Indonesia	15	10	10
Ireland	5/10 (r)	5	10
Israel	7.5	5/10 (u)	7.5
Italy	10	0	5
Japan	10/15 (f)	10	10
Kazakhstan	10	10	10
Luxembourg	5/15 (h)	10	5
Macedonia	5/15 (p)	10	10
Malta	0 (g)	0	10
Moldova	5/15 (h)	10	10
Morocco	7/10 (q)	10	10
Netherlands	5/15 (i)	0	0
North Korea	10	10	10
Norway	15	0	0
Poland	10	10	5
Portugal	15	10	10
Romania	10/15 (l)	15	15
Russian Federation	15	15	15
Singapore	5	5	5
Slovak Republic	10	10	10
South Korea	5/10 (j)	10	5
Spain	5/15 (i)	0	0

	Dividends %	Interest %	Royalties %
Sweden	10	0	5
Switzerland	5/15 (h)	10	0
Syria	10	10	15
Thailand	10	10/15 (s)	5/15 (t)
Turkey	10/15 (o)	10	10
Ukraine	5/15 (i)	10	10
United Kingdom	10	0	0
Vietnam	15	10	15
Yugoslavia	5/15 (h)	10	10
Zimbabwe	10/15 (k)	10	10
Nontreaty countries	15	15	15

(a) The 7% rate applies to royalties for the right to use industrial, commercial and scientific equipment; the 10% rate applies to other royalties.
(b) The 5% rate applies if the beneficial owner is a company, other than a partnership, holding directly more than 25% of the capital of the payer.
(c) This rate applies to dividends paid from Finland to Bulgaria. The treaty does not provide a withholding rate for dividends paid from Bulgaria to Finland.
(d) The 5% rate applies to royalties for specified types of intellectual property. The rate for other royalties is 0%.
(e) The 5% rate applies if the beneficial owner of the dividends is a company, other than a general partnership, that holds directly at least 15% of the capital of the payer; the 15% rate applies to other dividends.
(f) The 10% rate applies if the recipient is a legal person owning at least 25% of the voting shares of the payer for at least six months before the end of the accounting period for which the distribution of profits is made. The 15% rate applies to other dividends.
(g) The rate is 0% for dividends paid from Bulgaria to Malta. For dividends paid from Malta to Bulgaria, the withholding tax is the lower of 30% of the gross dividend or the tax imposed on the profits out of which the dividends are paid.
(h) The 5% rate applies if the recipient is a company owning directly at least 25% of the capital of the payer; the 15% rate applies to other dividends.
(i) The 5% rate applies if the recipient is a company, other than a general partnership, owning directly at least 25% of the payer. The 15% rate applies to other dividends.
(j) The 5% rate applies if the recipient is a company that is the beneficial owner of the dividends and holds at least 15% of the capital of the payer. The 10% rate applies to other dividends.
(k) The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer. The 15% rate applies to other dividends.
(l) The 10% rate applies if the beneficial owner of the dividends is a company that holds more than 25% of the capital of the payer. The 15% rate applies to other dividends.
(m) The 5% rate applies if the beneficial owner of the dividends has invested at least US$40,000 or the equivalent amount in another currency in the capital of the payer. The 10% rate applies to other dividends.
(n) The rate of 10% applies to dividends paid by a Canadian investment company, of which at least 10% of the voting shares are controlled directly or indirectly by a foreign company. The 15% rate applies to other dividends.
(o) The 10% rate applies if the beneficial owner of the dividends is a company, other than a general partnership, that holds at least 25% of the payer. The 15% rate applies to other dividends.
(p) The 5% rate applies if the beneficial owner of the dividends is a company, other than a partnership, holding directly at least 25% of the payer. The 15% rate applies to other dividends.
(q) The 7% rate applies if the beneficial owner of the dividends is a company, other than a partnership, holding directly at least 15% of the capital of the payer. The 10% rate applies to other dividends.
(r) The 5% rate applies if the recipient is a company owning directly at least 25% of the payer. The 10% rate applies to other dividends.
(s) The 10% rate applies to interest paid to financial institutions, including insurance companies. The 15% rate applies to other interest payments.
(t) The 5% rate applies to royalties received for the use of, or the right to use, copyrights. The 15% rate applies to other royalties.
(u) The 5% rate applies to interest on loans from banks or financial institutions. The 10% rate applies to other interest payments.

CAMEROON

(Country Code 237)

DOUALA **GMT +1**

FFA Ernst & Young
17 rue Ivy
B.P. 443
Douala
Cameroon

342-7368, 342-8918, 342-1303
Fax: 342-1304

Corporate Tax

Jérôme Minlend **980-0001**
Ralph Nkada Zogo **980-0003**

A. At a Glance

Corporate Income Tax Rate (%)	38.5 (a)
Capital Gains Tax Rate (%)	38.5 (b)
Branch Tax Rate (%)	38.5 (a)(c)
Withholding Tax (%)	
Dividends	16.5 (d)(e)
Interest	16.5 (f)
Royalties from Patents, Know-how, etc.	15
Fees for Technical Services and Professional Activities	15 (g)
Branch Remittance Tax	25
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

(a) The minimum tax is generally 1.1% of turnover. For further details, see Section B.
(b) In certain circumstances, the tax is deferred or reduced (see Section B).
(c) If an election is made, the tax for CIE Petroleum Contractors (foreign companies without a permanent establishment in Cameroon that have contracted with petroleum companies established in Cameroon) is 15% of turnover.
(d) Also applies to directors' fees, nondeductible expenses and adjustments of profits following a tax examination.
(e) Applicable to residents. A final tax at a rate of 25% is imposed on dividends paid to nonresidents.
(f) The rate is 19.8% on savings above FCFA 5 million and 22% for SICAVs (open-ended investment funds) above FCFA 5 million. The rate is 10% for prizes, premiums and other income from bonds issued in Cameroon.
(g) Applicable to nonresidents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Cameroonese companies are taxed on the territoriality principle. As a result, Cameroonese companies carrying on a trade or business outside Cameroon are not taxed in Cameroon on their foreign-source profits. Cameroonese companies are those registered in Cameroon, regardless of the nationalities of their shareholders or where they are managed and controlled. Foreign companies with activities in Cameroon are subject to Cameroonese corporate tax on Cameroonese-source profits.

Tax Rates. The regular corporate income tax rate is 38.5% (35% plus a 10% council surtax). In general, the minimum tax payable is 1.1% (1% plus the 10% surtax) of annual gross sales (turnover) for the previous fiscal year. The minimum tax is creditable against corporate tax due for the current financial year.

Profits realized in Cameroon by branches of foreign companies are presumed to be distributed and are therefore subject to a branch withholding tax of 25% on after-tax income. This rate is subject to reduction by treaty.

Manufacturers, wholesale dealers, forestry farms and importers must add a 1% tax to their bills for sales to retail merchants. The rate is 0.5% for purchases made by gas-station owners and exporters from their suppliers. This tax is imposed on the sales price before the addition of the tax. Retail merchants, gas-station owners and exporters may credit the tax against their corporate income tax. Companies that do not possess a taxpayer identification card are subject to a 5% tax instead of the 0.5% and 1% taxes described above.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies depending on the nature of the project and the level of investments.

Capital Gains. Capital gains are taxed at the regular corporate rate. Capital gains include gains on the sale of real estate, corporate shares and business assets. The tax, however, can be deferred if the proceeds are used to acquire new fixed assets in Cameroon within three years or in the event of a merger.

If the business is totally or partially transferred or discontinued (such as in the event of a merger, liquidation or sale of the business), only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased.

Administration. The fiscal year is 1 January to 31 December.

Companies must file income tax returns by 31 March of the year following the fiscal year. Late returns are subject to a penalty of 1.5% a month, up to a maximum of 50% of the tax due. Corporate income tax must be paid by the deadline for filing tax returns. Late payments are subject to interest at a rate of 10% per month of delay, up to a maximum of the tax due.

The minimum tax is paid in accordance with the same rules applicable to the payment of corporate income tax. Manufacturers, wholesale dealers, forestry farms, importers, and suppliers of gas-station owners and exporters must pay to the tax authorities the tax on purchases by the 15th day of the month following the month of the purchase (for further details concerning these taxes, see *Tax Rates* above).

Dividends. Dividends paid to residents in Cameroon are subject to a 16.5% withholding tax (15% plus the 10% council surtax). Resident recipients must include the gross dividend in taxable income, but they receive a corresponding 16.5% tax credit to prevent double taxation. Dividends paid to nonresidents are subject to a 25% withholding tax, which is a final tax.

A parent corporation may exclude up to 90% of the dividends received from a 25%-owned subsidiary if the parent company and the subsidiary have their registered office in a Central African Economic and Monetary Community (CEMAC) country (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon). In this case, however, no withholding tax credit is allowed. Instead, the tax can be offset against any withholding tax due on its own dividend distributions.

Foreign Tax Relief. In general, foreign tax credits are not allowed; income of residents and nonresidents subject to foreign tax that is not exempt from Cameroonese tax under the territoriality principle is taxable, net of the foreign tax. The French tax treaty, however, provides a tax credit that corresponds to withholding tax on passive income.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the CEMAC standard statements.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office overhead, research costs and technical, financial and administrative assistance fees paid to nonresidents, which exceed the following:
  - — 10% of taxable profits before their deduction; or
  - — 5% of turnover for public works projects or 15% of turnover for engineering services;
- Royalties from patents, brands, models or designs paid to a non-CEMAC corporation participating in the management of, or owning shares in, the Cameroonese corporation;
- Rent expense for movable equipment paid to a shareholder that manages the company in fact or by right and holds, directly or indirectly, more than 10% of the capital;
- Interest paid to shareholders in excess of the central bank annual rate plus two points;
- Commissions and brokerage fees exceeding 5% of purchased imports;
- Amounts set aside for self-insurance; and
- Certain specific charges (such as contributions other than those for retirement paid to a foreign social security organization), gifts, subsidies and penalties.

Inventories. Inventory is normally valued at the lower of cost or market value. Cost must be determined on a weighted-average cost-price method. The first-in, first-out (FIFO) method is also generally acceptable.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by tax law.

Relief for Tax Losses. Losses may be carried forward for four years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. Cameroonese law does not provide for the fiscal integration of Cameroonese companies equivalent to a consolidated filing position.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on transactions carried out in Cameroon; certain transactions are exempt	
Standard rate	18.7
Exports	0
Business activity tax; rate varies depending on the amount of turnover	Various
Radio-television tax, equal to the business activity tax; payable by companies subject to the business activity tax	Various
Registration duties, on transfers of real property or businesses	4 to 15
Payroll taxes, paid by employer	2.5
Social security contributions on an employee's annual gross salary, limited to FCFA 3.6 million	
Family allowances, paid by employer	3.7 to 7
Old age, disability and survivor's pension; paid by	
Employer	4.2
Employee	2.8
Social security contributions on an employee's annual gross salary for job-related accidents and diseases; paid by employer	1.75 to 5

E. Foreign-Exchange Controls

Exchange control regulations exist in Cameroon for financial transfers outside the franc zone, which is the monetary zone including France and its former overseas colonies. A CEMAC rule (No. 0200/CEMAC/UMAC/CM, dated 29 April 2000) applies to all of the CEMAC countries.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Canada	15/20 (a)	15/20 (a)	15/20 (a)
Central African Republic	– (c)	16.5 (b)	– (d)
Chad	– (c)	16.5 (b)	– (d)
Congo	– (c)	16.5 (b)	– (d)
Equatorial Guinea	– (c)	16.5 (b)	– (d)
France	15	16.5 (b)	7.5/15 (e)
Gabon	– (c)	16.5 (b)	– (d)
Nontreaty countries	25	16.5 (f)	15

(a) The 15% rate applies to payments from a Cameroonese source. The 20% rate applies to payments from a Canadian source.
(b) If from a Cameroonese source, the payments are subject to withholding tax under Cameroonese domestic tax law. See Section A.
(c) Withholding rates are determined under the domestic tax law of the state of domicile of the payer.

(d) Withholding tax is not imposed. The income is subject to tax in the state of the recipient.
(e) The 7.5% rate applies to payments for financial services, accounting services and technical assistance. The 15% rate applies to other royalties.
(f) See footnote (f) to Section A.

CANADA

(Country Code 1)

The e-mail addresses for the persons listed below who are resident in Canada are in the following standard format:

firstname.middleinitial.surname@ca.ey.com

The middle initial is included in the e-mail address only if it is listed below. The e-mail addresses for persons who are not resident in Canada or who have e-mail addresses varying from the standard format are listed below the respective persons' names.

TORONTO, ONTARIO — GMT -5

Ernst & Young — **(416) 864-1234**
Mail Address: — **Fax: (416) 864-1174**
Ernst & Young Tower
P.O. Box 251
Toronto-Dominion Centre
Toronto, Ontario M5K 1J7
Canada

Street Address:
Ernst & Young Tower
222 Bay Street
Toronto, Ontario M5K 1J7
Canada

International Tax

Roger D. Ashton	**(416) 943-3629** **Mobile: (416) 417-4780** **Fax: (416) 943-2800**
Remi Benoit	**(416) 943-3084**
Robert Couzin	**(416) 943-3603** **Mobile: (416) 897-1445** **Fax: (416) 943-2831**
Phil D. Halvorson	**(416) 943-3478**
Franco Hasou	**(416) 941-1874**
Heather I. Kerr	**(416) 943-3162** **Fax: (416) 943-3792**
Tina Korovilas	**(416) 943-5406**
★ Allan Lanthier *(resident in Montreal)*	**(514) 874-4320** **Mobile: (514) 895-7750** **Fax: (514) 875-5619**
Terry J. McDowell *(resident in New York)*	**(212) 773-3330** **Fax: (212) 773-5583** **E-mail: terry.mcdowell@ey.com**
Karen R. Nixon	**(416) 943-3706**
Mark Novak	**(416) 943-2987**
★ Lou Pagnutti	**(416) 943-3981**
Rosemary Schmidt	**(416) 943-3287**
Allen Szeto	**(416) 943-2603**
Dave G. Walsh	**(416) 943-5362**

Karen A. Watson	**(416) 943-5475** **Fax: (416) 943-3792**
Charlie A. Webster	**(416) 943-3627** **Fax: (416) 943-3792**

International Capital Markets

Roger D. Ashton	**(416) 943-3629** **Fax: (416) 943-2800**
Heather I. Kerr	**(416) 943-3162** **Fax: (416) 943-3792**

Tax Operations

★ Fraser J. Gall	**(416) 943-2930** **Fax: (416) 943-2262**
★ Mike Wilson *(resident in St. John's)*	**(709) 570-5405** **Fax: (709) 726-0345**

Human Capital

★ Kerry Gray	**(416) 943-3146** **Fax: (416) 943-3778**
John Lowden	**(416) 943-3302** **Mobile: (416) 889-2748** **Fax: (416) 943-3778**

Egan LLP (Business Immigration)

James P. Egan	**(416) 943-2533** **Fax: (416) 943-2735**

Foreign Desks

James K. Frank, *United States*	**(416) 943-2080** **Fax: (416) 943-3792**
George B. Guedikian, *United States*	**(416) 943-3878** **Fax: (416) 943-3792**
★ Stephen F. Jackson, *United States*	**(416) 943-2340** **Fax: (416) 943-3792** **E-mail: steve.jackson@ca.ey.com**
Michael A. Nadler, *United States*	**(416) 943-2697** **Fax: (416) 943-3792**
Ron Wiltsie, *United States*	**(416) 943-3350**

Transfer Pricing

Patrick Cheung	**(416) 943-3371**
Hilary Coates *(resident in Kitchener)*	**(519) 517-3369**
Mervyn C. Edwards	**(416) 943-7187**
Paula Kelley	**(416) 943-3998**
Emma J. Purdy	**(416) 943-2504** **Fax: (416) 943-2262**
Sheila Smith	**(416) 943-2047** **Fax: (416) 943-2262**
★ Bob Turner	**(416) 943-3513** **Mobile: (416) 518-4623** **Fax: (416) 943-2262**

Mergers and Acquisitions

★ Greg C. Boehmer	**(416) 943-3463** **Mobile: (416) 399-5044** **Fax: (416) 943-4446**
Mark Kaplan	**(416) 943-3507** **Mobile: (416) 993-4089** **Fax: (416) 943-2902, 943-4446**
Steve Landau	**(416) 943-2067** **Mobile: (416) 712-7806** **Fax: (416) 943-4446**

Leasing

Marjorie LS Tang	**(416) 943-2935** **Mobile: (416) 930-0739** **Fax: (416) 943-3792** **E-mail: marjorie.tang@ca.ey.com**

Indirect Taxes

★ Irene J. David	**(416) 943-3062** **Mobile: (416) 606-4116** **Fax: (416) 943-3767**
Bruce Goudy *(resident in Kitchener)*	**(519) 571-3304** **Fax: (519) 744-9604**
Satya Poddar, *Financial Services*	**(416) 943-3050** **Fax: (416) 943-3792**
Mike A. Robillard	**(416) 943-3169** **Fax: (416) 943-3767**
Sheila Wisner, *Financial Services*	**(416) 943-2405** **Mobile: (416) 727-6047** **Fax: (416) 943-3792**

Tax Law Services (Couzin Taylor LLP)

★ Robert Couzin	**(416) 943-3603** **Mobile: (416) 897-1445** **Fax: (416) 943-2831**
Reya Ali-Dabydeen	**(416) 943-2220** **Fax: (416) 943-3792**
Marcel Guilbault *(resident in Montreal)*	**(514) 874-4318**
Heather I. Kerr	**(416) 943-3162** **Fax: (416) 943-3792**
Edward Rowe	**(416) 943-2333** **Fax: (416) 943-3792**
Pearl Schusheim	**(416) 943-2250** **Fax: (416) 943-2262**
Roger Taylor, *Tax Litigation* *(resident in Ottawa)*	**(613) 598-4313** **Fax: (613) 232-6732**

Financial Services

★ Marjorie LS Tang	**(416) 943-2935** **Mobile: (416) 930-0739** **Fax: (416) 943-3792** **E-mail: marjorie.tang@ca.ey.com**

Real Estate

★ Ronald J. Smith	**(416) 943-2763** **Fax: (416) 943-2262** **E-mail: ron.smith@ca.ey.com**

Retail, Distribution and Manufacturing

★ R. Paul Singleton	**(416) 943-3512** **Mobile: (416) 464-8535** **Fax: (416) 943-2262** **E-mail: paul.singleton@ca.ey.com**

Technology, Communications and Entertainment

★ Karen N. Wensley	**(416) 943-3514** **Mobile: (416) 566-6807** **Fax: (416) 943-2262** **E-mail: karen.wensley@ca.ey.com**

Tax Policy Services

★ Satya Poddar	**(416) 943-3050** **Fax: (416) 943-3792**

CALGARY, ALBERTA — GMT -7

Ernst & Young **1000 Ernst & Young House** **440 2nd Avenue S.W.** **Calgary, Alberta T2P 5E9** **Canada**	**(403) 290-4100** **Fax: (403) 290-4265**

International Tax

Bill A. Brebber	**(403) 206-5175** **Fax: (403) 206-5288**
Deidre M. Choate	**(403) 206-5199**

Trent H. Henry	**(403) 206-5152** **Mobile: (403) 585-7543** **Fax: (403) 206-5288**
Dean W. Radomsky	**(403) 206-5180**

Transfer Pricing

John C. Hollas	**(403) 206-5357** **Mobile: (403) 669-5559** **Fax: (403) 206-5288**

Human Capital

Bill Fridfinnson	**(403) 206-5194** **Fax: (403) 206-5288**

Foreign Desks

Gilbert L. Lederhos, *United States*	**(403) 206-5371** **Mobile: (403) 860-2312** **Fax: (403) 206-5288**
Terry D. Pearson, *United States*	**(403) 206-5182** **Fax: (403) 206-5288**

Mergers and Acquisitions

Warren W. Pashkowich	**(403) 206-5168** **Mobile: (403) 863-8654** **Fax: (403) 206-5288**
Ian G. Sutherland	**(403) 206-5174** **Fax: (403) 206-5288**

Energy

★ Dave A. Van Dyke	**(403) 206-5177** **Fax: (403) 206-5288**

MONTRÉAL, QUÉBEC — GMT -5

Ernst & Young **1 Place Ville Marie** **Suite 2400** **Montréal, Québec H3B 3M9** **Canada**	**(514) 875-6060** **Fax: (514) 871-8713**

International Tax

★ Allan Lanthier	**(514) 874-4320** **Mobile: (514) 875-5619** **Fax: (514) 871-8713**
Albert Anelli	**(514) 874-4403** **Mobile: (514) 895-4403** **Fax: (514) 879-2600**
Angelina A. Argento	**(514) 874-4645**
Eric Bretsen	**(514) 879-6537**
John Corlett	**(514) 874-4430**
Marcel Guilbault	**(514) 874-4318** **Mobile: (514) 574-4318** **Fax: (514) 874-4688**
Nicolas Legault	**(514) 874-4404**
Sandy Maag	**(514) 874-4377**
Josée St-Denis	**(514) 879-3567**
Mireilla Sulimowicz	**(514) 874-4396**
Denis Vaillancourt	**(514) 874-4668**

Human Capital

Mary-Lynn Desmeules	**(514) 879-2643** **Mobile: (514) 214-3920** **Fax: (514) 879-2600**
Myriam Pairault	**(514) 879-2611** **Mobile: (514) 502-2025** **Fax: (514) 879-2600**

Foreign Desks

Richard E. Felske, *United States*	**(514) 874-4428** **Fax: (514) 879-2600**
Daniel Lundenberg, *United States*	**(514) 874-4411** **Mobile: (514) 992-8364** **Fax: (514) 879-2600**
George Tsitouras, *United States*	**(514) 874-4427** **Fax: (514) 879-2600**

Indirect Taxes

Jean Hugues Chabot	**(514) 874-4345** **Fax: (514) 871-8713**
Danielle Laramée	**(514) 874-4360** **Mobile: (514) 993-0299** **Fax: (514) 871-8713**

Transfer Pricing

Diane Bale	**(514) 874-4314** **Mobile: (514) 995-6499** **Fax: (514) 879-2600**
Stéphanie de Breyne	**(514) 874-4387** **E-mail: stephanie.debreyne @ca.ey.com**
Ron Holowka *(resident in Ottawa)*	**(613) 598-4351**
Margaret Hum	**(514) 874-4327**
Danielle Walsh	**(514) 879-8297**
Alfred Zorzi	**(514) 874-4365** **Mobile: (514) 953-9614** **Fax: (514) 879-2600**

Mergers and Acquisitions

Francois Dufresne	**(514) 879-8163**
Alain Léonard	**(514) 874-4363** **Mobile: (514) 992-4492** **Fax: (514) 871-8713**

VANCOUVER, BRITISH COLUMBIA — GMT -8

Ernst & Young — **(604) 891-8200**
Mail Address: — **Fax: (604) 643-5422**
P.O. Box 10101
Pacific Centre
Vancouver, British Columbia V7Y 1C7
Canada

Street Address:
Pacific Centre
700 West Georgia Street, Suite 2300
Vancouver, British Columbia V7Y 1C7
Canada

International Tax

Sarj Dhaliwal	**(604) 891-8203**
Jas S. Hayre	**(604) 891-8380** **Mobile: (604) 916-8363**
Loren Kroeker	**(604) 891-8281**

Indirect Taxes

Fiona J. Macfarlane	**(604) 643-5437** **Mobile: (604) 306-1776**

Transfer Pricing

Titus Deac	**(604) 891-8345**
Greg Noble	**(604) 891-8221**

Human Capital

Bruce Sprague	**(604) 891-8415** **Fax: (604) 891-8226**

Foreign Desk

Nelson Brooks, *United States*	**(604) 891-8374**

A. At a Glance

Corporate Income Tax Rate (%)	22.12 (a)
Capital Gains Tax Rate (%)	11.06 (a)(b)
Branch Tax Rate (%)	22.12 (a)
Withholding Tax (%)	
Dividends	25 (c)
Interest	25 (c)
Royalties from Patents, Know-how, etc.	25 (c)
Branch Remittance Tax	25 (d)
Net Operating Losses (Years)	
Carryback	3
Carryforward	7

(a) These 2004 rates are applied to income that is not eligible for the manufacturing and processing deduction or the small business deduction. The calculation of the rate is discussed in Section B. Additional tax is levied by the provinces and territories of Canada, and the combined federal and provincial or territorial rates vary from 31.02% to 39.12%.
(b) 50% of capital gains is subject to tax.
(c) Final tax applicable only to nonresidents. This rate may be reduced by a tax treaty (see Section F).
(d) This tax is imposed in addition to the regular corporate income tax. For details, see Section B. The rate may be reduced by a tax treaty.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporations resident in Canada (whether owned by Canadians or nonresidents) are taxed on their worldwide income from all sources, including income from business or property and net taxable capital gains. Nonresident corporations are taxed only on certain Canadian-source income. In general, a corporation is deemed to be resident in Canada if it is incorporated in Canada or has its central mind and management located there.

If a tax treaty exists between Canada and the country in which a nonresident corporation is resident, the determination of whether a nonresident is taxable in Canada may be restricted or modified, and lower rates may apply. In general, Canada's tax treaties provide that a nonresident that is resident in a treaty country is subject to Canadian tax on income derived from carrying on business in Canada only if the nonresident has a Canadian permanent establishment.

Rates of Income Tax. Corporations are taxed by the federal government and by one or more provinces or territories. The basic rate of federal corporate tax is 38%, but it is reduced to 31% and further reduced to 21% by an abatement of 10 percentage points on a corporation's taxable income earned in a province or territory. In addition, a surtax of 1.12% is imposed. Provincial and territorial tax rates are added to the federal tax and generally vary between 8.9% and 17% of taxable income.

The federal government and the provincial and territorial governments may apply lower rates of tax to active small business earnings and earnings derived from manufacturing and processing.

Nonresident corporations carrying on business in Canada through a branch are taxable at the full corporate rate on their net business income earned in Canada, and they must pay an additional tax of 25% on after-tax income, subject to an allowance for investment in Canadian property. This branch tax may be reduced by treaty.

Capital Gains and Losses. The taxable portion of capital gains and the deductible portion of capital losses is 50%. See Section E for details concerning the taxation of capital gains of nonresidents.

The deductible portion of capital losses (other than allowable business investment losses) in excess of taxable capital gains is termed "net capital loss" and may be carried back three years and carried forward indefinitely, but may be applied only against taxable capital gains.

Proceeds from the disposition of capital property that exceed the tax cost of such property are generally taxed as capital gains. For depreciable property, tax depreciation previously claimed that is recovered on disposition is generally fully included in income.

If control of a corporation is acquired by a person or group of persons, net capital losses incurred before the change of control cannot be deducted in a year after the acquisition of control. Also, the carryback of capital losses to years prior to such change of control is prohibited. A flowthrough of net capital losses is provided for on certain amalgamations and liquidations.

If a sale of what might otherwise be capital property is regarded as a sale in the course of a taxpayer's business (such as dealers in real estate, securities or art) or as an undertaking in the nature of normal trading, any resulting gain or loss is fully taxable or deductible.

Administration. A corporation's tax year usually ends on the same date as the financial statement year-end. If a change of control occurs, the corporation is deemed to have a tax year ending immediately before the change of control.

Corporate income tax returns are required to be filed within six months following a corporation's tax year-end. Nonresident corporations must file a Canadian income tax return if they carry on business in Canada or dispose of taxable Canadian property during the tax year. Nonresident corporations claiming relief from Canadian tax under a tax treaty with another country must disclose detailed information regarding their activities in Canada.

A penalty is levied on returns that are filed late, equal to 5% of the unpaid tax at the required filing date, plus an additional 1% per month (not exceeding 12 months) of such unpaid tax for each month that the return remains unfiled. Repeat offenders may be liable for additional penalties. Nonresident corporations that carry on business in Canada or dispose of taxable Canadian property during the tax year may be subject to another penalty of up to C$2,500 even if no tax is payable.

Federal and provincial corporate tax installments must be made monthly during the corporation's tax year. The remaining balance of taxes owed must be paid by the end of the second month following the tax year-end (third month for Canadian-controlled private corporations carrying on an active business).

Interest is charged on late or deficient tax payments based on the prescribed rate. The prescribed rate can vary each quarter. A penalty may apply to late or deficient tax installments.

Dividends. In general, dividends paid by one Canadian corporation to another are fully deductible. However, to prevent the use of private companies to obtain significant tax deferrals on portfolio dividend income, such corporations are subject to a special $33^1/_3$% refundable tax on dividends received from portfolio investments. Additional taxes may be imposed on dividends paid on certain preference-type shares.

Dividends paid by a Canadian company to a Canadian resident individual are generally taxable, but the individual also receives a tax credit because the income has already been taxed within the corporation. A dividend from a foreign affiliate may be exempt from tax (see Section E).

Foreign Tax Relief. In general, taxpayers resident in Canada may deduct from their Canadian tax liability a credit for income or profits tax and for withholding tax paid to another country. The foreign tax credit is calculated separately for foreign business tax and foreign nonbusiness tax on a country-by-country basis.

If a Canadian company receives dividends from a foreign affiliate, the normal foreign tax credits are replaced by either a complete or partial deduction for such dividends (see Section E).

C. Determination of Taxable Income

General. Taxable profits are computed in accordance with generally accepted commercial principles, modified by certain statutory provisions in the Canadian Income Tax Act.

In general, only 50% of meal and entertainment expenses are deductible for income tax purposes.

Inventories. For tax purposes, inventories may be valued at the lower of cost or fair market value or at fair market value. The last-in, first-out (LIFO) basis is not permitted for tax purposes, despite its acceptability for accounting purposes in certain instances. Corporations may use a different inventory valuation method for tax purposes than the one used for accounting purposes.

Provisions. In general, provisions, such as warranty reserves, are not deductible for income tax purposes. Only actual expenses incurred are tax-deductible.

Depreciation and Amortization. Depreciation or amortization included in financial statements is added back, and tax depreciation, generally calculated on a declining-balance basis at prescribed rates, beginning when the asset is available for use, is deducted for tax purposes. The deduction is generally limited in the first year the asset is available for use. Tax depreciation may be fully or partially claimed at the taxpayer's option.

The following are the depreciation rates under the declining-balance method for major categories of assets.

Asset	Rate (%)
Commercial and industrial buildings	4
Office equipment	20
Motor vehicles	30
Plant and machinery	20*

* For plant and machinery used in manufacturing and processing, the rate is 30%.

Capital assets are generally pooled into various classes, but, in certain cases, a corporation may elect to include individual pieces of certain types of equipment in separate classes. In general, if an asset is disposed of, the balance of the assets in the class is reduced by the proceeds from the disposition. However, if the asset is the only asset in the class and if the proceeds from the disposition exceed the tax value of the class after depreciation, the excess is recaptured and is subject to tax at the regular corporate tax rates. If the asset is the only asset in the class and if a balance remains after the proceeds are charged to the class, the balance may be deducted as a terminal loss.

Groups of Companies. Canada does not allow consolidated tax reporting for related companies and does not provide relief for group losses.

D. Other Significant Taxes

The table below summarizes other significant taxes. The rates for 2003 are provided

Nature of Tax	Rate (%)
Goods and Services Tax (GST), a value-added tax, applies to a broad range of goods and services	7
Harmonized Sales Tax, a value-added tax, applies to a broad range of goods and services in certain provinces	15
Large Corporations Tax, effectively a minimum tax, which may be reduced by the 4% corporate surtax; applied on capital employed in Canada in excess of C$50 million	0.2
(The federal government has introduced a plan to eliminate the Canadian federal capital tax regime over five years, beginning 1 January 2004. The government is implementing the plan by increasing the threshold for application of the tax from C$10 million to C$50 million of capital for tax years ending after 2003, and by reducing the rate of tax over the period 2004 to 2008. The rate will be reduced to 0.175% for 2005, to 0.125% for 2006 and to 0.0625% for 2007.)	
Part VI tax on financial institutions, effectively a minimum tax, which is reduced by income taxes paid; applies on a nonconsolidated basis to capital in excess of C$200 million	1.25
Provincial/territorial income taxes, on taxable income allocated to jurisdictions in which corporations have permanent establishments	8.9 to 17
Provincial/territorial capital taxes, with capital allocated in the same manner as income for the provincial/territorial income tax; these taxes do not apply to insurers, which instead pay premium taxes at various rates	Up to 0.6
(Ontario plans to eliminate the capital tax on all corporations at the same time as the federal government eliminates its capital tax regime [see listing for Large Corporations Tax above].	

Nature of Tax	Rate (%)
As a first step, the Ontario capital tax rate for all corporations is reduced by 10%, effective from 1 January 2004, resulting in a rate of 0.27%.)	
Provincial payroll taxes, paid by employers (varies by province)	0 to 4.3
Canada Pension Plan, on pensionable earnings between C$3,500 and C$39,900 (at the time of writing, the 2004 rates had not yet been published by the Canadian tax authorities; the 2003 rates are shown below)	
Employer	4.95
Employee	4.95
Self-employed individual	9.9
(The Province of Quebec offers a similar plan for residents of Quebec.)	
Employment insurance, on insurable earnings up to a maximum of C$39,000	
Employee	1.98
Employer (1.4 times the employee rate)	2.77

E. Miscellaneous Matters

Foreign-Exchange Controls. Canada does not impose foreign-exchange control restrictions.

Debt-to-Equity Rules. Canada imposes a thin-capitalization rule limiting the ability of nonresidents to withdraw profits through deductible interest charges. In general, these rules restrict the deductibility of interest paid or payable by a Canadian resident corporation to a specified nonresident on debts exceeding two times "equity." A specified nonresident is a nonresident shareholder who, either alone or together with persons with whom they do not deal at arm's length, owns 25% or more of the issued shares of any class of the corporation or any nonresident (including a subsidiary of the Canadian corporation) who deals at other than arm's length with such a shareholder. The thin-capitalization rules do not apply to branches of foreign corporations.

Foreign Affiliates. A nonresident corporation is considered a foreign affiliate of a Canadian corporation if the Canadian corporation directly or indirectly owns at least 1% of any class of shares of the nonresident corporation and if the Canadian corporation and related persons directly or indirectly own at least 10% of any class of shares of that nonresident corporation. Dividends received by a Canadian corporation from a foreign affiliate are fully deductible in Canada if the dividends are derived from active business profits earned in a country with which Canada has entered into a tax treaty. Dividends are taxable in Canada if they are derived from passive operations or any operations in a nontreaty country, with relief for foreign tax on such income.

Passive Income of Controlled Foreign Affiliates. Any Canadian taxpayer that controls (as defined) a foreign affiliate is taxed on its share of that entity's passive investment income in the year such income is earned, regardless of whether such income is currently paid to the shareholder, except in certain specified circumstances.

Foreign Investment Entities. Proposed rules (generally referred to as the foreign investment entity [FIE] rules) have been announced that will apply to certain interests in certain nonresident entities. These proposed rules are intended to address the Canadian government's concern that Canadian taxpayers are able to earn passive investment income offshore free of Canadian tax or to obtain a deferral of the Canadian tax that would otherwise have been payable had the income been earned in Canada. If enacted, the proposed rules will attempt to prevent this alleged tax avoidance and deferral by subjecting investments in certain nonresident entities to Canadian tax on a current basis. In general, under the current version of the draft rules, taxpayers will be required to include in taxable income either of the following:

- An imputed amount based on the designated cost of the investment; or
- An amount computed by reference to the annual increase or decrease in the fair market value of the investment, depending on the type of investment.

Although the proposed rules have not yet been enacted, they are generally effective for tax years of Canadian resident taxpayers beginning after 2002.

Corporate Reorganizations. In general, transactions between related corporations must be recognized at fair market value. However, some common types of domestic and foreign corporate reorganizations may be accomplished with little or no immediate Canadian tax cost.

Antiavoidance Legislation. The Canada Customs and Revenue Agency (CCRA) may apply a general antiavoidance rule to challenge transactions that it perceives to be abusive. This rule does not apply to a transaction that may reasonably be considered to have been undertaken or arranged primarily for bona fide purposes other than to obtain a tax benefit. The application of the rule may cause certain transactions to be ignored or recharacterized.

Transfer Pricing. Under Canada's transfer-pricing rules, acceptable transfer-pricing methods are those recommended by the Organization for Economic Cooperation and Development (OECD). These methods include comparable uncontrolled price, resale price and cost-plus. Other methods may be used if the result obtained is similar to the result that would be obtained from an arm's length transaction. It is possible to enter into advance-pricing agreements with the CCRA.

Change of Control Considerations. If control of a corporation has been acquired, the target corporation is deemed to have a year-end immediately before the change in control. A new tax year begins immediately thereafter, and a new year-end may be selected by the target corporation. Special rules apply to the determination and treatment of capital losses and business losses when an acquisition of control occurs.

Capital Gains Realized by Nonresidents. Subject to applicable tax treaties, nonresidents are required to pay Canadian tax on their net taxable capital gains arising on the disposition of taxable Canadian property. Such property includes the following: real property located in Canada; shares of Canadian private corporations; shares of Canadian public corporations (in limited circumstances); property used in a business carried on by the nonresident in Canada; an interest in a partnership if more than 50% of the value of the partnership's property was attributable to taxable Canadian property at any time in the 60 months preceding the disposition; interests in certain trusts resident in Canada; and shares of a nonresident corporation or an interest in a nonresident trust if at any time in the 60 months preceding the disposition, more than 50% of the value of the interest and the value of the property owned by the nonresident corporation or nonresident trust was attributable to certain types of property.

A nonresident vendor of taxable Canadian property (other than property that qualifies as excluded property) must obtain a tax clearance certificate from the CCRA and provide acceptable security or must pay tax on the disposition at the time of sale. Unless the vendor has obtained a tax clearance certificate or the purchaser had no reason to believe that the vendor is a nonresident after reasonable inquiry, the purchaser must withhold and pay to the federal government up to 25% of the cost of the property.

F. Treaty Withholding Tax Rates

The rates in the following table reflect the lower of the treaty rate and the rate under domestic tax law for dividends, interest and royalties paid from Canada to residents of various treaty countries. Exceptions or conditions may apply, depending on the terms of the particular treaty.

Residence of Recipient	Dividends %	Interest (a) %	Royalties (b)(c) %
Algeria	15	15/0	15/0 (ii)
Argentina	15/10	12.5/0	15/10/5/3
Australia	15/5 (rr)	10	10
Austria	15/5 (r)	10	10/0
Bangladesh	15	15	10
Barbados	15	15	10
Belgium (uu)	15	15	10
Brazil	25/15	15/10	25/15
Bulgaria	15/10 (ee)	10/0	10/0
Cameroon	15	15	15
Chile	15/10 (u)	15	15
China	15/10	10/0	10
Croatia	15/5 (w)	10	10
Cyprus	15	15	10
Czech Republic	15/5 (d)	10/0 (d)	10
Denmark	15/10/5 (q)	10	10/0 (g)
Dominican Republic	18	18	18
Ecuador	15/5 (mm)	15/0	15/10 (aaa)
Egypt	15	25/15 (f)	15
Estonia	15/5	10/0	10
Finland	15/10	10	10
France	15/10/5 (m)	10/0	10/0 (g)
Gabon (ccc)	15	10/0	10
Germany	15/5 (ll)	10/0 (yy)	10/0
Guyana	15	15	10
Hungary	15/10/5	10	10
Iceland	15/5 (r)	10/0	10/0 (jj)
India	25/15	15/0	20/15/10 (o)

Residence of Recipient	Dividends %	Interest (a) %	Royalties (b)(c) %
Indonesia	15/10 (z)	10	10
Ireland (eee)	15/0	15	15/0
Israel	15	15	15
Italy (ww)	15	15/0	10/0
Jamaica	15	15	10
Japan	15/5 (dd)	10/0	10
Jordan	15/10 (t)	10/0	10
Kazakhstan	15/5 (r)	10	10
Kenya	25/15	15	15
Korea	15	15/0	15
Kuwait	15/5 (ss)	10/0 (fff)	10
Kyrgyzstan	15	15/0	10/0 (y)
Latvia	15/5	10/0	10
Lebanon (ff)	15/5	10	10/5
Lithuania	15/5 (x)	10/0	10
Luxembourg	15/10/5 (aa)	10/0 (cc)	10/0 (jj)
Malaysia	15	15	15
Malta	15	15	15
Mexico	15/10	15/0	15/0
Moldova	5/15 (zz)	10/0 (zz)	10
Mongolia	15/5 (vv)	10/0 (vv)	10/5 (vv)
Morocco	15	15	10/5
Netherlands	15/10/5 (kk)	10/0	10/0 (g)
New Zealand	15	15	15
Nigeria	15/12.5 (v)	12.5	12.5
Norway	15/5 (xx)	10/0 (xx)	10/0 (xx)
Pakistan	20/15	25	15
Papua New Guinea	15	10	10
Peru (nn)	15/10	15	15
Philippines	15	15	10
Poland	15	15/0	10
Portugal	15/10 (gg)	10	10
Romania	15	15	15/10
Russian Federation	15/10	10/0	10/0 (p)
Senegal (oo)	15	15/0 (fff)	15
Singapore	15	15	15
Slovak Republic	15/5 (tt)	10/0	10/0
Slovenia	15/5 (pp)	10/0	10
South Africa	15/5	10/0	10/6 (l)
Spain	15	15/0	10/0
Sri Lanka	15	15	10/0
Sweden	15/10/5 (bb)	10/0	10/0 (jj)
Switzerland	15/10/5 (n)	10/0	10/0 (jj)
Tanzania	25/20	15/0	20
Thailand	15	15	15/5
Trinidad and Tobago	15/5	10	10/0
Tunisia	15	15/0	20/15
Ukraine	15/5	10/0	10
USSR (e)	15	15/0	10/0
United Arab Emirates (bbb)	15/10/5	10/0	10/0
United Kingdom (ddd)	15/10	10/0	10/0
United States	15/10/5 (h)	10/0 (i)	10/0 (p)
Uzbekistan	15/5 (hh)	10/0	10/5 (jj)
Venezuela (qq)	15/10	10/0	10/5

Residence of Recipient	Dividends %	Interest (a) %	Royalties (b)(c) %
Vietnam	15/10/5 (s)	10/0	10
Zambia	15	15	15
Zimbabwe	15/10	15	10
Nontreaty countries	25	25 (j)	25 (k)

(a) The lower rate usually applies to government debt or government-assisted debt.
(b) The lower rate usually applies to royalties on cultural works or to royalties relating to computer software, patents and know-how.
(c) Withholding tax of 25% applies if the royalties relate to the use of real or immovable property, including resource property.
(d) The treaty provides that the lower rate applies to dividends paid to a company that controls at least 10% of the voting power in the payer, unless the payer is a nonresident-owned investment corporation (NRO). Interest on certain government-assisted debt and certain other categories of interest are exempt from withholding tax.
(e) Belarus is honoring the USSR treaty, and consequently that treaty continues to be in force with respect to Belarus. Canada has entered into tax treaties with Estonia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, the Russian Federation, Ukraine and Uzbekistan. The withholding rates under these treaties are listed in the above table. Tajikistan and Turkmenistan have announced that they are not honoring the USSR treaty, but negotiations for new treaties with these countries have not yet begun. Tax treaty negotiations with Azerbaijan and Moldova have begun.
(f) The higher rate applies to mortgage interest in Egypt.
(g) The 0% rate applies to certain copyright royalties and to royalties for the use of, or the right to use, computer software, patents or information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
(h) The 5% rate applies to dividends paid to corporate shareholders owning at least 10% of the voting shares of the Canadian company. The 10% rate applies to dividends paid by NROs if the recipient owns a substantial shareholding. The 15% rate applies to other dividends.
(i) The 0% rate applies to, among other items, interest payments that are exempt under Canadian domestic law.
(j) Interest on certain government and long-term debt obligations is exempt from withholding tax.
(k) Most copyright royalties are exempt from withholding tax.
(l) The 6% rate applies to royalties paid on cultural works, copyrights, computer software, patents and certain types of information.
(m) The 5% rate applies if the dividends are paid by a Canadian corporation that is not an NRO to a French corporation that controls at least 10% of the votes of the payer. The 10% rate applies if the dividends are paid by a Canadian corporation that is an NRO to a French corporation controlling at least 10% of the votes of the payer.
(n) The 5% rate applies to dividends paid to corporations owning at least 10% of the voting shares and capital of the payer. The 10% rate applies to dividends paid by an NRO if the recipient owns at least 10% of the voting shares and capital of the payer.
(o) For the first five years that the treaty is in effect, the general rate is 20%. If the payer is the Canadian government, a political subdivision or a public sector company, the rate is reduced to 15%. After the first five years, the general rate is 15%, and payments for the use of, or the right to use, certain industrial, commercial or scientific equipment may qualify for a 10% rate. The treaty took effect in Canada on 1 January 1998 and in India on 1 April 1998.
(p) The 0% rate applies to royalties on cultural works as well as to payments for the use of, or the right to use, computer software, patents and information concerning industrial, commercial and scientific experience.
(q) The 5% rate applies if the beneficial owner of the dividends is a corporation that holds directly at least 25% of the capital of the payer. The 10% rate applies if the beneficial owner of the dividends is a corporation that holds directly or indirectly at least 25% of the capital of the payer and if the payer is an NRO.
(r) The 5% rate applies if the beneficial owner of the dividends is a company that controls, directly or indirectly, at least 10% of the voting power of the payer, unless the payer is an NRO.
(s) The 5% rate applies if the beneficial owner of the dividends controls at least 70% of the voting power of the payer. The 10% rate applies if the beneficial owner of the dividends controls at least 25% but less than 70% of the voting power of the payer.

(t) The 10% rate applies if the recipient of the dividends is a company that controls directly or indirectly at least 10% of the voting power of the payer, unless the payer is an NRO.

(u) The 10% rate applies if the beneficial owner of the dividends is a corporation that controls at least 25% of the voting power of the payer.

(v) The 12.5% rate applies if the recipient is a company that controls at least 10% of the votes of the payer.

(w) The 5% rate applies to dividends paid to a resident of Croatia that controls at least 10% of the voting power of the payer or that holds at least 25% of the capital of the payer. The 5% rate does not apply if the payer is an NRO.

(x) The 5% rate applies if the beneficial corporate owner of the dividends controls at least 25% of the voting power of the payer corporation (other than an NRO).

(y) The 0% rate generally applies to royalties for certain cultural works and copyrights. It also applies to royalties for computer software, patents and information concerning industrial, commercial and scientific experience, if the payer and recipient are not associated persons (as defined).

(z) The10% rate applies to dividends paid to a company holding at least 25% of the capital of the payer.

(aa) The 5% rate applies if the recipient of the dividends controls directly or indirectly at least 10% of the voting power of the payer. The 10% rate applies if the dividends are paid by an NRO to a company that owns at least 25% of the capital of the payer.

(bb) The 5% rate applies if the beneficial owner of the dividends is a corporation that controls directly at least 10% of the voting power of the payer or that holds directly at least 25% of the capital of the payer and if the payer is not an NRO. The 10% rate applies to dividends paid to beneficial owners described in the preceding sentence if the payer is an NRO.

(cc) The 0% rate applies to interest on certain government and government-assisted debt, and certain other interest.

(dd) The 5% rate applies to dividends paid to a company that owns at least 25% of the voting shares of the payer for the last six months of the accounting period for which the distribution of profits takes place.

(ee) The 10% rate applies if the recipient is a company that controls at least 10% of the votes of the payer and if the payer is not an NRO.

(ff) The treaty was signed on 29 December 1998, but it has not yet been ratified. The 5% rate for dividends will apply if the recipient is a company that controls at least 10% of the votes of the payer and if the payer is not an NRO. The 5% rate for royalties will apply to royalties for certain cultural works, and royalties for certain computer software, patents and know-how if the payer and the payee are not related.

(gg) The 10% rate applies if the recipient is a company that controls at least 25% of the voting power of the payer, unless the payer is an NRO.

(hh) The 5% rate applies if the recipient is a company that controls at least 10% of the voting power in the payer.

(ii) The 0% rate generally applies to royalties relating to computer software or patents.

(jj) The lower rate applies to royalties for certain cultural works, and generally to royalties for computer software, patents and know-how.

(kk) The 5% (10% for NROs) rate applies if the beneficial owner of the dividends owns at least 25% of the capital or controls, directly or indirectly, 10% of the voting power of the payer.

(ll) The 5% rate applies to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer.

(mm) The 5% rate applies if the recipient is a company that controls at least 25% of the voting power of the payer and if the payer is not an NRO.

(nn) The treaty was signed on 20 July 2001 and will enter into force on 1 January 2004. The 10% rate for dividends will apply if the recipient is a company that controls at least 10% of the voting power of the payer.

(oo) This treaty is effective from 1 January 2004.

(pp) The 5% rate for dividends applies if the recipient is a company that controls at least 10% of the voting power in the payer, but the rate does not apply to dividends paid by NROs.

(qq) The treaty was signed on 10 July 2001, but it has not yet been ratified. The 10% rate for dividends will apply if the recipient is a company that controls at least 25% of the voting power in the payer. The 5% rate for royalties will apply to royalties with respect to certain cultural works, and to royalties for certain computer software, patents and know-how if the payer and payee are not related.

(rr) The 5% rate applies to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer and if the payer is not an NRO.

(ss) The 5% rate applies if the recipient is a company that owns at least 10% of the voting shares, or at least 25% of the value of the shares, of the payer, but this rate does not apply to dividends paid by NROs.

(tt) The 5% rate applies if the dividends are paid to a company that controls at least 10% of the voting power in the payer and if the payer is not an NRO.

(uu) A new treaty was signed on 23 May 2002, but it has not yet been ratified. The withholding tax rates under the existing treaty are shown in the table. Under the proposed treaty, a 5% rate will apply to dividends if the beneficial owner of the dividends is a company that owns directly at least 10% of the voting shares of the payer. A 15% rate will apply to other dividends. A 10% rate will apply to interest, except for interest on certain government or government-assisted debt, which will be exempt. A 10% rate will apply to royalties. Royalties pertaining to certain cultural works and computer software and certain royalties for information concerning industrial, commercial or scientific experience will be exempt. The treaty will not apply to NROs.

(vv) The 5% rate for dividends applies if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer, but this rate does not apply to dividends paid by NROs. Interest is subject to tax at a rate of 10%; interest on certain government or government-assisted debt is exempt from withholding tax. The 5% rate for royalties applies to royalties for computer software, patents and information concerning industrial, commercial or scientific experience. Certain copyright royalties are exempt. Otherwise a 10% rate applies to royalties.

(ww) A new treaty was signed on 3 June 2002, but it has not yet been ratified. The withholding tax rates under the existing treaty are shown in the table. Under the proposed treaty, a 5% rate will apply to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer and if the payer is not an NRO. A 15% rate will apply to other dividends. A 10% rate will apply to interest. Interest on certain government or government-assisted debt will be exempt from withholding tax. The general withholding tax rate for royalties will be 10%. A 5% rate will apply to certain royalties pertaining to computer software and information concerning industrial, commercial or scientific experience. An exemption applies to certain copyright royalties.

(xx) The 5% rate applies to dividends if the beneficial owner is a company that holds directly at least 10% of the voting power in the company paying the dividends. The 5% rate does not apply to dividends paid by NROs. Interest is subject to a rate of 10%, except for interest on certain government and government-assisted debt, which is exempt. The general rate for royalties is 10%; royalties pertaining to certain cultural works, computer software, patents and know-how are exempt from withholding tax.

(yy) The 0% rate applies to interest on certain government or government-assisted debt, interest from certain other sources and interest paid to certain plans that provide pension, retirement or employee benefits.

(zz) The 5% rate for dividends applies if the beneficial owner of the dividends is a company that controls at least 25% of the voting power in the payer. Interest on certain government debt and certain other debt is exempt from withholding tax.

(aaa) The 10% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment.

(bbb) This treaty was signed 9 June 2002, but it has not yet been ratified. Under the proposed treaty, dividends paid to a company holding (directly or indirectly) at least 10% of the voting power of the payer will be subject to a 5% withholding tax (10% for dividends paid by NROs); other dividends will be subject to tax at a rate of 15%. Interest will be subject to a 10% withholding tax, except for interest on certain government and government-assisted debt, which will be exempt. The general rate for royalties will be 10%, but royalties pertaining to certain cultural works, computer software, patents and know-how will be exempt.

(ccc) This treaty was signed on 24 November 2002, but it has not yet been ratified.

(ddd) Canada and the United Kingdom signed a protocol to their treaty on 7 May 2003, but the protocol is not yet in effect. Under the protocol, the tax rate on dividends paid to a corporate shareholder that controls at least 10% of the voting power of the payer will be reduced from 10% to 5%, and payments for the use of computer software, patents and certain know-how will be exempt.

(eee) This new treaty was signed 8 October 2003, but it has not yet been ratified. This treaty will replace the existing treaty between Canada and Ireland. The withholding tax rates under the existing treaty are shown in the table. Under the proposed treaty, dividends paid to a company holding (directly or indirectly) at least 10% of the voting power of the payer will be subject to a 5% withholding tax. For other dividends (including dividends paid by NROs), the withholding tax rate will be 15%. Interest will be subject to a 10% withholding tax, except for interest on certain government and government-assisted debt, which will be exempt. The general rate for royalties will be 10%, but royalties pertaining to certain cultural works, computer software, patents and know-how will be exempt.

(fff) The 0% rate applies to interest on certain government and government-assisted debt.

CAYMAN ISLANDS

(Country Code 1)

The Cayman Islands does not observe daylight savings time.

GRAND CAYMAN **GMT -5**

Ernst & Young **(345) 946-0081**
Mail Address: **Fax: (345) 946-0082**
P.O. Box 1102 GT
Cayman Islands, B.W.I.

Street Address:
4th Floor, Bermuda House
British American Centre
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands, B.W.I.

International Tax
Don W. Ebanks **(345) 814-4013**
E-mail: don.ebanks@ky.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0

B. Taxes on Corporate Income and Gains

The Cayman Islands government does not levy taxes on income, profits, wealth or capital gains.

C. Corporate License Fees

Ordinary Resident Company. An ordinary resident company may transact foreign and domestic business from within the Cayman Islands. A Trade and Business License is required if business is to be conducted within the Islands (see Section D). If Caymanians or persons with Cayman status do not own at least 60% of the issued share capital, the company must also obtain a Local Companies Control Law License before it can do business in the Islands.

Incorporation fees range from a minimum of US$183 to a maximum of US$427. Annual fees range from a minimum of US$183 to a maximum of US$427. The fees are based on authorized capital.

Ordinary Nonresident Company. An ordinary nonresident company is similar to a resident company, but it is not permitted to conduct business within the Cayman Islands. However, it may transact within the Islands all matters necessary to conduct its business outside the Islands; for example, it can negotiate contracts or open bank accounts.

Incorporation fees range from a minimum of US$488 to a maximum of US$689. Annual fees range from a minimum of US$488 to a maximum of US$689. The fees are based on authorized capital.

Exempted Company. This is the most common form of company used by the offshore investor. An exempted company, similar to an ordinary nonresident company, may not conduct business within the Cayman Islands, but may transact from within the Islands all the matters necessary to conduct its business outside the Islands. Several exemptions from Companies Law and some other advantages, including the availability of a Tax Exemption Certificate, make the exempted company attractive to the offshore investor. A Tax Exemption Certificate provides that no law enacted in the Cayman Islands may impose an income, profits or gains tax on the exempted company and that no such tax or an estate duty or inheritance tax may be imposed on the shares, debentures or other obligations (or the income derived from such instruments) of the exempted company. The exemptions provided in the certificate are for a renewable 20-year period.

Incorporation fees range from a minimum of US$573 to a maximum of US$2,400. Annual fees range from a minimum of US$573 to a maximum of US$2,400. The minimum fee is based on a maximum authorized capital of US$51,220; the fee increases on a sliding scale for authorized capital in excess of this amount until it reaches the maximum of US$2,400, which applies to authorized capital of US$2 million or more.

An exempted company, through its memorandum and articles of association, may be established as a limited duration company (LDC) or a limited liability company (LLC). These companies may be treated by the authorities of the United States and other jurisdictions as partnerships for tax and other purposes. An exempted company is classified as an LDC if its corporate existence terminates on the happening of one or more specified events and if it has a maximum life of 30 years. An LLC may issue two classes of shares — one with limited liability and the other with unlimited liability. LDCs must pay a fee of US$573 on registration in addition to the regular fees described above.

D. Miscellaneous Matters

Foreign-Exchange Controls. The Cayman Islands has no foreign-currency exchange control regulations.

Business Licenses. Unless exempted, every person or company carrying on a trade or business must have an annual license for each place where such trade or business is carried on. The amount of the fee depends on the type and the location of the business, as well as on the number and type of employees.

License fees are also payable by all insurance companies and all banks registered on the Islands. The following are the license fees.

	Insurance Companies US$	Banking and/or Trust Companies US$
Class A (domestic retail)	36,000	488,000
Class A (nondomestic)	N.A.*	158,540 to 487,805
Class B Unrestricted	8,540	69,512 to 73,171
Class B Restricted	8,540	45,122 to 48,781

* Not applicable.

The fees for Class B banking and trust licenses depend on the corporate structure of the relevant bank (the structures are branches, subsidiaries and private/affiliated companies). Restricted trust companies must pay an annual fee of US$7,300.

Mutual funds licensed under the Mutual Funds Law must pay a license fee of US$2,439. Mutual fund administrators must pay the following license fees: restricted license, US$8,536; and unrestricted license, from US$24,390 to US$30,488.

Company managers and corporate service providers licensed under the Company Managers Law must pay an annual license fee, which is US$915 plus $61 per company for managers and US$640 to US$12,226 for service providers, depending on the total number of entities being managed.

E. Tax Treaties

The Cayman Islands has not concluded tax treaties with any other jurisdiction.

CHILE

(Country Code 56)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@cl.ey.com

For purposes of the e-mail addresses, accent marks are ignored. The e-mail addresses varying from the standard format are listed below the respective persons' names.

SANTIAGO **GMT - 4**

Ernst & Young — **(2) 676-1260**
Mail Address: — **Fax: (2) 676-1017**
Huérfanos 770
Fifth Floor
Santiago
Chile

Street Address:
Huerfanos 770
Seventh Floor
Santiago
Chile

National Director of Tax

★ Rodrigo Valenzuela	**(2) 676-1395**

Corporate Tax

★ Rodrigo Valenzuela	**(2) 676-1395**
Octavio del Rio	**(2) 676-1677** **E-mail: octavio.del-rio@cl.ey.com**
Soledad Recabarren	**(2) 676-1148**
Pablo Jose Greiber	**(2) 676-1372** **E-mail: pablo.greiber@cl.ey.com**
Alicia Dominguez	**(2) 676-1288**

International Tax Services

Sergio Sapag	**(2) 676-1676**
Pablo Gonzalez	**(2) 676-1675**

Transfer Pricing

Rodrigo Stein	**(2) 676-1261**

Human Capital

★ Cristian Lefevre	**(2) 676-1271**
Gaston Carrio	**(2) 676-1204**
Mauricio Peñaloza	**(2) 676-1191**

Tax Compliance

★ Cristian Lefevre	**(2) 676-1271**
Juan Morales	**(2) 676-1455**

Legal Services

Matias Ovalle	**(2) 676-1183**

A. At a Glance

Corporate Income Tax Rate (%)	17
Capital Gains Tax Rate (%)	17
Branch Tax Rate (%)	17
Withholding Tax (%)	
Dividends	18 (a)(b)
Interest	35 (a)(c)
Royalties from Patents, Trademarks, Formulas and Similar Items	30 (a)
Technical Services Rendered Abroad	20 (a)
Other Fees and Compensation for Services Rendered Abroad	35 (a)
Branch Remittance Tax	18 (b)
Net Operating Losses (Years) (d)	
Carryback	Unlimited
Carryforward	Unlimited

(a) The tax applies to payments to nonresidents.
(b) The rate is 35% less a 17% credit for the corporate tax paid.
(c) A reduced rate of 4% applies to interest paid on loans granted by foreign banks or financial institutions or paid with respect to import operations.
(d) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. A Chilean resident corporation is subject to income tax on its worldwide income. A resident corporation is one that is incorporated in Chile. A branch of a foreign corporation must pay tax on its income. The corporate income tax is applied on accrued net income.

Rates of Corporate Tax. Effective from 1 January 2004, the corporate income tax rate is 17%. Income derived from activities developed in certain regions of Chile (the extreme north and south) is exempt from corporate tax.

The corporate income tax is a credit against the tax on profits distributed to nonresident partners or shareholders or to noncorporate resident partners and shareholders. Intercompany dividends or profit distributions between resident entities are not subject to income tax.

Chilean Holding Companies. Under the newly created Chilean Holding Company (CHC) regime, a participation exemption is granted with respect to income earned, dividend distributions and capital gains (on the transfer of the investments made by a CHC, as well as on the transfer of the shares of a CHC). In effect, foreign investors using the CHC to channel foreign investments into Chile are not subject to income tax in Chile with respect to investments held by the CHC outside of Chile (that is, on income earned on their participations, on distributions of the income and on capital gains earned on disposals of the investments).

Capital Gains. Capital gains are taxed at the regular corporate rate if the capital gains relate to the business of a company. Capital gains on shares owned for at least one year are subject to a final 17% tax (the rate for 2004) if transactions in shares are deemed to be not habitual.

Administration. All accounting periods in Chile must end on 31 December; the final date for payment of income tax is 30 April.

Provisional monthly payments on account of final annual income tax are due on the 12th day of the following month.

Foreign Tax Relief. Foreign income tax up to a rate of 17% (the rate for 2004) paid to countries may be credited against Chilean corporate income tax. Any additional foreign income tax is deductible as an expense. Foreign tax relief may also be available under treaties (see Section F), which may provide for a credit limit of up to 30%.

C. Determination of Trading Income

General. Taxable income, determined in accordance with generally accepted accounting principles, includes all profits, with the exception of some minor items that are not considered income for tax purposes, such as bonuses paid by the government to foster the development of certain areas of the country and to increase employment.

In general, all necessary expenses for producing income, duly proven and justified, may be deducted to determine taxable income. However, expenses related to automobiles are not deductible.

Inventories. For inventory valuation, the first-in, first-out (FIFO) system is accepted by law, as is the weighted-average cost method. A corresponding monetary correction must be added to cost.

Monetary Correction. The income tax law contains provisions designed to prevent the taxation of profits created by inflation. The provisions, known as monetary correction, require taxpayers to revalue certain assets and liabilities annually based on changes in the consumer price index (CPI) and in foreign-exchange rates.

The following corrections generally increase net income for legal and tax purposes:

- The initial net value of fixed tangible assets is restated based on the change in the CPI, which is fixed monthly by the National Statistical Service. Depreciation is computed on the value of the assets after restatement.
- Inventories existing at the balance-sheet date are restated to their replacement cost.
- Credits or rights that are in foreign currency or linked to price indices are corrected based on the change in the foreign-exchange rate or the relevant index.

The following corrections decrease net income for legal and tax purposes:

- Total capital invested in the business is corrected based on the difference between the CPI for the calendar month preceding the financial year and the CPI for the month preceding the balance-sheet date. For this purpose, invested capital is the taxpayer's equity at the beginning of the financial year, all intangible, nominal, transitory, memorandum and other accounts that do not represent actual investments having been previously deducted.
- Increases and decreases in invested capital during the financial year are corrected based on the change in the CPI for the period between the increase or decrease in invested capital and the balance-sheet date. Income is decreased by the correction of increases and increased by the correction of decreases.
- Debts and liabilities that are in foreign currency or linked to price indices are corrected based on the foreign-exchange rate at the balance-sheet date or according to the relevant index.

Depreciation. Depreciation must be calculated using the straight-line method. The following normal periods of depreciation are fixed by the tax authorities.

Manufacturing Industry and Trade	**Years**
Machinery	15
Heavy tools	8
Light tools	3
General installations	10
Trucks	7
Cars, pickups, station wagons and buses	7
Computers, computer systems, peripherals and similar items	6

Building and Mining Industries	**Years**
Solid buildings	80
Semisolid buildings	20 to 50
Buildings of light materials	10
Bulldozers, tractors, caterpillars and other machines employed in heavy construction	8
Drilling equipment, internal combustion engines, soldering equipment and similar equipment	6
Machines employed in mining activities (general rate)	9

Annual depreciation rates must be applied after the revaluation of fixed assets according to the rules of monetary correction (see *Monetary Correction* above). Accelerated depreciation may be applied to new fixed assets and to imported fixed assets with useful lives of five years or more. The accelerated method permits the calculation of depreciation based on a useful life for an asset equivalent to one-third of the normal useful life established by the Chilean tax authorities. However, accelerated depreciation may be used only in determining trading income for corporate tax purposes. The difference between normal and accelerated depreciation must be added to the tax base of the withholding tax applicable to dividends and profit distributions made to nonresident shareholders or partners or made to resident individual shareholders or partners.

Relief for Losses. Losses must first be carried back to offset undistributed profits of prior years and then may be carried forward without a time limit. However, if a qualified change of ownership occurs, accumulated tax losses may not be deducted from income generated after the ownership change.

D. Value-Added Tax

Value-added tax (VAT) applies to sales and other transactions of tangible personal property, as well as to payments for certain services. It also applies to certain real estate transactions. The general rate is 19%.

E. Miscellaneous Matters

Foreign-Exchange Controls. The Central Bank of Chile issues general rules regarding import and export trade and international exchange operations. Foreign-exchange trade related to foreign investments must be conducted through commercial banks in the formal market, which may be controlled by the Central Bank in exceptional circumstances. An informal market is available for transactions between private individuals or entities, including import and export transactions, without government control, at prices determined by supply and demand.

Transfer Pricing. Under the Income Tax Law, if prices of goods and services in internal and external transactions differ significantly from the market values of such items, the tax authorities may adjust the prices for tax purposes, particularly if the transactions are between related parties.

For cross-border transactions between related parties, Chilean law adopts arm's length principles. Acceptable transfer-pricing methods include the cost-plus, resale price and comparable uncontrolled price methods.

Debt-to-Equity Rules. Indebtedness of local companies resulting from loans or financing granted by related parties abroad and secured with money provided by related or unrelated third parties (essentially, back-to-back loans) is limited to a 3:1 debt-to-equity ratio. For the purpose of calculating this ratio, debt equals the sum of liabilities owed to foreign creditors that generate interest taxed at a 4% withholding tax rate (see footnote [c] to Section A). Interest payments abroad in excess of the ratio are subject to a total tax burden of 35%.

F. Tax Treaties

Chile has entered into double tax treaties with Argentina, Brazil, Canada, Korea, Mexico and Norway. It has also signed tax treaties with Ecuador, Peru and Poland, which are awaiting enforcement. It has also signed tax treaties with Croatia, Denmark, Spain and the United Kingdom, which are awaiting ratification by the Chilean Congress. Negotiations to sign tax treaties with France, Malaysia and New Zealand have concluded, while negotiations with Cuba, the Czech Republic, Finland, Hungary, Italy, the Netherlands, Paraguay, Sweden, Switzerland, the United States and Venezuela are in progress. All of these treaties, which are based on the Organization for Economic Cooperation and Development (OECD) model convention, provide special rules for the taxation of dividends, interest and royalties. However, the treaty limit on dividends does not apply to the Chilean withholding tax if the 17% corporate tax can be fully credited against the withholding tax.

CHINA, PEOPLE'S REPUBLIC OF

(Country Code 86)

BEIJING — **GMT +8**

Ernst & Young **Level 16 Tower E3** **The Towers, Oriental Plaza** **No. 1 East Chang An Ave.** **Dong Cheng District** **Beijing** **People's Republic of China 100738**	**(10) 6524-6688** **Fax: (10) 8518-8308**

Corporate Tax

Ivan Chan	**(10) 6524-6688, Ext. 3352** **E-mail: ivan.chan@cn.ey.com**
★ Stephen Lau	**(10) 6524-6688, Ext. 3888** **E-mail: stephen.lau@cn.ey.com**
Stephen Lee	**(10) 6524-6688, Ext. 3318** **E-mail: stephen.lee@cn.ey.com**

GUANGZHOU — **GMT +8**

Ernst & Young **Room 1110-1111** **Main Office Tower** **Guangdong International Hotel** **339 Huan Shi Dong Lu** **Guangzhou** **People's Republic of China 510060**	**(20) 8331-2788** **Fax: (20) 8331-2868**

Corporate Tax

Loretta Shuen	**(20) 8331-2788, Ext. 261** **E-mail: loretta.shuen@hk.ey.com**

HONG KONG — **GMT +8**

Ernst & Young **33/F, Tower 2** **The Gateway** **25-27 Canton Road** **Kowloon** **Hong Kong**	**[852] 2956-1188** **Fax: [852] 2840-0441 (Tax)**

Corporate Tax

Joseph Fu — **[852] 2846-9818**
(resident in Hutchison House office; see address in Hong Kong chapter) — **Fax: [852] 2118-4343**
E-mail: joseph.fu@hk.ey.com

Jane Hui — **[852] 2629-3836**
E-mail: jane.hui@hk.ey.com

Clement Yuen — **[852] 2629-3355**
E-mail: clement.yuen@hk.ey.com

Human Capital

Winnie Chu — **[852] 2629-3604**
E-mail: winnie.chu@hk.ey.com

Bill Paull — **[852] 2629-3848**
E-mail: bill.paull@hk.ey.com

SHANGHAI **GMT +8**

Ernst & Young — **(21) 6219-1219**
12/F Shartex Plaza — **Fax: (21) 6275-3219**
88 Zun Yi Nan Road
Shanghai
People's Republic of China 200335

International Tax

Alice Chan-Loeb, *United States Tax Desk* — **(21) 6219-1219, Ext. 293**
E-mail: alice.chan@cn.ey.com

Transfer Pricing

Philip Anderson, *Australia Tax Desk* — **(21) 6219-1219**
E-mail: philip.anderson@cn.ey.com

Corporate Tax

William P.C. Seto — **(21) 6219-1219, Ext. 138**
E-mail: bill.seto@cn.ey.com

★ Alfred Shum — **(21) 6219-1219, Ext. 316**
E-mail: alfred.shum@cn.ey.com

SHENZHEN **GMT +8**

Ernst & Young — **(755) 8228-0788**
Unit 2B, 8th Floor — **Fax: (755) 8228-0077**
Shenzhen Development Centre
Renmin Nan Lu
Shenzhen
People's Republic of China 518001

Corporate Tax

Loretta Shuen — **(755) 8228-0788, Ext. 262**
E-mail: loretta.shuen@hk.ey.com

This chapter refers only to the taxation of entities and business establishments with foreign investment (including joint ventures and wholly foreign-owned entities) and foreign companies that have activities and operations in the People's Republic of China or receive income from Chinese sources. The tax laws in the Special Administrative Regions of Hong Kong and Macau are separate sets of rules that are completely distinct from those in the People's Republic of China. For information concerning the tax laws in Hong Kong and Macau, see the chapters concerning such jurisdictions on page 328 and page 504, respectively.

A. At a Glance

National Corporate Income Tax Rate (%)	30 (a)
Local Corporate Income Tax Rate (%)	3 (a)
Capital Gains Tax Rate (%)	33 (b)
Branch Tax Rate (%)	33
Withholding Tax (%)	
Dividends	10 (c)
Interest	10

Royalties from Patents, Know-how, etc.	10 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) Lower rates may apply to establishments operating in specified locations in China (see Section B).
(b) Capital gains derived by foreign investors from disposals of interests in foreign investment enterprises are subject to a 10% withholding tax.
(c) Dividends remitted abroad by foreign investment enterprises and foreign enterprises are exempt from withholding tax.
(d) A reduced rate may apply to certain qualifying royalties that have preferential transfer terms.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The People's Republic of China (PRC) income tax system discussed below refers to rules specially applicable to business operations with foreign investments, including Sino-foreign equity joint ventures, cooperative ventures, and wholly foreign-owned subsidiaries and other forms of business activities and operations conducted by foreign companies. Domestic state-owned enterprises are subject to tax at a rate of 33%. A different set of tax computation rules, which are not discussed in this chapter, applies to these enterprises.

All foreign investment enterprises (FIEs) and foreign enterprises are subject to the Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises, which is levied by the central government. Local authorities are entitled to levy a surcharge and collect certain registration and license fees.

FIEs include equity joint ventures, cooperative joint ventures and entities wholly owned by foreigners. An FIE is subject to tax on its worldwide income. However, a foreign tax credit is allowed for income taxes paid to other countries by the FIE, limited to the PRC income tax payable on the same income. If cooperative joint ventures are not legal persons, the parties to the joint ventures may elect to be taxed separately on their share of the income received or, with the approval of the local tax bureau, taxed as a single entity.

The term "foreign enterprises" refers to foreign companies, enterprises and other economic organizations such as representative offices, contracted projects and royalty arrangements. Foreign enterprises are subject to tax only on their income from PRC sources. The taxation of foreign enterprises depends on whether the enterprise has an establishment in China. Foreign enterprises with establishments in China are subject to tax on all income derived from the PRC; however, those without establishments in the PRC are subject only to withholding tax on income from PRC sources.

The term "establishment" is broadly defined to include the following: a place of management; a branch; an office; a factory; a workshop; a mine or an oil and gas well or any other place of extraction of natural resources; a building site; a construction, assembly, installation or exploration project; a place for the provision of labor services; and business agents.

Rates of Corporate Tax. In general, FIEs and foreign enterprises with establishments in China are taxed at an effective rate of 33% (30% national tax plus 3% local tax).

A reduced rate of 15% applies to FIEs and foreign enterprises with establishments in China located in Special Economic Zones (SEZs), which are Shenzhen (including Shekou), Zhuhai, Shantou in Guangdong Province, Xiamen in Fujian Province and Hainan Province. The reduced rate of 15% also applies to FIEs engaged in production or manufacturing activities located within the Pudong Development Zone in Shanghai and within the Economic and Technology Development Zones of the 14 Open Cities, which are Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai and Zhanjiang. FIEs engaged in infrastructure projects, including energy, transportation and port development, are also taxed at the reduced rate of 15%.

FIEs engaged in production and manufacturing activities located within the Coastal Open Economic Regions (Liaodong Peninsula, Shandong Peninsula, Changjiang and Pearl River Deltas, and Southern Fujian, including Zhangzhou and Quanzhou Delta Areas) and within the 14 Open Cities, Provincial Capitals and Changjiang Cities are taxed at a reduced rate of 24%. FIEs engaged in production and manufacturing activities in Beijing and Chongqing are also taxed at a reduced rate of 24%.

Tax holidays and significant reductions in the tax rate are available to the following:

- FIEs engaged in production and manufacturing activities with an operating period of 10 years or more;
- FIEs engaged in production and manufacturing activities in SEZs, the Pudong Development Zone, and Economic and Technology Development Zones;
- Export-oriented and technologically advanced FIEs; and
- Infrastructure projects in SEZs and in the Pudong Development Zone scheduled to operate 15 years or more.

Capital Gains and Losses. Capital gains and losses are treated the same as other taxable income. However, when a foreign investor disposes of an interest in an FIE, any resulting capital gain is subject to a 10% withholding tax, even if the gain is realized outside the PRC.

In addition to income tax, real property gains tax is imposed on gains derived from transfers of real property (see Section D).

Administration. The tax year in China is the calendar year. An annual return, together with an audited financial statement issued by a certified public accountant registered in the PRC, is due within four months after the close of the tax year for all FIEs and foreign enterprises with establishments in the PRC. Such enterprises must settle all outstanding tax liability within five months after the end of the tax year. FIEs and foreign enterprises with establishments in the PRC must also file quarterly provisional returns within 15 days after the end of each quarter, together with payments of provisional tax based on actual profit. If an enterprise has difficulty filing a provisional tax return based on the actual quarterly profit, it may pay tax based on estimated profit.

The estimated profit is normally computed by reference to one-quarter of the enterprise's actual profits for the preceding year. Otherwise, it is computed under other methods approved by the tax bureau.

Dividends. Profits of FIEs distributed as dividends are not subject to any withholding tax when remitted outside the PRC.

Foreign Tax Relief. A tax credit is allowed for foreign taxes paid by FIEs in other countries, not exceeding the relevant PRC tax payable on such income. Excess foreign tax credits may be carried forward for a period of five years.

C. Determination of Trading Income

General. Taxable income is defined as revenues less deductible expenses based on accounts prepared in accordance with the Accounting Regulations of the PRC for Enterprises with Foreign Investment (also applicable to foreign enterprises by reference). No differences exist between tax and accounting methods for income computation. Included in taxable income are dividends, bonuses, interest, royalties, rent and other income. However, dividends received by FIEs from other FIEs in the PRC are exempt from tax.

All necessary and reasonable expenses incurred in carrying on a business are deductible for tax purposes, except for entertainment expenses, which are subject to a specified limit. For head office expenses, only actual amounts paid, properly documented and verified by a certified public accountant registered in the country of the head office are deductible. For interest on loans, only reasonable amounts are deductible.

Nondeductible expenses include interest on equity capital, income tax payments including penalties and surcharges, royalties paid to the head office and other expenses not related to production or the business operation.

Inventories. Inventory valuation is based on historical cost, computed using one of the following four methods: first-in, first-out (FIFO); moving average; weighted average; or last-in, first-out (LIFO). The local tax authorities must approve any change in the adopted method. The principle of lower of cost or market value does not apply. A provision for stock obsolescence is generally not permitted, but write-offs for actual obsolescence are allowed.

Provisions. FIEs operating as financial institutions are allowed to establish bad debt allowances. However, the allowances may not exceed 3% of the year-end balance of loans receivable.

With approval from the local tax authorities, unrealized foreign-exchange gains or losses can be recognized or amortized over one to five years.

Tax Depreciation. Depreciation of tangible properties must be computed using the straight-line method. Unless approval is obtained from the tax authorities, the residual value of fixed assets may not be less than 10% of cost. Accelerated depreciation may be used only if permission from the tax authorities has been received. The following are minimum useful lives for various assets.

Asset	Years
Buildings	20
Production equipment, trains and ships	10
Furniture, electronic equipment and other transportation equipment	5

Intangible assets, including technical know-how, patents and trademarks, are amortized over the contractual term or over 10 years if a time period is not specified.

Relief for Losses. Tax losses may be carried forward for up to five years. Carrybacks are not allowed.

Groups of Companies. In general, consolidated returns are not permitted, and all companies must file separate tax returns. However, FIEs and foreign enterprises may adopt consolidated filing for units operating in different areas of China, but in calculating the tax due these enterprises must apply the relevant tax rate for the location of each operating unit. Losses in one location may offset income in another location.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT)	
Standard rate	17
Rate on specified products (primarily basic necessities), agricultural products and utility services	13
Exports	0
(Exports are generally zero-rated. Any VAT previously paid on the purchase of raw materials, parts and taxable services that have been used in the production of export goods is refunded. Under the original VAT regulation, the rate of this refund was 17%. However, under a tax notice issued by the State Administration of Taxation, the rate of the refund may be reduced to 5%, 13% or 15%, depending on the type of goods exported.)	
Consumption tax, on the production and importation of certain luxury items, including cigarettes, gasoline, alcoholic beverages, jewelry, cosmetics and motor vehicles	Various
Business tax, on various types of services and income not derived from production, including transportation, construction, finance, insurance, postal services, telecommunications, cultural and sporting events, entertainment establishments, hotels and restaurants, rentals, advertising, tourism and the transfer of intangible and immovable properties	
General rates	3 to 5
Finance and insurance businesses	5
Entertainment establishments	20

Nature of Tax	Rate (%)
Transfers of intangible and immovable properties; under a tax bureau notice, transfers of intangible properties include transfers of rights to use intangible properties in the PRC; a tax bureau notice apparently indicates that royalties received by foreign companies from licensing intangible properties to the PRC are subject to business tax; under a tax notice issued on 16 March 2001, transfers of technology may be exempt from business tax if approval is obtained from the PRC tax authorities	5
Real property gains tax, on real property transfers	30 to 60

E. Miscellaneous Matters

Foreign-Exchange Controls. The Chinese government permits the free convertibility of current account items of domestic organizations. Domestic organizations include FIEs and certain other business organizations. Current account items are defined as transactions occurring daily that involve international receipts and payments. Current account foreign-exchange receipts and payments include trading receipts and payments, service receipts and payments, unilateral transfers and dividends paid from after-tax profits.

Remittances of Dividends and Profits. Remittances of after-tax profits or dividends to foreign investors in FIEs must be supported by written resolutions of the board of directors and may not be made until after applicable corporate income taxes are paid. They must be made from foreign-exchange accounts. Otherwise, conversion and payment must take place at designated foreign-exchange banks.

Remittances of Interest and Principal. Interest payments on foreign loans are considered current account items. These payments may be made through the enterprise's special foreign-exchange bank account or through designated foreign-exchange banks with the approval of the State Administration for Exchange Control (SAEC).

For principal repayments, domestic organizations must submit a formal application to the SAEC for its approval. This application must be accompanied by the Foreign Exchange Loan Registration Certificate, a copy of the loan agreement and the notice of repayment of principal issued by the foreign creditor. On receiving approval from the SAEC, the domestic organization may repay the principal from its special foreign-exchange bank account or through conversion at designated foreign-exchange banks.

Remittances of Royalties and Fees. Payments of royalties and fees may be made either out of the enterprise's special foreign-exchange bank account or through currency conversion and payment at a designated foreign-exchange bank. Proper documentation (such as royalty agreements, invoices and other business documents) is required for all payments of royalties and fees.

Debt-to-Equity Requirements. For FIEs in the PRC, the following debt-to-equity ratios are applicable:

- For investment projects below US$3 million, the capital contribution must equal or exceed 70% of the total investment;
- For investment projects of US$3 million to US$10 million, the minimum capital requirement is 50% of the total investment, but not less than US$2.1 million;
- For investment projects of US$10 million to US$30 million, the minimum capital requirement is 40% of the total investment, but not less than US$5 million; and
- For investment projects in excess of US$30 million, the minimum capital requirement is 33.3% of the total investment, but not less than US$12 million.

Transfer Pricing. The PRC tax law includes transfer-pricing rules. Under these rules, all fees paid or charged in business transactions between related parties must be determined according to an arm's length standard. If the parties fail to meet this requirement, the tax bureau may make reasonable adjustments by using one of the following methods:
- Comparable uncontrolled price;
- Reasonable profit margin;
- Cost-plus formula with a reasonable markup; or
- Other methods deemed appropriate by the tax authorities.

For purposes of the transfer-pricing rules, related parties result from direct or indirect ownership, common control by a third party or a relationship with common interest. Intercompany transactions covered by the transfer-pricing rules include sales or purchases of goods, technology transfers, provision of services, financing transactions and other business transactions.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties %
Armenia	5/10	10	10
Australia	10	10	10
Austria	10 (e)	10 (d)	10 (a)
Bangladesh	10	10	10
Barbados	5	10	10
Belarus	10	10	10
Belgium	10	10	10 (a)
Brazil	10	10	10
Bulgaria	10	10	10 (b)
Canada	10	10	10
Cyprus	10	10	10
Czechoslovakia (g)	10	10	10
Denmark	10	10	10 (b)
Estonia	5/10	10	10
Finland	10	10	10 (b)
France	10	10	10 (a)
Gambia	10	10	10
Germany	10	10	10 (b)
Hungary	10	10	10
Iceland	10	10	10
India	10	10	10
Ireland	5/10	10	10
Israel	10	10 (d)	10 (b)
Italy	10	10	10 (b)

	Dividends %	Interest %	Royalties %
Jamaica	5	7.5	10
Japan	10	10	10
Korea	5/10	10	10
Kuwait	5	5	10
Latvia	5/10	10	10
Lithuania	5/10	10	10
Luxembourg	5/10	10	10 (a)
Macedonia	5	10	10
Malaysia	10	10	10
Malta	10	10	10
Mauritius	5	10	10
Mongolia	5	10	10
Netherlands	10	10	10 (a)
New Zealand	10	10	10
Norway	10	10	10
Pakistan	10	10	10
Philippines	10	10	10
Poland	10	10	10 (b)
Portugal	10	10	10
Romania	10	10	7
Russian Federation	10	10	10
Seychelles	5	10	10
Singapore	10 (c)	10 (d)	10
Slovenia	10	10	10
South Africa	5	10	7
Spain	10	10	10 (a)
Sweden	10	10	10 (b)
Switzerland	10	10	10 (a)
Thailand	10	10	10
Turkey	10	10	10
Ukraine	5/10	10	10
United Kingdom	10	10	10 (b)
United States	10	10	10 (b)
Uzbekistan	10	10	10
Vietnam	10	10	10
Yugoslavia (h)	5	10	10
Nontreaty countries (f)	10	10	10

(a) The withholding tax rate is 10%, but for royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment, the rate is applied to only 60% of the royalties paid.
(b) The withholding tax rate is 10%, but for royalties paid for the rental of industrial, commercial or scientific equipment, the rate is applied to only 70% of the royalties paid.
(c) The withholding tax rate is reduced to 7% if the recipient is a company or partnership that holds directly at least 25% of the shares of the payer of the dividends.
(d) The withholding tax rate is reduced to 7% for interest paid to banks or financial institutions.
(e) The withholding tax rate is reduced to 7% if the recipient holds directly at least 25% of the voting shares of the payer of the dividends.
(f) See applicable footnotes to Section A.
(g) China is honoring the Czechoslovakia treaty with respect to the Czech and Slovak Republics until new treaties are signed.
(h) This is a treaty between the PRC and the Federal Republic of Yugoslavia.

The PRC has signed double tax treaties with Bulgaria, Croatia, Indonesia, Kazakhstan, Mexico, Myanmar, Papua New Guinea, Tunisia and the United Arab Emirates, but these treaties have not yet been ratified.

COLOMBIA

(Country Code 57)

BOGOTÁ **GMT -5**

Ernst & Young
Mail Address:
Mailbox 092638
Bogotá
Colombia

(1) 621-0411, 651-2210
Fax: (1) 610-3060
E-mail: ernstyou@impsat.net.co

Street Address:
Calle 93 B No. 16 – 47
4th Floor
Bogotá, D.C
Colombia

International Tax and Human Capital

★ Luz Maria Jaramillo	**(1) 651-2210, Ext. 105** **Mobile: (3) 15-333-8392, 10-223-5446**
Pedro Pablo Guaidía	**(1) 651-2210, Ext. 106** **Mobile: (3) 10-609-5725**
Gustavo Pardo Ardila	**(1) 651-2210, Ext. 109** **Mobile: (3) 15-343-2356**
Vicente Javier Torres	**(1) 651-2210, Ext. 137** **Mobile: (3) 15-345-8305, 10-859-5219**
Laura Cecilia Ramírez	**(1) 651-2210, Ext. 134** **Mobile: (3) 10-232-5701**
Diego Enrique Casas	**(1) 651-2210, Ext. 136** **Mobile: (3) 10-289-3461**
Zuleima González	**(1) 651-2210, Ext. 194** **Mobile: (3) 10-481-1748**
José Andrés Romero	**(1) 651-2210, Ext. 130** **Mobile: (3) 10-865-7735**

At the time of writing, the Colombian government was considering a bill containing new rules with respect to the nonpayment of tax liabilities. In addition, the government usually issues decrees changing certain tax bases and rates in December of each year. Because of the changes contained in the proposed bill and the possible changes included in the decrees, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (a)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	7 (b)
Interest	39.55 (c)
Royalties from Patents, Know-how, etc.	39.55
Technical Services, Technical Assistance and Consulting Services	10 (d)
Branch Remittance Tax	7
Net Operating Losses (Years)	
Carryback	0
Carryforward	8 (e)

(a) A surcharge is imposed on the corporate income tax. The rate of the surcharge is 5% for the 2003 tax year and 10% for the 2004 tax year and future tax years. For further details, see Section B.

(b) This rate applies to dividends paid to nonresidents if the dividends are paid out of profits taxed at the corporate level. Otherwise, a 35% income tax is imposed before applying the 7% withholding tax. Dividends are exempt from withholding tax if they are reinvested in Colombia and if the reinvestment is maintained for a period exceeding five years. Dividends paid to residents are not subject to withholding tax. However, residents must report dividends received on their annual tax returns, unless the company generating the profits out of which the dividends are paid is taxed in Colombia on such profits.
(c) Effective tax rate of income and remittance taxes imposed on interest paid to nonresidents. Interest paid to residents is subject to withholding tax of 7%. Interest paid on specified loans to financial entities that are not domiciled in Colombia is exempt from withholding tax.
(d) This withholding tax applies to consulting services, technical services and technical assistance services rendered by nonresidents in Colombia or abroad.
(e) Tax losses incurred in the 2003 tax year and in future tax years may be carried forward eight years. Tax losses incurred prior to the 2003 tax year may be carried forward five years. Certain restrictions apply to the use of tax losses (see Section C).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Domestic corporations are taxed on worldwide income. Domestic corporations are corporations organized under Colombian law. Branches of foreign corporations are taxed on Colombian-source income only.

Rate of Corporate Tax. The tax rate for both domestic corporations and branches of foreign corporations is 35%.

A permanent surcharge is imposed on the corporate income tax. The rate of the surcharge is 5% for the 2003 tax year and 10% for the 2004 through 2006 tax years. The surcharge is determined by applying the rate of the surcharge to the net income tax payable. It is calculated in the annual income tax return and is payable at the same time as the net income tax. The surcharge is neither deductible nor creditable in calculating income tax.

Legal entities performing activities in the Industrial Free Trade Zones are exempt from income and remittance taxes with respect to income derived from sales to foreign markets. To calculate the net income eligible for the exemption, Industrial Free Trade Zone entities must separate costs and deductions related to income attained in sales to foreign markets, from costs and deductions related to income attained in sales to local markets.

Companies benefit from a tax exemption equal to 25% of labor payments, up to a maximum exemption of Col$4 million (approximately US$1,418).

Certain tax credits are available (for example, see *Foreign Tax Relief* below).

Capital Gains. Gains on sales of fixed assets are taxed as ordinary income. In computing capital gains and losses, relief is provided for the effects of inflation under the system of "integral inflation adjustments" (see Section C).

Administration. The tax year is the calendar year.

The government sets annually during the last week of December the due dates for filing income tax returns and paying taxes. Tax payments are made in five installments between February and October for Great Taxpayers (large corporations, as defined by the tax authorities) and in two installments between April and

June for other legal entities. Advance payments for the current tax year, which generally represent 75% of the income tax payable for the prior tax year, must be made with these installments. In addition, an advance payment of the income tax surcharge must be made in accordance with the deadlines set by the Colombian government.

Interest on late tax payments is charged at a fixed rate announced quarterly by the government. The annual rate for the period of 1 July 2003 through 31 October 2003 is 26.4% (monthly rate of 2.2%). A penalty for late filing is levied on the amount of tax assessed at a rate of 5% for each month or a fraction thereof. The penalty for amending a return is 10% on the difference between the amount shown on the original tax return and the correct amount.

Dividends. Dividends received by domestic corporations from other domestic corporations are not subject to tax if the company generating the profits out of which the dividends are paid is taxed in Colombia on such profits. Otherwise, the dividends are reported in the income tax return of the recipient of the dividends and taxed at the regular corporate income tax rate of 35%.

In general, a 7% withholding tax is imposed on dividends paid to foreign shareholders if the profits out of which the dividends are paid have been taxed at the corporate level. Otherwise, a 35% income tax is imposed before applying the 7% withholding tax. The 7% withholding tax is then imposed on the remaining 65% of the dividends. As a result, the total effective tax rate applicable to the dividends is 39.55%. However, if the profits are reinvested in Colombia, the 7% withholding tax is deferred while the reinvestment is maintained in Colombia. If the reinvestment is maintained for a period exceeding five years, the dividends are exempt from withholding tax. Reinvested dividends distributed before the end of the five-year period are subject to the normal 7% withholding tax. However, the 35% income tax applies to dividends paid out of untaxed profits even if the dividends are reinvested.

Dividends paid by Colombian corporations to Colombian branches of foreign corporations are exempt from tax if the company generating the profits out of which the dividends are paid is taxed on these profits in Colombia. Any dividends paid by Colombian corporations to Colombian branches of foreign corporations in excess of the amount of taxed profits are subject to withholding tax at the rate of 35%.

Any excess paid over the par value for shares (a share premium) is taxable to the company in the year the share premium is distributed as a dividend.

Foreign Tax Relief. For domestic corporations, a credit for foreign taxes paid is permitted, up to the amount of Colombian tax payable on the foreign-source income.

C. Determination of Taxable Income

General. Taxable income is determined in accordance with the following calculation: gross income, minus nontaxable income, returns, rebates and discounts, equals net income, minus costs and expenses, equals taxable income.

Income generated from the following activities is exempt from income tax: seismic engineering services for oil and gas industries; new and remodeled hotels; software and medical patents; fluvial transportation; and energy generated from wind. The assets used in these activities are not considered in determining presumptive income (see *Presumptive Income* below).

Subject to certain exceptions, amounts paid to entities outside Colombia are deductible, if they are related to the production of income from Colombian sources and if the applicable withholding tax is paid. If withholding tax is not imposed on such payments, the expenses are allowed as deductions, up to a maximum of 15% of the taxpayer's net income before such expenses.

Branches or offices of foreign companies may deduct payments made to their home offices or to related parties located abroad if the payments are made as royalties, commissions that are related to the acquisition of raw materials and goods or administration fees or if the payments are for the use or acquisition of intangible property, provided the applicable withholding tax (39.55%) is paid. Interest and other financial expenses resulting from liabilities owed to affiliate companies are generally not deductible.

Overhead expenses (administrative expenses) paid for services rendered abroad, such as supervisory services, are not deductible and are not subject to withholding tax.

Presumptive Income. Under the Colombian tax law, the tax base is the higher of actual taxable income (see *General* above) or minimum presumptive income, which is 6% of the net equity as of the last working day of the preceding tax year.

The amount of income tax payable after tax credits may not be less than 75% of the income determined under the presumptive income rules before taking into account tax credits.

Inventories. Inventories are generally valued using the first-in, first-out (FIFO) or weighted-average methods authorized in advance by the tax authorities.

The last-in, first-out (LIFO) method is not allowed for tax or accounting purposes if the use of this method involves the creation of a reserve that contains the difference between the value of the inventory calculated under the LIFO method and the value calculated under another method.

Provisions. Provisions are not allowed as deductions in determining taxable income, except for provisions for accounts receivable, which are subject to special tax rules.

Depreciation. Depreciation may be calculated using the straight-line, double-declining balance or other recognized method authorized in advance by the tax authorities.

Individual assets purchased for up to Col$840,000 (approximately US$298) in 2003 may be fully depreciated in the year of acquisition.

The general categories of useful lives established by the tax law are the following: buildings, including pipelines, 20 years; machinery and equipment, 10 years; and vehicles and computers, 5 years.

If machinery and equipment are used daily in shifts in excess of a regular eight-hour schedule, a taxpayer may request a 25% higher depreciation rate for each additional shift. Land is not depreciable.

In Colombia, the same depreciation method should be used for both tax and accounting purposes.

Amortization. In the oil industry, a deduction is permitted for the amortization of ordinary and necessary investments used for the purposes of the business. Amortization must be claimed over a minimum of five years, unless a lesser period can be justified. Effective from 2002, these costs may be amortized over five years using either the units-of-production or straight-line methods. If investments in exploration are unsuccessful, the costs may be expensed in the year in which this is determined or in the following two years.

Relief for Tax Losses. Tax losses incurred in the 2003 tax year and future years may be carried forward for eight years. Only 25% of the tax losses may offset income in each tax year.

Additional restrictions apply to losses transferred in mergers and spin-offs, which are tax-free transactions for Colombian tax purposes. Under these restrictions, the surviving entity in a merger can offset losses incurred by the merged entities only up to the percentage of its participation in the surviving entity's equity. A similar rule applies to spin-offs of companies. The special tax rules for losses transferred in mergers and spin-offs apply only if the economic activity of the companies involved in the transaction remains the same after the transaction.

Tax losses do not affect an entity's presumptive income for the tax year.

Losses incurred in the 2002 tax year and earlier years may be carried forward five years.

Losses may not be carried back.

Inflation Adjustment. Companies established in Colombia must apply annual inflation adjustments for income tax and financial reporting purposes. Under the system of "integral inflation adjustments," companies must revalue all nonmonetary items, including the following: investments in enterprises; deferred charges; property, plant and equipment; and shareholders' equity. Inventories are subject to this system, effective from 1 January 2003. Nonmonetary liabilities must be adjusted for inflation if the company agrees to a readjustment of principal. Tax equity is subject to the inflation adjustment. The adjustment affects the calculation of depreciation and amortization. These adjustments may result in an increase or decrease of taxable income. If a company's nonmonetary assets exceed the company's tax equity, the adjustment normally results in an inflation gain that is subject to income tax. Assets and liabilities in foreign currency are adjusted based on the exchange rate.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax (VAT); imposed, unless expressly excluded by law, on sales of movable assets; on imports of movable corporeal assets; and on most services	
General rate	16%
Rate on products previously excluded from VAT, such as coffee, chocolate and coal, and on certain services, such as prepaid health services and stock exchange broker commissions	7%
(rate will be increased to 10%, effective from the 2005 tax year)	
Rate on mobile telephone services (cellular and other types of wireless communication services)	20%
Games of chance (other than lotteries)	5%
Luxury automobiles	40%
Nonluxury vehicles, such as automobiles, trucks, and motorcycles	22%
(rate will be increased to 25%, effective from the 2006 tax year)	
Stamp tax	1.5%
Industry and commerce tax, on annual or bimonthly net revenue; rates vary depending on the company's activity and location	
Bogotá	0.414% to 1.381%
Municipalities other than Bogotá	0.2% to 0.25%
Signs and Posters Tax, imposed on enterprises with advertisements in public places; tax rate applied to amount of industry and commerce tax	15%
Tax on Visible Advertisement Hoardings; imposed on each advertisement on hoardings or billboards with a size equal to or larger than 8 square meters (86.111 square feet); approximate maximum tax	US$588
Financial transactions tax; imposed on various financial transactions, including disposals of funds from savings or current bank accounts, and withdrawals from deposit accounts; tax also imposed on certain other transfers of financial resources	0.3%
Social security contributions, imposed on monthly salaries up to Col$8.3 million (approximately US$2,943) (for 2003)	
Pensions (foreigners are not required to participate in the pension system if they contribute to a pension plan abroad)	
Employer	10.125%
Employee	3.375%
(wages earned by employees between 4 minimum monthly legal wages [approximately US$470] and 25 minimum monthly legal wages [approximately US$2,943] are subject to an additional 1% to 2% contribution to a solidarity fund)	

Nature of Tax	Rate
Health insurance	
Employer	8%
Employee	4%
Payroll tax, on gross payroll, for the National Apprenticeship Service, family subsidy entities and Institute for Family Welfare; the tax does not apply to 30% of integral salary and certain other payments (integral salary consists of basic salary and fringe benefits, subject to certain rules)	9%
Custom duty, on Cost, Insurance Freight (CIF) value; general range of rates	5% to 20%

E. Miscellaneous Matters

Foreign-Exchange Controls. A controlled exchange market and a free market exist. The controlled exchange market primarily covers foreign-trade operations (imports and exports), external indebtedness, foreign investment in Colombia and Colombian investment abroad. Commercial banks and financial institutions administer the controlled exchange market.

Exchange operations that are not covered by the controlled market are conducted through the free market. These operations include the purchase of foreign currency that is used to open free-market bank accounts abroad.

Foreign investors may remit abroad without limitation annual profits derived from an investment that is registered with the Colombian Central Bank (Banco de la República de Colombia).

Transfer Pricing. Under Law 788 of 27 December 2002, effective from the 2004 tax year, a transfer-pricing system applies in Colombia. This regime adopts Organization for Economic Cooperation and Development (OECD) rules regarding various items, such as transfer-pricing methods and the determination of income. However, a recent opinion of the Constitutional Court prohibited direct reference to the OECD guidelines for the purposes of interpreting the Colombian transfer-pricing rules. As a result, Congress will approve legislation introducing transfer-pricing regulations.

F. Tax Treaties

Colombia has signed a double tax treaty with Bolivia, Ecuador, Peru and Venezuela in accordance with provisions in the Andean Pact. Other provisions of the Andean Pact prevent double taxation of Andean multinational companies in the member countries of the pact. Colombia has also signed double tax treaties covering certain international air transportation services with Argentina, Chile, France, Germany, Italy, the United States and Venezuela.

COMMONWEALTH OF INDEPENDENT STATES

See Azerbaijan, page 50; Georgia, page 257; Kazakhstan, page 451; Moldova, page 550; Russian Federation, page 739; Ukraine, page 912; and Uzbekistan, page 990. *For inquiries concerning Turkmenistan, contact Sanan Ismayilov in the Azerbaijan office. For other republics of the Commonwealth of Independent States (Armenia, Belarus, Kyrgyzstan and Tajikistan), contact Lisa Gialdini in the Moscow office.*

CONGO, REPUBLIC OF

(Country Code 242)

POINTE NOIRE **GMT +1**

FFA Juridique et Fiscal
Avenue du Général de Gaulle
Immeuble CNSS
Entry C, 4th Floor, Flat # 306
B.P. 643
Pointe Noire
Republic of Congo

94-58-39, 42-43-10
Fax: 94-58-39
(Voice Request Required)

Corporate Tax

Claude Bouillot *(resident in Paris)* — **[33] (1) 46-93-78-30**, **Fax: [33] (1) 58-47-70-20**

Richard Moulet — **94-58-39, 42-43-10**, **Paris Fax: [33] (1) 58-47-46-02**, **E-mail: richard.moulet@cg.eylaw.com**

A. At a Glance

Corporate Income Tax Rate (%)	38 (a)
Capital Gains Tax Rate (%)	38 (b)
Branch Tax Rate (%)	38 (a)
Withholding Tax (%)	
Dividends	20 (c)
Interest	20
Royalties from Patents, Know-how, etc.	20
Payments for Noncommercial Services and Activities	20
Revenues Earned by Certain Foreign Companies	7.7/20 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The minimum tax is 1% of turnover (unless an exemption applies). The corporate income tax rate is 30% for agricultural companies.
(b) In certain circumstances, the tax is deferred or reduced (see Section B).
(c) This tax also applies to directors' fees, nondeductible expenses and adjustments of profits following a tax examination. For directors' fees, the rate is 22%.
(d) For details, see Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Congolese companies are taxed on the territoriality principle. As a result, Congolese companies carrying on a trade or business outside Congo are not taxed in Congo on the related profits. Congolese companies are those registered in Congo, regardless of the nationality of the shareholders or where the company is managed and controlled. Foreign companies engaged in activities in Congo are subject to Congolese corporate tax on Congolese-source profits only.

Tax Rates. The regular corporate income tax rate is 38%. The minimum tax payable is 1% of the annual turnover and cannot be less than FCFA 1 million (or FCFA 500,000 if turnover is less than FCFA 10 million a year). The corporate income tax rate is 30% for agricultural companies.

A withholding tax at a rate of 7.7% is imposed on the turnover of foreign companies without a registered branch in Congo that are engaged in legally authorized activities there and on the turnover of foreign oil companies. A 20% withholding tax is imposed on income sourced in Congo that is derived by foreign companies not engaged in activities in Congo.

A Special Tax on Corporation Tax is imposed at a rate of 2% on companies that incur tax losses in two consecutive years. It appears that the 2% rate is applied to the sum of gross turnovers and products and benefits realized by the company in the most recent year in which it earned a profit. In general, the 2% tax is not deductible for corporate income tax purposes. However, in the company's first profit-making year after incurring the losses, one-half of the 2% tax is deductible.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies depending on the nature of the project and the level of investments.

The Charter of Investments may grant a tax exemption for a three-year period for new activities in industry, agriculture, forestry and mining. In addition, under the General Tax Code, a tax exemption for a two-year period may be granted for such new activities.

Capital Gains. Capital gains are taxed at the regular corporate rate. The tax, however, can be deferred if the proceeds are used to acquire new fixed assets in Congo within three years or in the event of a merger.

If the business is totally or partially transferred or discontinued, only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased. The total gain is taxed, however, if the business is not carried on in any form by any person.

Administration. The fiscal year extends from 1 January to 31 December. Tax returns must be filed before 1 May.

Companies must pay the minimum tax before 15 March, and corporate tax must be paid in four installments by 15 February, 15 May, 15 August and 15 November. Each installment must be equal to 20% of the previous year's tax. The balance of tax due must be paid by the following 30 April.

A 50% penalty is assessed for late payment of tax.

Dividends. Dividends paid are subject to a 20% withholding tax. Resident corporations are taxed on the gross dividend; a corresponding 20% tax credit is available for double tax relief.

After three years, profits credited to the noncompulsory reserve are considered to be dividends and are accordingly subject to the 20% withholding tax on dividends.

A parent corporation may exclude the net dividends received from a Congolese or foreign subsidiary if the following conditions are satisfied:

- The parent company is a Congolese joint stock company or limited liability company that holds 30% or more of the capital of the subsidiary, which is also a joint stock company or limited liability company; and
- The subsidiary carries on only industrial, agricultural, mining, forestry, large-scale fishing or stock-breeding activities.

No withholding credit is allowed if the net dividends are excluded.

A Congolese joint stock company or limited liability company may exclude 90% of the net dividends received from a joint stock company or limited liability company located in Congo or another Central African Economic and Monetary Community (CEMAC) country if the parent company holds 25% or more of the capital of the payer of the dividends.

Foreign Tax Relief. In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from Congolese tax under the territoriality principle is taxable net of the foreign tax. A tax treaty with France, however, provides a tax credit on dividends.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the standard statements of the Organization for Harmonization of Business Law in Africa (OHADA) treaty. The members of OHADA are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Mali, Niger, Senegal and Togo.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office overhead or remuneration for services paid to nonresidents that exceeds 20% of taxable income before the deduction of such items;
- Head office fees or remuneration for certain services (studies and technical assistance) paid to nonresidents by companies engaged in building and public works, by engineering firms and by accounting firms, to the extent that the expenses exceed 2% of turnover;
- Royalties from patents, brands, models or designs paid to a nonresident corporation participating in the management of, or owning shares in, the Congolese corporation;
- Interest paid to a shareholder in excess of a 9.75% annual rate and, if the shareholder is in charge of management, interest on the portion of the loan exceeding one-half of the capital stock;
- Commissions and brokerage fees exceeding 5% of purchased imports;
- Certain specific charges, gifts, subsidies and penalties;
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director); and
- Corporate income tax.

Inventories. Inventory is normally valued at the lower of cost or market value.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are likely to occur and if they appear in the financial statements and in a specific statement in the tax return.

Tax Depreciation. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by tax law. The following are some of the specified annual rates.

Asset	Rate (%)
Commercial and industrial buildings	5
Office equipment	15
Motor vehicles	20 to 33.33
Plant and machinery	10 to 33.33

Heavy new assets acquired for manufacturing, transformation, transport and handling qualify for a special depreciation allowance at a rate of 40% in the year of acquisition if the assets are used only in industrial, forestry or agricultural activities, if they can be used for at least three years and if the total value of such newly acquired assets exceeds FCFA 40 million.

Relief for Tax Losses. Losses may be carried forward for three years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. There is no fiscal integration system in Congo equivalent to a consolidated filing position.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	18.9
Business activity tax (*patente*), calculated based on the nature of the business, the value of equipment and the number of employees	Various
Registration duties, on transfers of real property or businesses	4 to 15
Payroll taxes, paid by employer	
On salary up to FCFA 1.5 million	6
On portion of salary exceeding FCFA 1.5 million	9
Social security contributions, on annual salaries; paid by	
Employer	
Family allowance contribution	10.035
Work accident insurance	2.25
Old-age pension	3.6
Fond National de Construction	2
Employee	
Old-age pension	2.4

E. Miscellaneous Matters

Foreign-Exchange Controls. The Congolese currency is the CFA franc. The fixed exchange rate for the CFA franc is FCFA 1 = €0.0015.

Exchange-control regulations exist in Congo for financial transfers outside the franc zone, which is the monetary zone including France and its former overseas colonies.

Transfer Pricing. The Congolese tax law contains the following transfer-pricing measures:

- Amounts paid by a Congolese company for services rendered to a company located outside Congo are considered indirect transfers of benefits if the payer is de jure or de facto dependent on the service provider and if the tax authorities establish that the payments are excessive or unjustified; and
- Payments for the use of patents, marks, drawings and models, interest payments and payments for services made by a Congolese company to a nonresident company located in a country with low or no taxation, are considered indirect transfers of benefits unless the Congolese company proves that the payments correspond to real operations and that they are not excessive.

F. Treaty Withholding Tax Rates

The withholding rates under a treaty with France are listed in the following table.

	Dividends %	**Interest** %	**Royalties** %
France	15/20 (a)	0 (b)	15
Nontreaty countries	20	20	20

(a) The 15% rate applies if the recipient of the dividends is a French company that holds 10% or more of the capital of the Congolese company. The 20% rate applies to other dividends.

(b) Interest is subject to tax in the recipient's country. Withholding tax is not imposed in the country of source.

COSTA RICA

(Country Code 506)

SAN JOSÉ **GMT -6**

Ernst & Young S.A.
Mail Address:
28-61555
1000 San José
Costa Rica

204-9018
Fax: 204-7305

Street Address:
Forum, Parque Empresarial
Building G, 4th Floor
Santa Ana, San José
Costa Rica

International Tax

Rafael Sayagués
204-9029
Mobile: [1] (305) 310-8007
E-mail: rafael.sayagues@cr.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	0/30 (a)(b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	15 (c)
Interest	15 (d)(e)
Royalties from Know-how and Technical Services	25 (d)
Transportation and Telecommunications	8.5 (d)(f)
Salaries and Pensions	10 (d)
Fees and Commissions	15 (d)
Reinsurance	5.5 (d)(f)
News Services, Videos and Films	20 (d)(f)
Other	30 (d)
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	3/5 (g)

(a) The 30% rate is reduced to 10% or 20% for companies whose annual gross income does not exceed specified amounts (see Section B).
(b) See Section B.
(c) This withholding tax applies to dividends paid to nondomiciled business entities and to domiciled and nondomiciled individuals (see Section B). This withholding tax is considered a final withholding tax.
(d) This is a final withholding tax that is imposed on nondomiciled companies and nondomiciled individuals.
(e) Interest paid to qualified banks and financial entities registered with the central bank and the tax authorities is exempt.
(f) Nondomiciled companies engaged in these types of activities through a permanent establishment in Costa Rica that do not file a tax return may be subject to an imputed income assessment equivalent to 10.5%, 15% or 30% of their total gross income derived in Costa Rica. The applicable percentage depends on the type of business activity. Imputed taxable income is subject to the ordinary corporate income tax rate. For further details, see Section C.
(g) Industrial companies may carry forward losses incurred in their first five years of operations for five years, and they may carry forward losses incurred in subsequent years for three years. Agricultural companies may carry forward losses for five years.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The Costa Rican tax system is based on the territorial principle. As a result, all income derived from Costa Rican sources is subject to tax.

Corporate Income Tax Rates. The corporate tax rate is 30% for resident and nonresident companies. Companies with annual gross income not exceeding ¢21,468,000 (approximately US$52,504.40) are subject to income tax at a rate of 10%. Companies with annual gross income ranging between ¢21,468,000 and ¢43,183,000 (approximately US$105,612.89) are subject to income tax at a rate of 20%.

Companies operating under the Free Trade Zone Regime benefit from a 100% income tax exemption for a period of 8 to 12 years, and a tax reduction of 50% for the following 4 or 6 years, depending on the location of the company. (Companies located in specified "less developed areas" may qualify for a longer exemption period.) The Ministry of the Economy and Industry specified the counties that are "less developed areas" in the Social Development Index for Counties (Executive Decree No. 30006-PLAN, published in the *Official Gazette* of 15 January 2002).

Capital Gains. Capital gains are taxable and capital losses are deductible if they result from the transfer of depreciable assets or from the transfer of nondepreciable assets in the ordinary course of a trade or business. Taxable capital gains are treated as ordinary income and are subject to tax at the normal corporate income tax rate.

Administration. The statutory tax year runs from 1 October through 30 September. Companies must file corporate income tax returns and pay tax due within two months and fifteen days after the end of the tax year. Subsidiaries of foreign companies may request to file under its parent's tax year. In addition, certain agricultural companies may use the calendar year or other special tax years.

Advance income tax installment payments must be paid each quarter based on the prior year's income tax paid or the average of the last three years, whichever is higher. If, for any reason, a company did not file a return during the last three years, it computes its installment payments based on its last filed return. New companies must make quarterly payments based on their first-year projections, which must be filed with tax authorities on or before the last day of January. If no projections are filed, the tax authorities determine the quarterly payments based on an imputed amount.

Dividends. Dividends paid between resident corporations, limited liability companies and partnerships with stock are not taxable. A 15% withholding tax is imposed on dividends paid to domiciled and nondomiciled individuals or to nondomiciled business entities. If the shares on which dividends are paid were purchased through a local stock exchange, the withholding tax rate is reduced to 5%. Distributions by companies of their own shares are not taxable. Under the tax law, domiciled companies include companies incorporated in Costa Rica and companies that have a permanent establishment in Costa Rica.

Foreign Tax Relief. For certain types of foreign-source income (for example, dividends, interest, royalties and commissions), the tax authorities may to grant a company total or partial exemption from Costa Rican income tax for such income if the company establishes that it is not entitled to a foreign tax credit or deduction in the source country for the Costa Rican income tax paid on such income or that such credit or deduction is less than the tax paid.

C. Determination of Trading Income

General. Income tax is determined in accordance with International Accounting Standards (IAS), subject to adjustments required by the Costa Rican income tax law and general resolutions issued by the tax authorities. Taxable income includes all income derived from Costa Rican sources, such as income from industrial, agricultural and trade activities in Costa Rica, income from services rendered in Costa Rica and income derived from real estate transactions, assets, capital, goods and rights invested or used in Costa Rica.

Imputed Income Taxation. In the circumstances described below, the tax authorities may assess imputed amounts of income.

Nondomiciled Companies That Do Not File Tax Returns. Nondomiciled companies engaged in certain types of activities in Costa Rica through a permanent establishment that do not file a tax return are subject to an imputed income assessment equal to a specified percentage of their Costa Rican gross income, unless they provide evidence contradicting the amount of the assessment. For example, they may submit documentary evidence proving that their income is not sourced in Costa Rica. The amount of the imputed income assessment is subject to tax at the normal income tax rate. The following are the applicable percentages for the imputed assessment.

Activity	Rate (%)
Transport and telecommunications	15
Reinsurance	10.5
Media, cinema and international news	30

Airlines, Maritime Shipping and Transportation Companies. Airlines, maritime shipping and transportation companies may enter into an agreement with the tax authorities to compute Costa Rican taxable income using a special formula based on the company's worldwide and local revenues.

Loan and Financing Transactions. Unless the taxpayer provides evidence to the contrary, loan and financing transactions are deemed to derive a minimum amount of interest based on the highest active interest rate fixed by the central bank for loan and financial transactions or, if this rate is not available, on the average market rate being charged in the Costa Rican banking system. No evidence is accepted to contradict the tax authorities' assessment of imputed interest income if no formal written loan or financing agreement was entered into between the parties.

Inventories. The Costa Rican income tax regulations provide that acquisition cost must be used to record assets. The acquisition cost may be computed through several valuation methods, such as the first-in, first-out (FIFO), last-in, first-out (LIFO) and weighted-average cost.

Provisions. In general, provisions, including provisions for contingent liabilities such as doubtful debts and severance pay, are not allowed as deductible expenses. However, actual payments of such liabilities are considered to be deductible expenses.

Tax Depreciation. Depreciation may be computed using the straight-line or the sum-of-years' digits method. The tax authorities may allow a special accelerated depreciation method in certain cases. The tax authorities may authorize other methods based on the type of asset or business activity. The method chosen must be applied consistently. Depreciation is computed based on useful lives specified in the income tax regulations for various types of assets. The following are some of the straight-line rates.

Asset	Rate (%)
Buildings	2/4/6
Plant and machinery	7/10/15
Vehicles	10/15/34
Furniture and office equipment	10
Tools	10

Relief of Losses. Industrial companies may carry forward losses incurred in their first five years of operations for five years, and they may carry forward losses incurred in subsequent years for three years. Agricultural companies may carry forward losses for five years. Losses may not be carried back.

Groups of Companies. Costa Rica does not allow the filing of consolidated tax returns or provide any other tax relief to groups of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax	13
Transfer of real estate tax	1.5
Transfer of vehicles tax	2.5
Customs duties	
Agricultural products; average rate	12.72
Industrial products; average rate	4.69
Certain raw materials and machinery and equipment	0
(Certain specified goods and merchandise are subject to higher rates of customs duty.)	
Real estate tax; assessed and collected by the municipalities	0.25
Payroll taxes, paid by employers, on payroll; rate depends on compensation	0/10/15
Social security contributions; paid by	
Employer	26
Employee	9
Municipal taxes; varies by municipality	Various

E. Foreign-Exchange Controls

The currency in Costa Rica is the colon (¢). On 30 September 2003, the exchange rate of the colon against the U.S. dollar was ¢408.88 = US$1.

No restrictions are imposed on foreign-trade operations or foreign-currency transactions.

F. Tax Treaty

Costa Rica has no double tax treaties in force. However it has entered into a tax information exchange agreement with the United States.

CÔTE D'IVOIRE (IVORY COAST)

(Country Code 225)

ABIDJAN	GMT

FFA Ernst & Young — **20-21-11-15, 20-21-19-57**
5, Avenue Marchand — **Fax: 20-21-12-59**
B.P. 1222
Abidjan 01
Côte d'Ivoire

Corporate Tax
Léon Dakouri | **20-21-11-15**
Mobile: 07-03-82-04
E-mail: leon.dakouri@ci.eylaw.com

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	10/12/18 (c)
Directors' Fees and Nondeductible Expenses	12
Interest	18 (d)
Royalties from Patents, Know-how, etc.	20
Payments for Services	20 (e)
Branch Remittance Tax	12 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) For details concerning the minimum tax, see Section B.
(b) See Section B.
(c) For details concerning these rates, see Section B.
(d) The withholding tax rate is 9%, 13.5% or 16.5% in certain cases if the income is received through a bank or if the income is deposited by a holding company. The withholding rate on "lots" (exceptionally high bond discounts given only for certain specified bonds selected at random) is 25%. The withholding tax is imposed on the amount of the discount.
(e) Applicable to payments by resident companies for services rendered by nonresidents who do not maintain a professional office in Côte d'Ivoire.
(f) On one-half of the before-tax profit (18% if the profit is exempt from corporate tax). See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are taxed on the territoriality principle. As a result, companies carrying on a trade or business outside Côte d'Ivoire are not taxed in Côte d'Ivoire on the related profits. Resident companies are those registered in Côte d'Ivoire, regardless of the nationality of the shareholders or where they are managed and controlled. Foreign companies with activities in Côte d'Ivoire are subject to corporate tax on local-source profits.

Tax Rates. The regular corporate income tax rate is 35%.

The minimum tax is 0.5% of turnover. For oil-producing, electricity and water-producing companies, the rate is reduced to 0.1%. The rate is reduced to 0.15% for banks and financial companies and for insurance companies. The minimum tax may not be less than FCFA 2 million or more than FCFA 30 million. New corporations are exempt from the minimum tax for their first fiscal year.

Profits realized in Côte d'Ivoire by branches of foreign companies are deemed to be distributed and therefore are subject to a branch withholding tax on one-half of the before-tax profit at a rate of 12% (18% if the profit is exempt from corporate tax).

Corporations may apply for various categories of priority status and corresponding tax exemptions. Priority status varies depending on the nature of the project and the level of investments. Corporate tax reductions and temporary tax exemptions are granted to new industrial businesses for investments in industrial buildings and building sites, land for development, and industrial and agricultural establishments.

Capital Gains. Capital gains are taxed at the regular corporate rate. The tax, however, can be deferred if the proceeds are used to acquire new fixed assets in Côte d'Ivoire within three years or in the event of a merger (or other acquisition).

If the business is totally or partially transferred or discontinued, only one-half of the net capital gain is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gain is taxed if the event occurs five years or more after the business is begun or purchased.

The total gain is taxed, however, if the business is not carried on in any form by any person.

Capital gains derived by holding companies are exempt or are taxed at a rate of 20% if certain conditions are satisfied.

Administration. The tax year is from 1 January to 31 December. Tax returns must be filed by 30 April of the year following the tax year.

Companies must pay corporate income tax in three installments, which are due on 30 April, 20 July and 20 November of the year following the tax year.

Late payments are subject to interest of 0.5% per month and a penalty of 5%.

Dividends. Dividends paid by listed companies out of profits taxed at the 35% corporate tax rate are subject to a 10% withholding tax. A 12% withholding tax is imposed on dividends paid by other companies out of profits taxed at the 35% corporate tax rate. Dividends paid out of profits exempt from corporate tax and certain other dividends are subject to withholding tax at a rate of 18%.

A parent company may exclude up to 95% of dividends received from a 10%-owned subsidiary. If less than a 10% interest is held, a listed company may exclude 90% of the dividends received while an unlisted company may exclude 50%.

A parent company does not have to withhold tax when it distributes dividends that consist of dividend income it received from a subsidiary.

Foreign Tax Relief. In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from tax in Côte d'Ivoire under the territoriality principle is taxable, net of the foreign tax. However, a tax treaty may provide for a tax credit.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to the West African Accounting System (SYSCOA). Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Gifts;
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director);

- Subsidies;
- Corporate tax; and
- Penalties.

Services fees and royalties paid by resident companies to nonresident companies are deductible if the following conditions are satisfied:

- The payer proves that the payments are related to real operations and that the amount of the payments is normal; and
- The amount of the payments does not exceed 5% of the turnover or 20% of the overhead of the payer.

Under certain tax treaties of the Côte d'Ivoire, amounts paid to nonresident companies are deductible for tax purposes based on the same conditions as those applicable to payments to resident companies. If such a treaty applies, the payer need only satisfy the first condition mentioned above in order to deduct the payments.

Inventories. Inventory is normally valued at the lower of cost or market value. Cost must be determined on a weighted-average cost price method. A first-in, first-out (FIFO) basis is also generally acceptable.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at the following rates specified by the tax law.

Asset	Rate (%)
Commercial buildings	5
Industrial buildings	5*
Office equipment	10 to 20*
Motor vehicles	33
Plant and machinery	10 to 15*
Computers	50

* These assets may also be depreciated using the declining-balance method.

Relief for Tax Losses. Losses may be carried forward five years. Losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. The law does not contain any provision for the fiscal integration of related companies equivalent to a consolidated filing position.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on goods and services sold in Côte d'Ivoire	20
Turnover tax (TPS), on interest paid to and services rendered by banks and financial companies	10

Nature of Tax	Rate (%)
Withholding tax, on amounts invoiced by importers, producers and sellers to persons subject to commercial or agriculture tax (entitles the buyer to a credit against withholding tax or VAT payable on its sales)	Various
Business activity tax (*patente*), based on the level of business activity and the rental value of tangible assets	Various
Registration duties, on transfers of real property or businesses	1 to 10
Special tax on subcontractors of petroleum companies; a global tax including income tax, payroll taxes, a tax on shares, a national solidarity tax and an insurance tax; on taxable turnover	6.46
Payroll tax, paid by employers on salaries of	
Employees from Côte d'Ivoire	2.8
Expatriates	12
Social security contributions	
Retirement, on monthly salaries up to FCFA 1,647,315; paid by	
Employer	4.8
Employee	3.2
Family allowances, on monthly salaries up to FCFA 70,000; paid by employer	0.75
Industrial injuries, on monthly salaries up to FCFA 70,000; paid by employer	2 to 5

E. Miscellaneous Matters

Foreign-Exchange Controls. Exchange control regulations apply to financial transfers outside the franc zone, which is a monetary zone including France and its former overseas colonies.

Transfer Pricing. Côte d'Ivoire has transfer-pricing rules. The only acceptable transfer-pricing method is uncontrolled price. It is possible to reach transfer-pricing agreements in advance with the tax authorities.

F. Treaty Withholding Tax Rates

Côte d'Ivoire has signed a multilateral tax treaty with the other members of the West African Economic Community (CEAO), which are Burkina Faso, Mali, Mauritania, Niger and Senegal. Although the Organisation Commune Africaine et Mauricienne (OCAM) has been dissolved, Côte d'Ivoire's tax administration continues to honor the provisions of the OCAM tax treaty, which was signed by Benin, Burkina Faso, Central African Republic, Congo, Côte d'Ivoire, Gabon, Mauritius, Niger, Rwanda, Senegal and Togo.

	Dividends %	Interest %	Royalties %
Belgium	12	16	10
Benin	12	18	0
Burkina Faso	12	18	0
Canada	12	15	10
Central African Republic	12	18	0

	Dividends %	Interest %	Royalties %
Congo	12	18	0
France	12	15	10
Gabon	12	18	0
Germany	12	15	10
Italy	12	15	10
Mali	12	18	0
Mauritania	12	18	0
Mauritius	12	18	0
Niger	12	18	0
Norway	12	16	10
Rwanda	12	18	0
Senegal	12	18	0
Switzerland	12	15	10
Togo	12	18	0
United Kingdom	12	15	10
Nontreaty countries	10/12/18 (a)	18 (b)	20

(a) See Section B.
(b) See footnote (d) to Section A.

CROATIA

(Country Code 385)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@hr.ey.com

Accents and other marks are omitted from e-mail addresses.

ZAGREB **GMT +1**

Ernst & Young d.o.o. **(1) 248-0555**
Milana Sachsa 1 **Fax: (1) 248-0556**
10 000 Zagreb
Croatia

Corporate Tax

Trevor Link	**(1) 248-0542**
Renata Jencic	**(1) 248-0702**
Dunja Hitrec	**(1) 248-0701**

A. At a Glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	20
Withholding Tax (%)	
Dividends	15
Interest	15
Royalties from Patents, Know-how, etc.	15
Fees for Market Research, Tax Advice and Auditor Services	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. A company is resident in Croatia if its legal seat and management are located there. Branches of foreign companies are subject to tax only on their profits derived from Croatia.

Tax Rate. The rate of corporate income tax is 20%.

Tax Incentives. Newly established companies obtain beneficiary status and accordingly qualify for reduced tax rates for a 10-year period if they make specified investments and employ a certain number of employees for the 10-year period. The following table sets out the requirements and the reduced rates.

Investment Exceeding HRK	Minimum Number of Employees	Reduced Rate %
10,000,000	30	7
20,000,000	50	3
60,000,000	75	0

Investments in land, buildings and equipment more than one year old are not considered a qualifying investment. Companies benefiting from the above reduced tax rates that no longer fulfill the criteria for the reduced tax rates, and accordingly lose beneficiary status, are required to pay the full amount of income tax and penalty interest for the years in which they benefited from the reduced tax rates.

The tax deduction for wages and salaries of newly hired employees is doubled for a 12-month period. This period is increased to 36 months for newly hired disabled employees. The deduction is reduced by the wages of employees who left the company during the year.

The tax deduction is doubled for education and professional training expenses incurred during the tax year.

The tax deduction is doubled for research and development costs incurred and recorded for the tax year. The amortization deduction for patents and licenses acquired for the purpose of conducting research and development and the depreciation deduction with respect to capitalized research and development expenditure are likewise doubled.

Capital Gains. Capital gains are included in taxable income and subject to tax at the normal corporate income tax rate.

Unrealized capital gains from the revaluation of depreciable assets are included in taxable income up to the amount of the increased depreciation expense resulting from such revaluation. As result, the application of this rule does not change the amount of taxable income. Losses from the revaluation of depreciable fixed assets, financial assets and inventories are recognized as tax-deductible expenses at the time of the disposal of the assets. Losses from revaluations of land and other nondepreciable assets are recognized as tax-deductible expenses in the period of revaluation.

In general, unrealized gains resulting from the revaluation of financial assets (that is, the adjustment of the book value to a higher market value) are considered to be taxable income, but losses incurred on such items are deductible for tax purposes. However, if an investment is accounted for under the equity method, income resulting from the recognition of a portion of the profits of the company in which the investment is held is not taxable, while resulting losses are not deductible for tax purposes.

Administration. The normal tax year is the calendar year, but a company may elect a different tax year.

Annual tax returns must be filed by the end of the fourth month of the following tax year.

Companies must make monthly advance payments of tax. In principle, each payment must be equal to one-twelfth of the tax due for the preceding year. The balance of tax due must be paid by the end of the fourth month of the following tax year. If the total of the advance payments exceeds the tax due for the year, the company may request a refund.

Dividends. A 15% withholding tax is imposed on dividends paid by Croatian companies to foreign legal entities out of profits derived after 1 January 2001, unless an applicable double tax treaty provides otherwise.

Foreign Tax Relief. A foreign tax credit is available to resident companies for foreign tax paid on income earned directly or through permanent establishments abroad. The amount of the credit is the lower of the Croatian corporate tax payable on the foreign income and the foreign tax paid.

C. Determination of Trading Income

General. Taxable income is the difference between revenue and expenses, increased by nondeductible expenses, and decreased by certain specified items, including dividends received. Financial statements must be prepared in accordance with International Accounting Standards (IAS) and the Croatian Accounting Law.

The following expenses are not deductible for tax purposes:
- Depreciation that exceeds the maximum rates allowed by law.
- Seventy percent of entertainment and promotion expenses, which include the following: gifts (regardless of whether the gift includes the mark of the company or product); cost of holidays, sport, recreation and leisure; rental of airplanes, automobiles, vacation homes and vessels; and similar expenses.
- Fines and all other punitive payments.
- Thirty percent of expenses with respect to automobiles, including car rental payments, incurred by owners, managers and other employees.
- Donations in cash or in kind exceeding 2% of revenue. However, this limitation does not apply if the donations are made in accordance with the competent ministry's decisions on special programs and actions undertaken outside the regular business activities of the beneficiary.
- Expenses resulting from an asset loss exceeding the amount determined by the decision of the Croatian Chamber of Commerce in accordance with the value-added tax regulations, as well as the tax related to the loss, unless personal income tax is calculated on the amount of the asset loss exceeding the amount determined by the decision of the Croatian Chamber of Commerce.
- Hidden profit payments.

Inventories. Inventories are valued at the lower of cost or market value. Costs include all acquisition costs, conversion costs and other costs incurred in bringing inventories to their current location and condition. In general, the cost of inventories must be determined using the first-in, first-out (FIFO) or weighted-average method.

Provisions. The following provisions are deductible for tax purposes:
- Provisions for pensions and severance payments;
- Provisions for the costs of renewing natural resources;
- Provisions for costs incurred during guarantee periods; and
- Provisions for costs related to court disputes that have been initiated.

To be deductible for tax purposes, the above provisions must comply with IAS and tax law measures.

Adjustments of trade receivables are deductible if the adjusted receivables are overdue for more than 120 days at the end of tax year and if the adjusted receivables are still outstanding when the tax return is filed. In addition, they are deductible if any of the following applies:
- The company is suing the debtor;
- The debts are reported in a bankruptcy proceeding of the debtor; or
- The debt has been settled in the pre-bankruptcy or bankruptcy proceedings of the debtor.

Tax Depreciation. Depreciation must be calculated using straight-line rates that are based on the useful lives of assets. The following are some of the maximum depreciation rates set forth in a Depreciation Bylaw issued by the Ministry of Finance.

Asset	Rate (%)
Buildings	2.5 to 10
Plant and equipment	5 to 25
Orchards and vineyards	10
Primary herd	20
Intangible fixed assets (such as goodwill, trademarks and licenses)	20
Other long-term assets	10

For tax purposes, maximum depreciation rates prescribed by the Depreciation Bylaw can be doubled. Equipment (except for cars) and business buildings acquired and placed in service in the current tax year may qualify for additional depreciation at a rate of up to 100%. Doubled depreciation rates and additional depreciation expense up to 100% is recognized for tax purposes only if these items are applied for accounting purposes.

Relief for Losses. Tax losses may be carried forward for five years, but they may not be carried back.

Groups of Companies. Croatia does not allow consolidated returns or provide any other tax relief for groups of companies. Each company within a group is taxed separately.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (banks and insurance companies are exempt)	0/22
Real estate tax, on the value determined by the tax authorities	5
Social security contributions; paid by	
Employer	17.2
Employee	20
Personal income tax; the settlement of personal income tax liability is the responsibility of the employer	
Up to HRK 3,000 per month	15
From HRK 3,000 to HRK 6,750 per month	25
From HRK 6,750 to HRK 21,000 per month	35
In excess of HRK 21,000 per month	45
Municipal surcharge; varies among cities; the rate in Zagreb is 18%	0 to 18

E. Miscellaneous Matters

Foreign-Exchange Controls. The Croatian currency is the kuna (HRK).

The Croatian National Bank is responsible for foreign-exchange regulations. No restrictions are imposed on transfers of paid-in share capital, dividends, profits, interest, royalties, fees for know-how and similar payments.

Under the new Foreign Exchange Act, which took effect on 18 June 2003, legal entities may acquire certain foreign securities, provide long-term loans to nonresident companies, acquire real estate abroad and engage in certain other specified transactions. Short-term financial loans may be made to foreign persons or entities by banks or by legal entities having majority ownership of, or control over, the loan recipient.

Under the new act, natural persons may make direct investments abroad, acquire certain securities through authorized companies, provide long-term loans to nonresidents, acquire real estate abroad and provide short-term loans to nonresidents who are related parties (that is, family members).

The new act imposes restrictions on the granting of short-term loans to nonresidents (other than relatives), on the maintenance of foreign-currency accounts at foreign financial institutions and on making payments based on insurance contracts.

Transfer Pricing. Croatia has transfer-pricing rules. Under these rules, the tax authorities may adjust the taxable income of Croatian subsidiaries of foreign companies if they deem amounts paid to foreign parent companies for various types of items to be excessive. In such circumstances, taxable income is increased by the difference between purchase prices stated in financial statements and average market prices in domestic or foreign markets.

Debt-to-Equity Ratios. Croatia does not impose any thin-capitalization rules.

F. Tax Treaties

Croatia has entered into double tax treaties with Albania, Austria, Bulgaria, Canada, China, the Czech Republic, Greece, Hungary, Latvia, Lithuania, Macedonia, Malta, the Netherlands, Poland, Romania, the Russian Federation, the Slovak Republic, South Africa, Switzerland, Turkey and Ukraine. It has signed or initialed tax treaties with Belgium, Estonia, Indonesia, Italy, Kuwait, Malaysia, Mauritius and Yugoslavia, but these treaties have not yet become effective.

It has adopted the double tax treaties entered into by the former Yugoslavia with the following countries: Belgium; Denmark; Finland; France; Germany; Italy; Norway; Sweden; and the United Kingdom.

The withholding tax rates for payments by Croatian companies under Croatia's double tax treaties and under the former Yugoslavia's double tax treaties adopted by Croatia are listed in the table below.

	Dividends %	Interest %	Royalties %
Albania	10	10	10
Austria	0/15 (a)	5	0
Belgium	10/15 (b)	15	10
Bulgaria	5	5	0
Canada	5/15 (c)	10	10
China	5	10	10
Czech Republic	5	0	10
Denmark	5/15 (d)	0	10
Finland	5/15 (e)	0	10
France	5/15 (e)	0	0
Germany	15	0	10
Greece	5/10 (e)	10	10
Hungary	5/10 (e)	0	0
Italy	10	10	10
Latvia	5/10 (e)	10	10
Lithuania	5/15 (f)	10	10
Macedonia	5/15 (e)	10	10
Malta	5	0	0
Netherlands	0/15 (a)	0	0
Norway	15	0	10
Poland	5/15 (e)	10	10
Romania	5	10	10
Russian Federation	5/10 (g)	10	10
Slovak Republic	5/10 (e)	10	10
South Africa	5/10 (h)	0	5
Sweden	5/15 (d)	0	0
Switzerland	5/15 (e)	5	0
Turkey	10	10	10
Ukraine	5/10 (e)	10	10
United Kingdom	5/15 (i)	10	10
Nontreaty countries	15	15	15

(a) The 0% rate applies if the recipient of the dividends is an entity that holds at least 10% of the payer. The 15% rate applies to other dividends.

(b) The 10% rate applies if the recipient holds directly at least 25% of the payer. The 15% rate applies to other dividends.

(c) The 5% rate applies if the recipient directly or indirectly controls at least 10% of the voting power of the payer, or holds directly at least 25% of the payer. However, this rate does not apply to dividends paid by nonresident-owned investment corporations (NROs) resident in Canada. The 15% rate applies to other dividends, including those paid by NROs.
(d) The 5% rate applies if the recipient directly holds at least 25% of the voting power of the payer. The 15% rate applies to other dividends.
(e) The 5% rate applies if the recipient holds directly at least 25% of the payer. The higher rate applies to other dividends.
(f) The 5% rate applies if the recipient holds directly at least 10% of the payer. The 15% rate applies to other dividends.
(g) The 5% rate applies if the recipient holds directly at least 25% of the payer and if the shares in the payer held by the recipient amount to at least US$100,000. The 10% rate applies to other dividends.
(h) The 5% rate applies if the recipient holds at least 25% of the payer. The 10% rate applies to other dividends.
(i) The 5% rate applies if the recipient directly or indirectly controls at least 25% of the voting power of the payer. The 15% rate applies to other dividends.

CYPRUS

(Country Code 357)

LIMASSOL **GMT +2**

Ernst & Young **(25) 362-580**
Mail Address: **Fax: (25) 365-174**
P.O. Box 50123
Limassol 3601
Cyprus

Street Address:
Nicolaou Pentadromos Centre
Office 908, Block A
Limassol 3025
Cyprus

Corporate Tax
★ Neophytos Neophytou **(25) 362-580**
E-mail: neophytos.neophytou@cy.ey.com

NICOSIA **GMT +2**

Ernst & Young **(22) 674-000**
Nicosia Tower Centre **Fax: (22) 677-005**
P.O. Box 1656
36 Byron Avenue
Nicosia 1096
Cyprus

Corporate Tax
Christia Rossidou **(22) 674-000**

A. At a Glance

Corporate Income Tax Rate (%)	10 (a)
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	10 (a)
Withholding Tax (%)	
Dividends	0 (b)
Interest	0
Royalties from Patents, Know-how, etc.	10
Branch Remittance Tax	0

Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) An additional 5% tax is imposed on profits in excess of £1 million.
(b) A defense fund tax at a rate of 15% is withheld from dividends paid to resident individuals.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in Cyprus are subject to income tax on their worldwide income. A company is resident in Cyprus if its control and management are located in Cyprus. Nonresident companies are taxed only on income derived from a permanent establishment in Cyprus and on rental income from property located in Cyprus.

Rates of Corporate Tax. The standard rate of company tax is 10%. For the years 2003 and 2004, an additional 5% tax is imposed on profits in excess of £1 million.

Offshore companies that earned income in 2001 may elect to be taxed at a rate of 4.25% for the years 2003, 2004 and 2005 (certain restrictions apply).

Capital Gains. A capital gains tax of 20% is levied on gains derived from the disposal of immovable property located in Cyprus and from the disposal of shares in companies whose assets include immovable property located in Cyprus (except for shares of companies listed on a recognized stock exchange). A gain is the difference between the sales proceeds and the original cost, adjusted to take into account increases in the cost-of-living index.

Administration. The income year in Cyprus is the calendar year. Tax is payable on 1 August following the income year. However, an estimate of tax due is made by 1 August of the income year, and provisional tax is payable in three equal installments on 1 August, 30 September and 31 December.

Overdue tax is subject to interest of 9% a year, beginning on the due date.

Dividends. Dividends paid are not subject to withholding tax.

A 15% defense fund tax is withheld from dividends paid to resident individuals. This tax is a final tax.

If a company does not distribute as dividends at least 70% of its accounting profits after tax within two years after the end of the relevant income year, a 15% defense fund tax is imposed on a deemed distribution of 70% of the profits. If a company distributes more than 0%, but less than 70%, of its profits, the amount of the deemed distribution subject to tax is reduced by the amount of the actual distribution. The tax on a deemed distribution is reduced proportionally by the percentage of shares held by nonresidents.

Foreign Tax Relief. Foreign tax on profits and gains of a Cyprus resident company is credited against Cyprus tax payable. Such foreign tax relief cannot exceed Cyprus tax payable on the same profits or gains.

C. Determination of Trading Income

General. An assessment is based on accounts prepared in accordance with generally accepted accounting principles, subject to certain adjustments and provisions. Expenses must be incurred wholly and exclusively for the production of income.

Inventories. Inventory is generally valued at the lower of cost or net realizable value. Cost must be determined under the first-in, first-out (FIFO) method. The last-in, first-out (LIFO) method is not acceptable.

Depreciation and Amortization Allowances

Plant and Machinery. A straight-line allowance of 10% a year is given on capital expenditures for plant and machinery.

Industrial Buildings. A straight-line allowance of 4% a year is available for industrial buildings.

Commercial Buildings. A straight-line allowance of 3% a year is allowed for commercial buildings.

Office Equipment. A straight-line allowance of 20% a year is allowed for computers. Other office equipment is depreciated under the straight-line method at an annual rate of 10%.

Motor Vehicles. In general, a straight-line allowance of 20% a year is allowed for motor vehicles (except for private saloon cars).

Sales of Depreciable Assets. On disposal of an asset, if sale proceeds are less than the remaining depreciable base, a further allowance is granted, up to the difference. If sale proceeds exceed the depreciable base, the excess (up to the amount of allowances received) is included in taxable income.

Relief for Losses. Losses can be carried forward without any time restriction. Loss carrybacks are not allowed.

Groups of Companies. Group loss relief for a loss incurred in an income year is allowed between resident group companies that meet certain conditions.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods or services, other than an exempt supply, made in Cyprus by a taxable person (taxable if annual supplies exceed £9,000) in the course of business	0/5/15
Payroll taxes (offshore companies are exempt with respect to their expatriate employees; expatriate employees of offshore companies are also exempt)	
Social Insurance Contribution, levied on each employee’s gross salary, up to £1,842 a month; payable by both employer and employee	6.3
Special Cohesion Fund, levied on gross salary; payable by employer	2

Nature of Tax	Rate (%)
Industrial Training Fund and Redundancy Fund, levied on gross salary, up to £1,842 a month; paid by employer	1.7
Leave Fund, levied on gross salary, up to £1,842 a month; paid by employer in lieu of holiday pay (employer may obtain exemption from contribution to this fund)	8
Special contribution for defense	
On rents received	3
On interest received (except for interest earned in the ordinary course of business)	10

E. Miscellaneous Matters

Foreign-Exchange Controls. The Central Bank of Cyprus administers the law governing foreign-exchange control matters. Effective from 1 January 2004, Cyprus is abolishing foreign-exchange controls as part of its preparations for joining the European Union.

Mergers and Demergers. No taxes arise in mergers and demergers with respect to transfers of businesses, assets or shares.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Austria	10	0	0
Belarus	15 (a)	5	5
Belgium	15 (d)	10	0
Bulgaria	10 (h)	7	10
Canada	15	15 (b)	10 (r)
China	10	10	10
Czechoslovakia (l)	10	10 (b)	5 (c)
Denmark	15 (d)	10 (e)	0
Egypt	15	15	10
France	15 (f)	10 (e)	0 (g)
Germany	15 (m)	10 (b)	0 (s)
Greece	25	10	0 (g)
Hungary	0	10 (b)	0
India	15 (f)	10 (b)	15
Ireland	0	0	0 (g)
Italy	0	10	0
Kuwait	10	10 (b)	5 (c)
Malta	15	10 (b)	10
Mauritius	0	0	0
Norway	0	25	0
Poland	10	10 (b)	5
Romania	10	10 (b)	0 (c)
Russian Federation	10 (k)	0	0
Singapore	0	10 (o)	10
South Africa	0	0	0
Sweden	15 (h)	10 (b)	0
Syria	15	10 (b)	15 (n)
Thailand	10	15 (p)	15 (q)
USSR (j)	0	0	0
United Kingdom	0	10	0 (g)
United States	0	10 (i)	0
Yugoslavia	10	10	10
Nontreaty countries	0	0	10

(a) The rate is 10% for dividends paid to a company holding directly at least 25% of the capital of the payer. The rate is 5% if the recipient of the dividends has invested at least □200,000 in the share capital of the payer.
(b) The rate is 0% for interest paid to the government of the other contracting state.
(c) The rate is 0% for royalties paid for literary, artistic or scientific works, as well as for film and television royalties.
(d) The rate is 10% for dividends paid to a company holding directly at least 25% of the capital of the payer.
(e) The rate is 0% for interest paid to the government of the other contracting state and for interest paid on bank loans or with respect to credit sales of industrial, commercial or scientific equipment or merchandise.
(f) The rate is 10% for dividends paid to a company holding directly at least 10% of the share capital of the payer.
(g) The rate is 5% for film and television royalties.
(h) The rate is 5% for dividends paid to a company holding directly at least 25% of the share capital of the payer.
(i) The rate is 0% for interest paid to a government, bank or financial institution.
(j) The USSR treaty applies to the republics of the Commonwealth of Independent States (CIS).
(k) The rate is reduced to 5% if the recipient has invested at least US$100,000 in the share capital of the payer.
(l) The Czechoslovakia treaty applies to the Czech and Slovak Republics.
(m) The rate is 10% for dividends paid to a company holding directly 25% or more of the share capital of the payer. However, if German corporation tax on distributed profits is lower than on the German corporation tax on undistributed profits and if the difference between the two rates is 15% or more, the withholding tax rate is increased from 10% to 27%. In all other cases, the withholding tax rate is 15%.
(n) The rate is 5% if the royalties are paid to a company controlling 10% or more of the voting power of the payer.
(o) The rate is 7% for interest paid to banks and financial institutions.
(p) The rate is 0% for interest paid on bank loans.
(q) The rate is 5% for royalties paid for literary, artistic or scientific works, or for film or television. The rate is 10% for payments for the use of industrial, commercial or scientific equipment.
(r) The rate is 0% for royalties paid for literary, dramatic, musical or artistic works.
(s) The rate is 5% for royalties paid for literary, artistic or scientific works, as well as for film and television royalties. The rate is 10% for amounts paid for the use of industrial, commercial or scientific equipment.

CZECH REPUBLIC

(Country Code 420)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@cz.ey.com

PRAGUE **GMT +1**

Ernst & Young k.s.	**225-335-111**
Karlovo namesti 10	**Fax: 225-335-222**
120 00 Praha 2	
Czech Republic	

Corporate Tax

Jan Capek	**225-335-625** **Mobile: 602-323-534**
Libor Fryzek	**225-335-310** **Mobile: 602-273-345**
Jiri Jakoubek	**225-335-606** **Mobile: 603-577-806**
Dirk Kroonen	**225-335-193** **Mobile: 603-577-807**

Rene Kulinsky	**225-335-615** **Mobile: 602-359-045**
Gunter Oszwald	**225-335-528** **Mobile: 603-577-823**
Jiri Prokop	**225-335-341** **Mobile: 606-640-498**

Human Capital

Peter Ferrigno	**225-335-613** **Mobile: 603-577-804**

The following chapter reflects proposed 2004 amendments to the Czech Income Taxes Act, the Real Estate Transfer Tax Act and other laws. Because these changes were not yet enacted at the time of writing, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	28 (a)
Capital Gains Tax Rate (%)	28 (a)
Branch Tax Rate (%)	28 (a)
Withholding Tax (%) (b)	
Dividends	15 (c)
Interest	0/15 (d)
Royalties from Copyrights	25 (e)
Income from Media	10/25 (f)
Rental Income from Leases	1/25 (g)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (h)

(a) This is the standard corporate income tax rate, effective from 1 January 2004. Investment funds and mutual funds are subject to tax at a rate of 5%, while pension funds are subject to tax at a rate of 15%. The standard income tax rate will be reduced to 26%, effective from 1 January 2005, and to 24%, effective from 1 January 2006.
(b) Rates may be reduced by treaty.
(c) This withholding tax applies to residents and nonresidents.
(d) Interest on mutual deposits with banks in the interbank market and interest on deposits of insurance companies with banks are exempt from withholding tax. The 15% rate applies to other interest paid to nonresidents and to nonresident individuals who are not entrepreneurs.
(e) This withholding tax applies to nonresidents.
(f) Income from media consists of amounts paid to authors for contributions to newspapers, radio and television. A 10% withholding tax applies to income from media of up to CZK 3,000 a month received by resident individuals. If income from media received by resident individuals exceeds such amount, the total amount received is included in taxable income and is subject to tax at the regular tax rates. Income from media received by nonresidents is considered a copyright royalty and is subject to a 25% withholding tax.
(g) The 1% withholding tax is imposed on gross rent if the lessee purchases the leased asset at the end of the lease term and if certain other conditions are met. Other rental payments are subject to a 25% withholding tax.
(h) Losses incurred in 2003 and earlier years may be carried forward seven years.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident enterprises are subject to tax on their worldwide income. An enterprise is considered to be a resident enterprise if it is incorporated in the Czech Republic or if its management is located there. Nonresident enterprises are subject to income tax on their Czech-source income only.

Rate of Corporate Tax. The standard corporate income tax rate for Czech enterprises and branches of foreign enterprises is 28%. Investment funds and mutual funds are subject to tax at a rate of

5%, while pension funds are subject to tax at a rate of 15%. The standard income tax rate will be reduced to 26%, effective from 1 January 2005, and to 24%, effective from 1 January 2006. No differences exist between the taxation of 100% Czech-owned enterprises and those with foreign investment.

Investment Incentives. Investors in manufacturing may apply for any of the following incentives:

- Corporate income tax relief for up to 10 years (subject to a maximum limitation on the total benefit);
- Customs-related benefits;
- Job-creation grants;
- Grants for retraining of employees; and
- Property-related incentive.

The corporate income tax relief, customs-related benefits and property-related incentive are offered throughout the Czech Republic. Job-creation grants and training grants are only offered in regions with high unemployment.

To qualify for the incentives, the following general conditions must be satisfied:

- The investor must invest at least CZK 200 million, with at least CZK 100 million of the investment covered by the equity of the investor. The CZK 200 million requirement may be reduced to CZK 150 million or CZK 100 million in areas with high unemployment. If the reduced requirement applies, at least half of the investment must be covered by the equity of the investor.
- The investment must be in a manufacturing sector, and the cost of machinery listed on a government-approved list of high-technology machinery must account for at least 50% of the acquisition price of the whole production line (although "production line" is not defined in the law, it probably means the machinery and equipment in the plant used for production).
- Investment in machinery must account for at least 40% of the total investment.
- The investment is made to acquire or construct new production plant or to expand or modernize existing production facilities in order to launch a new production activity.
- The proposed production must meet Czech environmental standards.
- All requirements must be met within three years after the date of granting the incentives. The Ministry of Industry and Trade may extend this deadline for up to two years.
- The investment project may not begin until the investor indicates its intent to obtain the investment incentives.

In addition to the general conditions listed above, investors claiming the 10-year income tax relief must satisfy certain special conditions, including the following:

- They must reduce their tax base by claiming maximum depreciation, deducting all available provisions and using all available tax losses, in accordance with the tax law;
- They must be the first owner of tangible assets (excluding real estate) acquired for the purposes of the investment;
- They may not terminate their activities, merge or declare bankruptcy; and
- They may not increase their tax base by entering into related-party transactions.

Specific conditions apply to other types of incentives.

If the requirement to minimize the tax base is not met, the tax relief for the tax period is reduced by an amount specified in the Income Tax Act, and the company must file an amended tax return. If the company does not satisfy specific conditions relating to particular incentives, it may lose these incentives. If the company does not fulfill the general conditions, it may lose all of the incentives.

The government grants the incentives on a case-by-case basis. It does not automatically grant the incentives to an investor satisfying all of the conditions. However, in practice, the government grants the incentives if the conditions are satisfied.

Capital Gains. In the Czech Republic, realized and unrealized capital gains are recognized.

Realized capital gains are included with other taxable income and taxed at the regular corporate income tax rate. Capital losses on certain assets may be deducted from ordinary income, while capital losses on other assets are not deductible, even from other capital gains.

Unrealized capital gains and losses, which result from revaluation to fair value, are taxable or deductible only with respect to certain assets.

Administration. Companies may select any of the following tax years: calendar year; fiscal year; a period running from the date of a merger through the end of the calendar or fiscal year in which the merger is legally registered; or an accounting period if this period is longer than the calendar year. If a company uses a tax year other than the calendar year, it must file a notification with the tax authorities.

Tax returns must be filed within three months after the end of the tax year. On application of the company, an extension of three months to file a tax return may be granted at the discretion of the tax authorities. Companies that require an audit are automatically granted the three-month extension.

A company with tax liability of more than CZK 150,000 for the preceding year must make quarterly advance payments of tax, each equal to 25% of the preceding year's tax liability. The payments must be made by the 15th day of the third, sixth, ninth and twelfth month of their tax year. Any balance of tax due must be paid by the due date for filing the tax return.

If a company's liability for the preceding year exceeded CZK 30,000, but did not exceed CZK 150,000, installments that are each equal to 40% of the tax liability for the preceding year must be paid by the 15th day of the sixth and twelfth months of their tax year. If the preceding year's tax liability was CZK 30,000 or less, only a single payment is required on filing the annual return.

Late payments incur penalty charges at a rate established by law. Overpayments are refunded within 30 days of the taxpayer's application.

Dividends. Dividends paid to residents and nonresidents are subject to a final withholding tax at a rate of 15%. However, under the European Union (EU) Parent-Subsidiary Directive, which has been incorporated into the Czech Income Taxes Act, if the recipient of the dividends is a company located in an EU member state and if the other conditions of the directive are met, no withholding tax is imposed on the dividends.

Foreign Tax Relief. Income tax paid abroad may be deducted as an expense in the following year if it was imposed on income included in taxable income in the Czech Republic. The deduction is limited to the amount for which a tax credit was not granted under a tax treaty. Tax treaties may provide other relief from double taxation.

C. Determination of Trading Income

General. Taxable income is calculated according to Czech accounting regulations, with adjustments for tax purposes.

In general, all expenses incurred to generate, assure and maintain taxable income are deductible, subject to the limits specified in the corporate income tax law and in special legislation, if documented by the taxpayer. The following are some of the expenses that may be deducted:

- Depreciation of tangible and intangible assets (see *Depreciation* below). The cost of tangible assets purchased for up to CZK 40,000 and intangible assets purchased for up to CZK 60,000 may be deducted immediately.
- Cost of insurance if related to taxable income.
- Membership contributions paid to legal entities under certain conditions.
- Operating expenses for environmental-protection equipment installed in accordance with specific legislation.
- Damages resulting from natural disasters. The amount of the damage must be established by evidence submitted by an expert from an insurance company. Damages caused by unknown perpetrators need be confirmed only by the police.
- Real estate tax, road tax, and fees paid in accordance with Czech legislation, if related to activities that generate taxable income.
- Specified expenses related to the provision of proper working, social and health-care conditions.
- Payments on leases, including financial leases, under certain conditions.
- Travel expenses related to work in the Czech Republic and abroad, subject to limits specified in special legislation.
- Employer contributions for employees' state-contributory supplementary pension insurance (voluntary old-age pension insurance; the old-age pension contributions listed in Section D are mandatory) up to 3% of the annual assessment base for social security premiums (gross salary plus specified benefits-in-kind).
- Donations valued at CZK 2,000 or more for various social and charitable purposes. In general, the maximum amount of this deduction is 5% of taxable income.

Inventory. Inventory is valued at acquisition or production cost. Costs include all costs necessary to convert the inventory to its current condition and to transport it to its current location. No deduction is allowed for inventory provisions or for other decreases in inventory value.

Provisions. Provisions are not deductible unless special legislation permits their establishment for tax purposes.

Tax relief is provided with respect to overdue debts. Taxpayers may deduct each year 20% of unpaid receivables that were due before 31 December 1994, even if they do not commence court or arbitration proceedings against the debtor.

For overdue debts due after 31 December 1994, if between 6 and 12 months have elapsed since the agreed due date for the debt, 20% of the book value of the debt is deductible. This deduction is allowed regardless of whether court or arbitration proceedings have commenced against the debtor. If the debt is more than 12 months overdue, the creditor must commence court or arbitration proceedings against the debtor to claim a further 13% deduction of the debt. If the debt is more than 18 months overdue, the deduction is calculated by applying the following specified percentages to the book value of the debt.

Months Elapsed Since Agreed Due Date		Deductible Percentage of Book Value
Exceeding	Not Exceeding	%
18	24	50
24	30	66
30	36	80
36	–	100

The above deductions may not be claimed for debts from related parties.

Depreciation. The corporate income tax law includes specific provisions concerning the depreciation of tangible and intangible assets. Depreciable tangible assets are divided into six categories, each of which specifies a period (a specified number of years) over which all assets in the category are depreciated.

The following are the five categories of depreciation, the time periods for depreciation of assets in each category and representative assets included in each category.

Category	Asset	Years
1	Passenger cars, buses, office machines and some light machinery	4 (a)
2	Airplanes, tractors, lorries and furniture	6
3	Heavy machinery	12
4	Wooden buildings, pipelines, buildings for the production of energy, and buildings and halls built near mines	20
5	Buildings	30
6	Specified buildings	50 (b)

(a) A maximum depreciable cost is set for certain passenger cars.
(b) This category includes hotels and stores.

Assets that cannot be classified into any of these categories are generally considered to be included in Category 2.

Taxpayers may elect to depreciate assets using the straight-line or the accelerated method. The method chosen, however, does not affect the period of depreciation. Under the accelerated method, depreciation for the first year is calculated by dividing the cost of the asset by the applicable coefficient (see table below). For subsequent years, accelerated depreciation is calculated by multiplying the depreciated value of the asset by two and then dividing by the applicable coefficient, which is reduced by the number of years for which the asset has already been depreciated.

The following are the depreciation rates and coefficients for the five categories under the straight-line and accelerated methods.

Category	Straight-Line Rate	Accelerated-Depreciation Coefficient
1	14.2% for first year and 28.6% for subsequent years	4 for first year and 5 for subsequent years
2	8.5% for first year and 18.3% for subsequent years	6 for first year and 7 for subsequent years
3	4.3% for first year and 8.7% for subsequent years	12 for first year and 13 for subsequent years
4	2.15% for first year and 5.15% for subsequent years	20 for first year and 21 for subsequent years
5	1.4% for first year and 3.4% for subsequent years	30 for first year and 31 for subsequent years
6	1.02% for first year and 2.02% for subsequent years	50 for first year and 51 for subsequent years

Taxpayers may elect to use lower than the maximum straight-line depreciation rates.

Depreciable intangible assets are divided into two categories — intangible assets that may be used for a definite time period and those that may be used for an indefinite time period. Intangible assets that may be used for a definite period are depreciated proportionally during such period. If the period for use is indefinite, the intangible asset is depreciated proportionally over the following periods.

Category	Period (Months)
Software	48
Foundation expenses	60
Other intangible assets	72

In principle, depreciation of intangible assets for tax purposes corresponds to the accounting depreciation determined by the company.

A 10% initial depreciation allowance is granted for the acquisition of certain assets if the company is the first owner of the asset and if the acquisition satisfies certain other conditions.

A 15% initial depreciation allowance is granted for expenditure on certain equipment for the purification and processing of water and on certain equipment for the adjustment of waste material.

A 20% initial depreciation allowance is granted for certain agricultural equipment.

The initial allowances are granted in the year of acquisition. However, if an initial allowance cannot be used in that year because the company earns insufficient income or incurs a loss, it may be carried forward indefinitely to offset future income.

The initial allowance is granted in addition to tax depreciation and does not reduce the amount that may be depreciated over the life of an asset. An initial allowance is recaptured if a company disposes of an asset within three years of claiming the allowance for the asset.

Relief for Losses. Losses may be carried forward for five years. Losses incurred in 2003 and earlier years may be carried forward for seven years. The carryforward may be lost if a "substantive change" in persons participating in the equity of the taxpayer occurs. "Substantive change" is defined as a change in more than 25% equity ownership. Special rules apply to public limited companies that issue bearer shares. No carryback is permitted.

Groups of Companies. Czech tax law does not provide for consolidated tax returns or other types of group relief.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, levied on all taxable supplies (goods and services) made in the Czech Republic in the course of business, on imports of goods and on unscheduled bus transport carried out by a foreign carrier in the Czech Republic; certain supplies are exempt	
Goods	22%
Services	5%
(many exceptions to these rates exist; for example, books, pharmaceuticals, most food products and certain other products are taxed at 5%, and many commercial services, such as telecommunication services, tourism, electric power and repair services, are subject to the 22% rate)	
Social security contributions	
Health insurance	
Employer	9%
Employee	4.5%
Old-age pension	
Employer	19.5%
Employee	6.5%
Sickness	
Employer	3.3%
Employee	1.1%
Unemployment	
Employer	3.2%
Employee	0.4%

Nature of Tax	Rate
Real estate transfer tax, levied on the sale or transfer of real estate	3%
Excise tax, imposed on entities that produce or import certain goods, including hydrocarbon fuels and lubricants, alcohol and spirits, beer, wine and tobacco products; tax based on the quantity of goods expressed in specific units; tax may be levied only once on a particular good	Various
Road tax, imposed on entities that use vehicles; based on engine capacity and number of axles	Various
Tax stamps for the use of highways	
Passenger cars	CZK 900
Trucks	CZK 7,000/CZK 14,000

E. Miscellaneous Matters

Foreign-Exchange Controls. The only legal tender valid in the Czech Republic is the Czech crown (CZK). Other currencies may be used for domestic transactions, but the use of the Czech crown is prevalent.

The Czech crown is fully convertible. Several financial transactions, such as direct investments or acceptance of credit from abroad, are subject to a reporting requirement.

Antiavoidance Legislation. In applying the tax law, the tax authorities may consider the substance of a transaction if the form of the transaction conceals the actual facts.

Transfer Pricing. If prices in a transaction involving related parties vary from the current market prices and if the difference cannot be justified, the market prices are used for tax purposes. Related parties include two companies if the same legal or natural persons directly or indirectly manage, control or own more than 25% of the shares of each of the companies. In addition, related parties are persons who establish a business relationship for the principal purpose of decreasing taxable income or increasing a tax loss.

Debt-to-Equity Ratios. Interest paid on loans from a related party in excess of a 4:1 (6:1 for banks) debt-to-equity ratio is nondeductible. Effective from 1 January 2004, the definition of related parties under the thin-capitalization rules is identical to the definition of related parties under the transfer-pricing rules (see *Transfer Pricing* above). As a result, sister companies are now considered related parties for purposes of the thin-capitalization rules. Loans from unrelated parties are not subject to the thin-capitalization rules.

Foreign Investment. Except for purchases of real property in the Czech Republic, the same rules apply to both Czech investors and foreign investors. Foreign individuals may not own real property in the Czech Republic except in special circumstances, such as through inheritance or if they are permanent residents. Foreign legal entities may own real estate in the Czech Republic only through a registered branch.

F. Treaty Withholding Tax Rates

Czechoslovakia concluded a multilateral tax treaty with other members of the Council for Mutual Economic Assistance (COMECON or CMEA). The COMECON treaty continues to apply to Azerbaijan, Kyrgyzstan and Tajikistan. This treaty provides for a 0% withholding rate for dividends, interest and royalties.

The Czechoslovakia–Yugoslavia treaty of 1984 continues to apply to the countries that comprised the former Yugoslavia that have not entered into tax treaties with the Czech Republic (Bosnia-Herzegovina, and the Union of Serbia and Montenegro).

The Czech Republic honors the other bilateral tax treaties of Czechoslovakia. It has also entered into tax treaties with many other countries. The following table lists the withholding rates under the bilateral treaties currently honored by the Czech Republic.

	Dividends %	Interest %	Royalties %
Albania	5/15 (b)	5	10
Australia	5/15 (e)	10	10
Austria	10	0	0/5 (a)
Belarus	10	0/5 (g)	10
Belgium	5/15 (b)	10	5/10 (q)
Brazil	15	10/15 (i)	15/25 (a)
Bulgaria	10	0/10 (g)	10
Canada	5/15 (c)	0/10 (g)	10
China	10	0/10 (g)	10
Croatia	5	0	10
Cyprus	10	0/10 (g)	0/5 (a)
Denmark	15	0	0/5 (a)
Egypt	5/15 (b)	0/15 (g)	15
Estonia	5/15 (b)	0/10 (g)	10
Finland	5/15 (b)	0	0/1/5/10 (m)
France	10	0	0/5 (a)
Germany	5/15 (b)	0	5
Greece	15	0/10 (g)	0/10 (a)
Hungary	5/15 (b)	0	10
Iceland	5/15 (b)	0	10
India	10	0/10 (g)	10
Indonesia	10/15 (e)	0/12.5 (g)	12.5
Ireland	5/15 (b)	0	10
Israel	5/15 (f)	0/10 (g)	5
Italy	15	0	0/5 (a)
Japan	10/15 (b)	0/10 (g)	0/10 (a)
Kazakhstan	10	0/10 (g)	10
Korea	5/10 (b)	0/10 (g)	0/10 (a)
Latvia	5/15 (b)	0/10 (g)	10
Lebanon	5	0	5/10 (q)
Lithuania	5/15 (b)	0/10 (g)	10
Luxembourg	5/15 (b)	0	0/10 (a)
Macedonia	5/15 (b)	0	10
Malaysia	0/10 (l)	0/12 (g)	12
Malta	5	0	5
Mexico	10	0/10 (g)	10
Moldova	5/15 (b)	5	10
Mongolia	10	0/10 (g)	10

	Dividends %	Interest %	Royalties %
Netherlands	0/10 (b)	0	5
Nigeria	12.5/15 (c)	0/15 (g)	15
Norway	5/15 (b)	0	0/5 (a)
Poland	5/10 (e)	0/10 (g)	5
Portugal	10/15 (j)	0/10 (g)	10
Romania	10	0/7 (g)	10
Russian Federation	10	0	10
Singapore	5	0	10
Slovak Republic	5/15 (c)	0	0/10 (a)
Slovenia	5/15 (b)	0/5 (g)	10
South Africa	5/15 (b)	0	10
Spain	5/15 (b)	0	0/5 (n)
Sri Lanka	6/15 (o)	0/10 (g)	0/10 (a)
Sweden	0/10 (b)	0	0/5 (a)
Switzerland	5/15 (b)	0	10 (p)
Thailand	10	0/10 (g)	5/10/15 (h)
Tunisia	10/15 (b)	0/12 (g)	5/15 (a)
Ukraine	5/15 (b)	0/5 (g)	10
United Arab Emirates	0/5 (k)	0	10
United Kingdom	5/15 (b)	0	0/10 (a)
United States	5/15 (c)	0	0/10 (a)
Uzbekistan	10	0/5 (g)	10
Venezuela	5/10 (f)	0/10 (g)	12
Vietnam	10	0/10 (g)	10
Yugoslavia	5/15 (b)	0	10
Nontreaty countries	15	0/15 (d)	25

(a) The lower rate applies to royalties paid for copyrights; the higher rate applies to royalties paid for patents, trademarks, and industrial or commercial scientific equipment or information.

(b) The lower rate applies if the recipient of the dividends is a company that owns at least 25% of the payer.

(c) The lower rate applies if the recipient of the dividends is a company that owns at least 10% of the payer.

(d) Interest on mutual deposits with banks in the interbank market and interest on deposits of insurance companies with banks are exempt from tax. The 15% rate applies to other interest.

(e) The lower rate applies if the receiving company owns at least 20% of the payer.

(f) The 5% rate applies if the recipient of the dividends is a company that owns more than 15% of the payer.

(g) The 0% rate applies to interest paid to or by the government (or specified government institutions), subject to additional conditions.

(h) The 5% rate applies to royalties paid for copyrights; the 10% rate applies to royalties paid for patents and trademarks; the 15% rate applies to other royalties.

(i) The 10% rate applies to interest on loans and credits for a minimum period of 10 years that are provided by banks and are related to any of the following: sales of industrial equipment; projects or installations of projects; equipment of industrial or scientific units; or equipment related to public works. The 15% rate applies to other interest.

(j) The 10% rate applies to if the dividends are paid to a company that owns at least 25% of the payer continuously for the two years immediately preceding the payment of the dividends and if the dividends are paid after 31 December 1996. The 15% rate applies to other dividends.

(k) The 0% rate applies to dividends paid to the government or a government institution of the other contracting state or to a company that is at least 25%-owned by the government of the other contracting state. The 5% rate applies to other dividends.

(l) The 0% rate applies to dividends paid by a company resident for tax purposes in Malaysia to a Czech tax resident who is the beneficial owner of the dividends. The 10% rate applies to other dividends.

(m) The 0% rate applies to royalties for copyrights; the 1% rate applies to royalties paid under finance leases of equipment; the 5% rate applies to royalties paid under operating leases of equipment and for the use of, or right to use, software; the 10% rate applies to other royalties.
(n) The 0% rate applies to royalties paid for copyrights, excluding royalties with respect to cinematographic films, and films or tapes for television broadcasting. The 5% rate applies to other royalties.
(o) The 6% rate applies to dividends paid by companies resident for tax purposes in Sri Lanka to Czech tax residents. The 15% rate applies to other dividends.
(p) The treaty provides for a rate of 10%, but a protocol to the treaty provides that the rate is 5% until Swiss domestic law imposes withholding tax on royalties.
(q) The 5% rate applies to royalties paid for the use, or the right to use, industrial, commercial or scientific equipment; the 10% rate applies to other royalties.

DENMARK

(Country Code 45)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@dk.ey.com

The e-mail addresses varying from the standard format are listed below the respective persons' names.

COPENHAGEN **GMT +1**

Ernst & Young A/S	**35 87 22 22**
Tagensvej 86	**Fax: 35 87 22 00**
DK-2200 Copenhagen N	**35 87 22 11 (Tax)**
Denmark	**E-mail: eyinfo@dk.ey.com**

National Director of Tax

★ Niels Chr. Steen	**35 87 27 66** **E-mail: niels-christian.steen@dk.ey.com**

Corporate Tax

Niels Josephsen	**35 87 27 73** **Mobile: 51 58 27 73, 21 79 04 75**
Michael Kirkegaard Nielsen	**35 87 27 62** **Mobile: 51 58 27 62** **E-mail: michael.kirkegaard@dk.ey.com**
Søren Steenholdt	**35 87 27 94** **Mobile: 51 58 27 94** **E-mail: soeren.steenholdt@dk.ey.com**

Mergers and Acquisitions

◆ Niels Josephsen	**35 87 27 73** **Mobile: 51 58 27 73, 21 79 04 75**
Søren Steenholdt	**35 87 27 94** **Mobile: 51 58 27 94** **E-mail: soeren.steenholdt@dk.ey.com**

Human Capital

◆ Per Lundbaek Christensen	**35 87 27 89** **Mobile: 51 58 27 89** **E-mail: per-lundbaek.christensen@dk.ey.com**

Indirect Taxes and Customs

◆ Erik Dekov	**35 87 27 52** **Mobile: 51 58 27 52**
Mogens Krewald	**35 87 27 55** **Mobile: 51 58 27 55** **E-mail: mk@dk.ey.com**

Oil and Gas

◆ Carsten Dall Larsen	**35 87 27 67** **Mobile: 51 58 27 67** **E-mail: carsten-dall.larsen@dk.ey.com**

Capital Markets and Financial Services

◆ Allan Bøjlén Christensen — **35 87 27 48**
Mobile: 51 58 27 48
E-mail: allan.b.christensen@dk.ey.com

Insurance

◆ Morten Sigetty — **35 87 27 95**
Mobile: 51 58 27 95

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	28 (a)
Interest	0
Royalties from Patents, Know-how, etc.	30 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (c)

(a) See Section B.
(b) The rate is 0% for royalties paid for copyrights of literary, artistic or scientific works, including cinematographic films, and for the use of, or the right to use, industrial, commercial or scientific equipment.
(c) Losses incurred in the 2002 income year and future years may be carried forward indefinitely. Losses incurred before the 2002 income year may be carried forward for five years.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. A resident company is a company incorporated in Denmark. In addition, a company incorporated in a foreign country is considered a resident of Denmark if it is managed and controlled in Denmark. Resident companies are taxed on worldwide income and on chargeable capital gains. Branches of foreign companies located in Denmark are taxed only on trading income and on chargeable capital gains derived from the disposal of trading assets situated in Denmark.

Rate of Corporate Tax. For the 2004 income year, resident and nonresident companies are taxed at a rate of 30%.

Capital Gains. Capital gains are taxed as other income at a rate of 30%.

Gains derived from disposals of shares owned for three years or more are generally exempt from tax, unless the seller deals in shares. Gains derived from disposals of shares in foreign low-taxed subsidiaries, which are primarily financial companies, are exempt from tax if the Danish parent company owned at least 25% of the shares of the subsidiary for an uninterrupted period of three years immediately preceding the date of the sale of the shares.

Gains on the sale of goodwill are subject to tax.

Recaptured depreciation (see Section C) is taxed as ordinary income at a rate of 30%.

Administration. In general, the income year for companies is the calendar year. Companies may select a staggered income year, which is an income year other than the calendar year. They may change their income year if justified by special circumstances.

For companies with income years ending in January, February or March, tax returns must be filed by the end of the following June. For other companies, tax returns must be filed within six months after the end of their income year. Companies pay corporate tax on a current-year basis at a rate of 30%, with half payable on 20 March and the remainder on 20 November. Companies established before 28 January 1992 may elect to continue to pay tax under the former system, with payment deferred to 20 November following the income year. However, to offset the advantage of such deferred payment, a surtax of 10% is imposed, resulting in an effective tax rate of approximately 33%.

Dividends Paid. In general, dividends paid are subject to withholding tax at a rate of 28%. However, this rate may be reduced under tax treaties for dividends paid to nonresidents. No withholding tax is imposed on dividends paid to companies if both of the following requirements are satisfied:

- The recipient owns at least 20% of the share capital of the payer for a period of 12 consecutive months that includes the date of the distribution of the dividends. The 12-month holding period requirement may be satisfied after the dividends are distributed.
- A tax treaty between Denmark and the country of residence of the recipient of the dividend provides that Denmark must eliminate or reduce the withholding tax on dividends, or the recipient is resident in a European Union (EU) member state and falls within the definition of a company under Article 2 of the EU Parent-Subsidiary Directive (90/435/EEC).

Foreign Tax Relief. Danish companies with foreign permanent establishments may claim a credit for foreign taxes paid unless relief is granted under a tax treaty through the application of the exemption method.

C. Determination of Trading Income

General. Taxable income is based on profits reported in the annual accounts, which are prepared in accordance with generally accepted accounting principles. For tax purposes, several adjustments are made, primarily concerning depreciation and write-offs of inventory.

Expenses incurred to acquire, ensure and maintain income are deductible on an accrual basis. Certain expenses, such as certain gifts, income taxes and formation expenses, are not deductible. However, market research expenses and lawyers' and accountants' fees incurred in establishing or expanding an enterprise are deductible. Only 25% of business entertainment expenses is deductible.

Inventories. Inventory may be valued at historical cost or at the cost on the balance-sheet date. The cost includes freight, duties and certain other items.

Dividends Received. Dividends received by a Danish parent company from its Danish or foreign subsidiary are exempt from tax. A company is considered a subsidiary if the parent company owns 20% or more of the share capital of the subsidiary for a period of 12 consecutive months that includes the date of distribution of the dividends. The 12-month holding period requirement may be fulfilled after the date of distribution.

Sixty-six percent of dividends received from Danish or foreign companies that do not qualify as subsidiaries under the rules described above is included in taxable income and taxed at a rate of 30%.

In general, dividends received from a controlled foreign company (CFC; see Section E) are also exempt from tax if the Danish parent company satisfies the 12-month holding period requirement described above.

Depreciation

Plant, Machinery and Ships. Machinery, equipment, motor vehicles and ships are depreciated collectively on a declining-balance basis. This balance may be written off at an annual rate of up to 25%. If leased, such assets may not be depreciated in the year of acquisition, but they may be depreciated in the following year at a rate of 50%. Permission may be obtained from the local tax authorities to depreciate an asset in the year of acquisition. For the 2004 income year, new acquisitions not exceeding DKK 10,800 or with useful lives not exceeding three years are 100% deductible in the year of purchase. Computer software is also 100% deductible in the year of purchase.

Buildings. Buildings used for commercial and industrial purposes may be depreciated at an annual rate of up to 5%, using the straight-line method based on the purchase price, excluding the value of the land. Office buildings, financial institutions, hotels, hospitals and certain other buildings may not be depreciated. However, office blocks or office premises adjacent to buildings used for commercial purposes may be depreciated if the office blocks are used together with the depreciable buildings.

Others. Goodwill, patent rights and trademarks may be amortized over seven years. Costs incurred in connection with the improvement of rented premises and properties on leased land may be amortized at an annual rate of up to 20%. If the tenancy is entered into for a fixed number of years, the annual depreciation rate cannot exceed a rate that results in equal amounts of depreciation over the fixed number of years. In addition, expenses for rationalization and for research and development may be written off if such costs cannot be charged against income.

Recapture. The amount of depreciation claimed on an asset may be recaptured on the disposal of the asset. Recaptured depreciation is subject to tax at a rate of 30%. For assets depreciated under the declining-balance method, however, the consideration received is deducted from the collective declining-balance account, and, consequently, the recapture is indirect.

Advance Depreciation. Advance depreciation is available on ships. A total of 30% (with a maximum of 15% in any single year) of the expenditure exceeding DKK 1,235,100 may be written off in the years preceding the year of delivery or completion. The relief is given if a binding contract has been concluded for construction or purchase of a ship. If a partnership enters into the contract, each partner must meet the DKK 1,235,100 requirement. If the ship is intended for lease, advance depreciation is not allowed in the year of acquisition, unless permission is obtained from the local tax authorities.

Relief for Trading Losses. Trading losses and interest expenses may be set off against other income and chargeable gains. Losses incurred in the 2002 income year and future years may be carried forward indefinitely. Losses incurred before the 2002 income year may be carried forward for five years. Losses may not be carried back.

Losses may not be offset against interest and other capital income, net of interest paid, if more than 50% of the shares in the company changed ownership since the beginning of the year in which the loss was incurred. In addition, tax losses may not be offset against trading profits of a company that was a shell company at the date of the change of ownership.

Groups of Companies. A Danish company may obtain permission to be taxed jointly with its wholly owned subsidiaries. Under the tax rules for consolidated groups, tax losses of one group company may be set off against income of another group company. Income and losses of all the companies of the consolidated group must be included in the parent company's taxable income. The parent company pays the corporate tax on the net income. Foreign subsidiaries may be included in group taxation unless they are acquired from a group member company after 5 December 1995. If included, a credit for foreign taxes paid by the subsidiaries is available.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax (VAT)	25%
Labor market supplementary pension scheme (ATP); approximate annual employer contribution for each full-time employee	DKK 1,789
Payroll tax (Loensumsafgift)	
Banks, insurance companies and other financial businesses; levied on total payroll	9.13%
Other VAT-exempt businesses; levied on total payroll plus taxable profits, adjusted to exclude financial income and expenses	3.08%
Lotteries and information activities performed by tourist offices and other organizations; levied on total payroll	5.33%
Publishers or importers of newspapers; levied on the value of newspapers sold	2.5%

E. Miscellaneous Matters

Foreign-Exchange Controls. Denmark does not impose foreign-exchange controls, but certain reporting requirements exist. Payments exceeding DKK 100,000 must be reported to the Danish Central Bank for statistical purposes. In addition, certain transactions, generally those made abroad by Danish resident persons, must be reported to the Danish tax authorities for tax control purposes.

Debt-to-Equity Rules. Interest paid by a Danish company or branch to a foreign group company is not deductible to the extent that the Danish company's debt-to-equity ratio exceeds 4:1 at the end of its income year. This rule also applies to third-party debt if the third party has received guarantees and similar assistance from a foreign group company.

Danish law does not recharacterize or impose withholding tax on the disallowed interest. If a company establishes that it could obtain third-party financing on similar terms, it may be permitted to deduct the interest that would normally be disallowed under the rule described above.

Antiavoidance Legislation. The Danish tax law does not include a general antiavoidance provision, but the courts tend to apply a substance-over-form principle.

Although a Danish company or taxable legal entity may change domicile to another country, this would normally be considered a liquidation, with the same tax effect as a sale. The company can transfer its activities abroad, but, to prevent tax avoidance, such a transfer is considered a disposal.

Controlled Foreign Companies. Under the controlled foreign company (CFC) legislation, a Danish company, together with other group member companies, holding at least 25% of the share capital or more than 50% of the voting power of a foreign company must include in its taxable income financial income of that subsidiary if the subsidiary is primarily engaged in financial activities and is subject to low taxation.

Transfer Pricing. Danish companies or Danish permanent establishments engaged in cross-border transactions with foreign group member companies or permanent establishments are required to report summary information on these transactions in their tax returns.

Danish law also requires the entities described above to prepare and maintain written documentation of the pricing policy applied in cross-border transactions.

Taxable income of the entities described above that is derived from intercompany transactions must be determined on an arm's length basis.

F. Treaty Withholding Tax Rates

	Dividends (a) %	Interest %	Royalties (e) %
Argentina	10 (c)	0 (b)	3/5/10/15
Australia	15	0 (b)	10
Austria	10	0	0 (f)
Bangladesh	10 (l)	0 (b)	10
Belgium	15	0 (b)	0
Brazil	25	0 (b)	15 (g)
Bulgaria	5 (c)	0	0
Canada	5 (c)	0 (b)	10
China (m)	10	0 (b)	10
Cyprus	10 (c)	0 (b)	0
Czechoslovakia (i)	15	0	5
Egypt	15 (c)	0 (b)	20
Estonia	5 (c)	0 (b)	5/10
Faeroe Islands	0 (l)	0	0
Finland	0 (l)	0	0

	Dividends (a) %	Interest %	Royalties (e) %
France	0	0	0
Germany	5 (l)	0	0
Greece	18	0 (b)	5
Greenland	0 (d)	0	10
Hungary	5 (c)	0	0
Iceland	0 (l)	0	0
India	15 (c)	0 (b)	20
Indonesia	10 (c)	0 (b)	15
Ireland	0 (c)	0	0
Israel	5 (c)	0 (b)	10
Italy	15	0 (b)	5
Jamaica	10 (c)	0 (b)	10
Japan	10 (c)	0 (b)	10
Kenya	20 (c)	0 (b)	20
Korea	15	0 (b)	10/15
Latvia	5 (c)	0 (b)	5/10
Lithuania	5 (c)	0 (b)	5/10
Luxembourg	5 (c)	0	0
Macedonia	5 (c)	0	10
Malaysia	0	0 (b)	0
Malta	0 (c)	0	0
Mexico	0 (c)	0 (b)	10
Morocco	10 (c)	0 (b)	10
Netherlands	0 (l)	0	0
New Zealand	15	0 (b)	10
Norway	0 (l)	0	0
Pakistan	15	0 (b)	12
Philippines	10 (c)	0 (b)	15
Poland	0 (c)	0 (b)	5
Portugal	0 (c)	0 (b)	10
Romania	10 (c)	0 (b)	10
Russian Federation	10	0	0
Singapore	0 (c)	0 (b)	10
Slovenia	5 (c)	0 (b)	5
South Africa	5 (c)	0	0
Spain	0 (c)	0 (b)	6
Sri Lanka	15	0 (b)	10
Sweden	0 (l)	0	0
Switzerland	0	0	0
Tanzania	15	0 (b)	20
Thailand	10	0 (b)	5/15
Trinidad and Tobago	10 (c)	0 (b)	15
Tunisia	15	0 (b)	15
Turkey	15 (c)	0 (b)	10
Uganda	10 (c)	0 (b)	10
Ukraine	5 (c)	0 (b)	10
USSR (h)	15	0	0
United Kingdom	0 (c)	0	0
United States	5 (l)	0	0
Venezuela	5 (c)	0 (b)	5/10
Vietnam	5 (k)	0 (b)	5/15
Yugoslavia (j)	5 (c)	0	10
Zambia	15	0 (b)	15
Nontreaty countries	28	0 (b)	30

(a) Under Danish domestic law, no withholding tax is imposed on dividends paid to companies if both of the following requirements are satisfied:
- The recipient owns at least 20% of the share capital of the payer for a period of 12 consecutive months that includes the date of the distribution of the dividends. The 12-month holding period requirement may be satisfied after the dividends are distributed.
- A tax treaty between Denmark and the country of residence of the recipient of the dividend provides that Denmark must eliminate or reduce the withholding tax on dividends, or the recipient is resident in a European Union (EU) member state and falls within the definition of a company under Article 2 of the EU Parent-Subsidiary Directive (90/435/EEC).

(b) If the recipient is an individual who has been a resident of Denmark for 5 of the preceding 10 years, the withholding tax on interest is calculated at the following rates: Argentina, 12%; Australia, 10%; Bangladesh, 10%; Belgium, 10%; Brazil, 15%; Canada, 10%; China, 10%; Cyprus, 10%; Egypt, 15%; Estonia, 10%; Greece, 8%; India, 10/15%; Indonesia, 10%; Israel, 25%; Italy, 10%; Jamaica, 12.5%; Japan, 10%; Kenya, 20%; Korea, 15%; Latvia, 10%; Lithuania, 10%; Malaysia, 30%; Mexico, 15%; Morocco, 10%; New Zealand, 10%; Pakistan, 15%; Philippines, 10%; Poland, 5%; Portugal, 10%; Romania, 10%; Singapore, 10%; Slovenia, 5%; Spain, 10%; Sri Lanka, 10%; Tanzania, 12.5%; Thailand, 15%; Trinidad and Tobago, 15%; Tunisia, 12%; Turkey, 15%; Uganda, 10%; Ukraine, 10%; Venezuela, 5%; Vietnam, 10%; Zambia, 10%; and nontreaty countries, 30%.

(c) The rate is 15% (Portugal and Singapore, 10%; Egypt, Indonesia, Trinidad and Tobago, and Turkey, 20%; India and Morocco, 25%; Kenya, 30%) if the recipient is not a company owning at least 25% of the capital (Japan and Trinidad and Tobago, 25% of the voting shares; Israel, 50% of the voting shares).

(d) The withholding tax rate is 0% if all of the following conditions are satisfied:
- The recipient directly owns at least 25% of the share capital of the payer for a period of 12 consecutive months that includes the date of the distribution of the dividend;
- The dividend is not taxed in Greenland; and
- The recipient does not deduct the portion of a dividend distributed by it that is attributable to the Danish subsidiary.

If the above conditions are not met, the withholding tax rate is 28%.

(e) Under Danish domestic law, the rate is 0% for royalties paid for copyrights of literary, artistic or scientific works, including cinematographic films, and for the use of, or the right to use, industrial, commercial or scientific equipment.

(f) The withholding tax rate is 10% if the royalties are paid to an individual holding more than 50% of the paying company [see footnote (e)].

(g) The rate is 25% for payments for the use of, or the right to use, trademarks.

(h) Denmark honors the USSR treaty with respect to the former USSR republics. Azerbaijan, Moldavia, Tajikistan and Uzbekistan have declared that they do not consider themselves obligated by the USSR treaty. Armenia, Georgia, Belarus and Kyrgyzstan have not yet declared whether they consider themselves obligated by the USSR treaty. Denmark has entered into tax treaties with Estonia, Latvia, Lithuania and Ukraine.

(i) Denmark honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.

(j) Denmark honors the Yugoslavia treaty with respect to Croatia, the Federal Republic of Yugoslavia (Montenegro and Serbia) and Slovenia. Denmark has signed a tax treaty with Slovenia, but the treaty has not yet been ratified. The withholding rates under this treaty are listed in the table.

(k) The rate is 5% if the recipient is a company that owns at least 70% of the capital of the payer or has invested at least US$12 million in the capital of the payer. The rate is 10% if the recipient is a company owning at least 25%, but less than 70%, of the capital of the payer. For other dividends, the rate is 15%.

(l) The rate is 15% if the recipient is not a company owning at least 10% of the shares of the payer.

(m) The treaty does not cover Hong Kong.

DOMINICAN REPUBLIC

(Country Code 1)

SANTO DOMINGO **GMT -5**

Ernst & Young
Mail Address:
Apartado No. 140
Santo Domingo
Dominican Republic

(809) 541-3837, 541-3881
Fax: (809) 541-3883
E-mail: rfco.asocs@codotel.net.do

Street Address:
Torre BHD, 5to. piso
Av. 27 de febrero esq.
Av. Winston Churchill
Santo Domingo
Dominican Republic

Corporate Tax
★ Ramón Francisco **(809) 541-3837**

In response to significant economic problems in the Dominican Republic, the government is proposing a tax reform for 2004. The tax reform, which is currently being discussed, will likely modify the tax rates mentioned in the chapter and introduce new taxes. Because of the possible introduction of significant tax changes for 2004, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	25 (a)(b)
Interest	5 (b)(c)
Royalties	25 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The entity paying the dividends may use the withholding tax as a credit against its corporate income tax.
(b) Final tax applicable to payments to both residents and nonresidents.
(c) The withholding tax applies to interest paid to credit institutions.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident corporations are subject to tax on Dominican-source income and on foreign investment income, such as dividends and interest. Nonresident corporations are subject to tax on Dominican-source income only.

A company is resident in the Dominican Republic if it is incorporated there.

Rate of Corporate Tax. The income tax rate is 25%.

Industries established in designated free zones are granted complete exemption from all taxes and fiscal charges for periods of up to 15 years.

Capital Gains. Ordinary taxable income includes gains and losses from the sale of assets, regardless of whether the assets are used in the conduct of a business.

Special rules apply to banks and insurance companies.

Administration. In general, the tax year is the calendar year. However, companies may adopt a tax year ending on 31 March, 30 June or 30 September.

Companies are required to advance monthly payments equal to 1.5% of their monthly gross income. Companies that paid tax for the preceding tax year at an effective tax rate exceeding 1.5% of their gross income must make monthly payments equal to one-twelfth of the tax paid for the preceding tax year. Any balance of tax due must be paid within 120 days after the end of the tax year.

If the actual amount of tax due for the tax year is less than 1.5% of gross income, the total of the advance payments is deemed to be the definitive tax for the year. If the total of the advance payments is less than 1.5% of gross income, a company must make an additional payment in order to make up the difference.

An extension of two months to file the tax return may be requested. However, interest is charged on any balance of tax due at the market rate plus 30%. Payments made after this period are subject to penalties of 10% for the first month and 4% for each additional month or fraction of a month.

Dividends. Dividends are subject to a 25% final withholding tax. The payer may use the tax as a credit against its corporate income tax.

Foreign Tax Relief. The Dominican Republic does not grant relief for foreign taxes paid.

C. Determination of Trading Income

General. Tax is applied on taxable profits, which are the accounting profits adjusted in accordance with the tax law.

Expenses incurred to produce and maintain income are deductible on an accrual basis, provided they are adequately documented. Certain expenses, however, are not deductible. These include unsupported expenses, interest on equity capital, income tax payments including penalties and surcharges, value-added tax, unauthorized bad debt provisions, prior-period tax adjustments, losses from illegal operations and amortization of certain intangible assets. The deductibility of repair expenses is limited to 5% of the cost of the asset. The maximum deduction for contributions to pension plans is 5% of taxable income.

Special Industries. Rules applicable to special industries are outlined below.

Insurance Companies. For foreign insurance companies, the authorities deem a minimum amount of Dominican-source taxable income. This minimum amount is 10% of gross income from risks insured in the Dominican Republic.

Transportation. Income of Dominican Republic transportation companies is considered to be Dominican-source and, therefore, is subject to Dominican tax laws, regardless of whether the operations are carried out within the country.

Minimum Dominican-source taxable net income of foreign transportation companies is deemed to be 10% of freight and passenger fare revenue.

Others. The minimum Dominican-source income for film distribution companies is deemed to be 15% of the price received, and for communications companies, 15% of gross income.

Inventories. Last-in, first-out (LIFO) is the generally approved method for valuing inventory. However, other methods may be used if previously approved by the tax authorities. General provisions or reserves cannot be used in the determination of stock value.

Provisions. Provisions for employees' holiday pay and for bad debts are allowed if determined according to tax rules.

Depreciation and Amortization Allowances. Depreciation is calculated using a variation of the declining-balance method. Salvage value is not taken into account in calculating depreciation. The following are the generally applicable depreciation rates provided by law.

Asset	Rate (%)
Buildings	5
Vehicles and office equipment, including computers	25
Other assets	15

Groups of Companies. If a company owns a percentage of the equity of another company or companies and has control over decisions in those other entities, it is required to consolidate their results and to present one tax return and set of financial statements if required by the tax authorities.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, standard rate	12
Social security tax	
Employer	7
Employee	2.5
National Institute of Technical and Professional Staff	
Employer	1
Employee, on bonuses	0.5
Workers' compensation insurance	Various

E. Foreign-Exchange Controls

The central bank has liberal foreign-exchange controls. The central bank is not required to furnish foreign currency to satisfy the demands for foreign payments. Individuals and companies may buy foreign currency from, or sell it to, commercial banks.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Canada	18	18	18
Nontreaty countries	25	5*	25

* The withholding tax applies to interest paid to credit institutions.

ECUADOR

(Country Code 593)

QUITO	GMT -5

E&Y Global Advisory Services Cía. Ltda.
Andalucia y Cordero esq.
Edificio Cyede - 3rd Floor
P.O. Box 1717835
Quito
Ecuador

(2) 255-5553
Fax: (2) 255-044

Corporate Tax

Javier Salazar
(2) 255-5553
Mobile: (9) 978-2007
E-mail: javier.salazar@ec.ey.com

GUAYAQUIL	GMT -5

E&Y Global Advisory Services Cía Ltda.
Ave. Francisco de Orellana y A. Borges
Edificio CENTRUM - 14th Floor
Guayaquil
Ecuador

(4) 269-3100
Fax: (4) 269-3651

Corporate Tax

Carlos Cazar
(4) 269-3100
Mobile: (9) 927-0525
E-mail: carlos.cazar@ec.ey.com

Because of the frequent changes to the tax law in Ecuador in recent years, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	0 (b)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (c)	
Dividends	0
Interest	0 (d)
Royalties	25
Technical Assistance	25
Services	25
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (e)

(a) Companies that reinvest their profits in Ecuador are entitled to a reduction of 10% in the corporate income tax rate on the reinvested amount (that is, the reinvested profits are taxed at 15%) if they retain the reinvested profits until 31 December of the tax year following the tax year in which the profits are earned. A rate of 44.4% applies to profits derived from oil exploration and exploitation contracts that are not reinvested.

(b) Capital gains derived from sales of shares are exempt from tax if the sales are "occasional" sales, which are sales that are not made in the ordinary course of business of the company.

(c) These withholding taxes are imposed on remittances abroad to nondomiciled companies and nonresident individuals. For further details concerning withholding taxes, see Section B.

(d) No withholding tax is imposed on interest remitted abroad if the foreign loan is registered with the Ecuadorian Central Bank and if the interest rate does not exceed the rates approved by the Central Bank. Otherwise, a 25% withholding tax is imposed.

(e) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate income tax is levied on companies domiciled in Ecuador and on foreign companies. Companies domiciled in Ecuador include those incorporated in Ecuador and companies incorporated in foreign countries that have been approved as branches by the Superintendene of Companies after a legal proceeding. Companies incorporated in Ecuador are subject to tax on their worldwide income. Foreign companies are subject to tax on income derived from activities within Ecuador and from goods and assets located within Ecuador.

Rate of Corporate Tax. The standard rate of corporate income tax is 25%. Companies that reinvest their profits in Ecuador are entitled to a reduction of 10% in the corporate income tax rate on the reinvested amount (that is, the reinvested profits are taxed at 15%) if they retain the reinvested profits until 31 December of the tax year following the tax year in which the profits are earned. A rate of 44.4% applies to profits derived from oil exploration and exploitation contracts that are not reinvested.

Capital Gains. Capital gains derived from sales of shares are exempt from tax if the sales are "occasional" sales, which are sales that are not made in the ordinary course of business of the company. Losses on sales between related parties are not deductible.

Administration. The normal fiscal year runs from 1 January to 31 December. No other closing dates are permitted, regardless of the date a business begins operations. Returns must be filed between 1 April and 10 April.

Companies must make an advance payment of tax equal to 50% of the income tax for the preceding year less withholding tax paid in such year. The amount of the advance payment is calculated in the annual tax return. The advance payment is payable in two installments in July and September.

The penalty for late filing is 3% per month of the income tax due, up to a maximum of 100% of the tax due. Interest at the maximum legal rate, which floats, is levied on all increases in tax assessments from the date the tax was originally due to the date of payment.

Withholding Taxes. A 25% withholding tax is generally imposed on the following payments abroad: royalties and payments for technical assistance to nondomiciled companies and nonresident individuals; payments to nonresident individuals for services rendered; and payments to nondomiciled companies for professional services rendered abroad or occasional services rendered in Ecuador.

A 5% withholding tax is imposed on local payments of interest by banks and other financial institutions.

Penalties are imposed for failures to comply with the withholding requirements. Delays in depositing withheld taxes with the Ministry of Finance result in a penalty of 100% of the amount withheld, plus interest. A penalty of 5% of the withheld amount is imposed on withholding agents failing to provide the taxpayer with the tax withholding slip. Prison terms of six months to two years are imposed on withholding agents who repeatedly fail to make timely deposits of withheld amounts.

Dividends. Gross dividends received from Ecuadorian corporations are exempt from withholding tax and income tax. Dividends received by Ecuadorian corporations from foreign corporations are included in taxable income and subject to corporate income tax at the regular rate of 25%. However, a tax credit is allowed for underlying foreign taxes paid by a foreign corporation on the profits out of which dividends are paid.

Foreign Tax Relief. Ecuador does not grant relief for foreign taxes paid to companies domiciled in Ecuador.

C. Determination of Trading Income

General. Taxable income is based on accounting profits with appropriate tax adjustments.

In computing taxable income, a company can deduct normal expenses incurred in producing income, including production and distribution costs, interest charges, royalty payments and depreciation. Also, employee profit-sharing distributions (15% of pretax profits) can be deducted before computing taxes. Special provisions govern the computation of taxable profits from the export of petroleum, maritime transportation and video films.

Expenses incurred abroad are generally deductible, provided appropriate taxes are withheld if the payment constitutes taxable income for the payee. The following payments abroad are deductible within specified limitations:

- Payments for imports, including interest and financing fees, as provided in import licenses;
- Export fees of up to 2% of the export value; and
- Interest and commissions with respect to foreign loans registered with the Central Bank of Ecuador.

Nondeductible expenses include the following:

- Interest on foreign loans, to the extent the interest rate exceeds limits established by the Central Bank Board, and interest on foreign loans not registered at the Central Bank of Ecuador; and
- Losses on sales of assets to related parties.

Monetary Correction. Nonmonetary assets and nonmonetary liabilities are subject to revaluation (monetary correction) for income tax purposes based on changes in the rate of inflation.

Nonmonetary assets likely to be subject to monetary correction include corporate shares, inventories, prepaid expenses, fixed assets, and investments or receivables in foreign currency.

Nonmonetary liabilities, such as loans in foreign currencies and deferred credits, and shareholders' equity are also subject to monetary correction.

Inventories. Inventory is generally stated at cost (calculated using the average, last-in, first-out (LIFO), first-in, first-out (FIFO) or actual methods). Inventory write-offs require specific authorization by the tax authorities.

Tax Depreciation and Amortization. Depreciation is generally computed using the straight-line method. The following are some of the straight-line depreciation rates provided in the tax law.

Asset	Rate (%)
Commercial and industrial buildings	5
Aircraft and ships	5
Office equipment	10
Motor vehicles, trucks and computers	20
Plant and machinery	10

In general, expenditures to acquire property and other assets that produce revenue must be amortized over 5 years, using a straight-line depreciation rate of 20%. Intangibles must be amortized over either the term of the relevant contract or a 20-year period.

The tax authorities may approve other methods and annual rates for depreciation and amortization.

Organizational costs may be amortized over a 10-year period. Research and development expenses are generally written off over five years.

Depreciation of fixed assets in excess of their original cost is permitted if business assets are revalued as a result of inflation or increased replacement costs.

Relief for Losses. Net operating losses may be carried forward and offset against profits in the following five years, provided that the amount offset does not exceed 25% of the year's profits. Loss carrybacks are not permitted.

Groups of Companies. The tax law does not contain any provisions for filing consolidated returns and relieving losses within a group.

D. Value-Added Tax

A 12% value-added tax (VAT) is levied on most sales and commercial transactions, imports and most services. Food products in their natural state, as well as drugs and veterinary products, are exempt from VAT.

E. Miscellaneous Matters

Foreign-Exchange Controls. All transactions in Ecuador must be conducted in U.S. dollars. The sucre, the former Ecuadorian currency, no longer exists. Exporters may sell their hard currency in the free market. They are no longer required to sell their hard currency to the Central Bank of Ecuador.

Free-Trade Zone. The signatories of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela) have entered into a free-trade agreement. However, Peru signed the agreement with some restrictions. Under the agreement, merchandise and goods manufactured in one of the signatory countries may enter the other signatory countries free of customs duties. All items imported from other countries are subject to a common external customs duty.

F. Treaty Withholding Tax Rates

Under an agreement with Bolivia, Colombia, Peru and Venezuela (the Andean Pact), income earned in those countries is generally not taxed in Ecuador to avoid double taxation. The withholding tax rates under Ecuador's bilateral treaties are shown in the table below. The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties %
Brazil	0	0	15 (c)
Canada	0	0	15
France	0	0	15
Germany	0	0	15
Italy	0	0	5
Mexico	0	0	10
Romania	0	0	10
Spain	0	0	10
Switzerland	0	0	10
Nontreaty countries	0	0	25

(a) Dividends are exempt from withholding tax under Ecuadorian domestic law.
(b) No withholding tax is imposed on interest remitted abroad if the foreign loan is registered with the Central Bank of Ecuador and if the interest rate does not exceed the rates approved by the Central Bank of Ecuador. Otherwise, a 25% withholding tax is imposed.
(c) Trademark royalties are taxed at a rate of 25%.

EGYPT

(Country Code 20)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@eg.ey.com

CAIRO **GMT +2**

Ernst & Young Allied for Accounting & Auditing **(2) 336-2000**
Mobica Tower **Fax: (2) 760-0813**
P.O. Box 97 Dokki
Giza
Egypt

Corporate Tax

★ Sherif El-Kilany	**(2) 336-2000** **Mobile: (12) 211-8372**
★ Ahmed El-Sayed	**(2) 336-2000** **Mobile: (12) 316-8165**
★ Hossam Nasr	**(2) 336-2000** **Mobile: (12) 316-5623**

Human Capital

★ Ahmed El-Sayed	**(2) 336-2000** **Mobile: (12) 316-8165**
★ Hossam Nasr	**(2) 336-2000** **Mobile: (12) 316-5623**

Indirect Tax

★ Ahmed El-Sayed	**(2) 336-2000** **Mobile: (12) 316-8165**
★ Hossam Nasr	**(2) 336-2000** **Mobile: (12) 316-5623**

Legal Services

★ Sherif El-Kilany	**(2) 336-2000** **Mobile: (12) 211-8372**
Rania Rizk	**(2) 336-2000** **Mobile: (10) 669-3355**

A. At a Glance

Corporate Income Tax Rate (%)	40
Capital Gains Tax Rate (%)	40
Branch Tax Rate (%)	40
Withholding Tax (%)	
Dividends	0
Interest	32*
Royalties from Patents, Know-how, etc.	32*
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

* Final tax imposed on gross payments. The rate may be reduced under a tax treaty.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Egyptian corporations are subject to corporate profits tax on their profits derived from Egypt, as well as on profits derived from abroad, unless the foreign activities are performed through a permanent establishment located abroad. Foreign companies are subject to tax only on their profits derived from Egypt.

Rates of Corporate Income Tax. The standard rate of corporate profits tax is 40%. However, exceptions to this rate exist.

A 32% tax is imposed on the profits of industrial companies and on profits derived from export operations.

Oil prospecting and production companies are subject to tax on their profits at a rate of 40.55%.

A 2% development duty is imposed on annual taxable profits in excess of LE 18,000.

A 32% tax is imposed on certain types of gross income, including the following:

- Income derived from movable capital that is not related to a company's business activities, regardless of whether the income is derived from sources in Egypt or abroad;
- Interest derived from debentures, various types of loans and foreign government bonds; and
- Commissions and brokers' fees that are not related to the company's business activities and royalties, regardless of whether the income is derived from sources in Egypt or abroad.

Tax on the payments listed above must be withheld by the payer or by the beneficiary.

Dividends are exempt from tax. Interest on bonds listed on the Egyptian stock exchange are exempt from tax if certain conditions are satisfied.

Law 8 of 1997 grants tax holidays for certain activities. The normal period of a tax holiday is five years. For companies located in new industrial zones, new urban communities and remote areas, the period of the tax holiday is 10 years. Companies located outside the old valley benefit from a 20-year tax holiday. Companies in free zones are not subject to any taxes for the duration of their licensed activity.

Industrial companies established under Law 157 of 1981 qualify for a five-year tax holiday if they have at least 50 employees and if they maintain proper books of account. The tax holiday begins when the company commences its business activities.

Capital Gains. Tax on capital gains is calculated at ordinary corporate tax rates in the same manner as ordinary business profits and is not calculated separately. Trading and capital losses realized on sales of other assets are deductible against taxable capital gains.

If sales proceeds of capital assets are used in the same year or during the following two years to purchase new capital assets that contribute to an increase or improvement in production, a tax credit calculated on capital gains is granted in the year of sale or in the years following the sale or the replacement, provided proper bookkeeping records are maintained.

Administration. Companies must file their annual tax returns, together with all supporting schedules and the original financial statements, within 30 days of the approval of the financial statements by the General Assembly. The General Assembly must be held within three months after the end of the financial year. Branches of foreign companies must file their tax returns within three months after the end of the financial year.

Any tax due must be paid when the tax return is filed.

If the tax return is not submitted by the due date, a delay fine of 20% is imposed on the tax due. The fine may be reduced to 10% if the company agrees with the tax authorities on the amount of tax, without appealing to the Appeal Committee (see below).

If taxes due are not paid within the legal period to submit a tax return or within one month from receiving an order of payment, delay interest of 1% a month is imposed. Overpayments of tax are refunded within 30 days of filing tax returns.

The law has set up appeals committees at two levels — the Internal Committee and the Appeal Committee. The Appeal Committee's decision is final and binding on the taxpayer and the tax department, unless a case is appealed by either one to the court within 30 days of receiving the decision, which is usually in the form of an assessment.

Dividends. Dividends distributed by an Egyptian company are not subject to withholding tax because they are paid out of corporate profits that are taxed under the normal rules.

Dividends received by residents from foreign sources are considered income from movable capital and are subject to tax at a rate of 32%.

Foreign Tax Relief. Foreign taxes paid abroad, such as taxes on foreign-source dividends and interest, may be deducted from such income in determining the amount of income subject to the movable capital tax.

Treaties concluded between Egypt and other countries regulate the credit for taxes paid abroad on income subject to corporate income tax in Egypt.

C. Determination of Taxable Income

General. Corporate income tax is based on taxable profits computed in accordance with generally accepted accounting and commercial principles, modified for tax purposes by certain statutory provisions primarily concerning depreciation, provisions, inventory valuation, intercompany transactions and expenses. Start-up and formation expenses may be capitalized and amortized over three to five years.

The deductibility of a branch's share of head office overhead expenses is limited to approximately 7% of turnover. Head-office expenses other than overhead and general administration expenses are subject to negotiation with the tax authorities. They are fully deductible if they are directly incurred by the branch and are necessary for the performance of the branch's activity in Egypt. Such expenses must be supported by original documents and approved by the head office auditors.

Inventories. Inventory is normally valued for tax purposes at the lower of cost or market value. Cost is defined as purchase price plus direct and indirect production costs. Inventory reserves are not permissible deductions for tax purposes. For accounting purposes, companies may elect to use any acceptable method of inventory valuation, such as first-in, first-out (FIFO) or average cost. The method should be applied consistently, and if the method is changed, the reasons for such change should be stated.

Provisions. Provisions for losses or financial commitments certain to occur, but not precisely quantifiable, are deductible provided the provisions are used for stated purposes. Provisions for doubtful trading debts are not deductible until the bad debt is written off.

In all cases, the total of such annual provisions should not be more than 5% (10% for banks) of the company's net annual profit before taking into account the provisions.

Depreciation and Amortization Allowances. Depreciation appropriate to the nature of the business is allowable. It may be calculated using either the straight-line method or the declining-balance method, at the company's discretion. The method chosen should be applied consistently. The tax department should be notified of the reasons for any change.

The following are current straight-line depreciation rates set forth in tax authority regulations.

Asset	Rate (%)
Buildings	2
Furniture	6
Office and accounting machines	12 to 20
Motor vehicles	20 to 25
Plant and machinery	10 to 15

Any excess depreciation over rates set by the tax authorities is disallowed, but higher rates may be negotiated in case of identifiable abnormal wear and tear or for extended usage beyond the normal working hours.

Accelerated depreciation is allowable only once at a rate of 25% on new machines and equipment in the year they are placed into service.

Normal depreciation is calculated after considering the accelerated 25% depreciation on the net value of new assets, provided that proper books of account are maintained.

Relief for Losses. Losses may be carried forward for five years but may not be carried back.

Groups of Companies. Associated or related companies in a group are taxed separately for corporate income tax purposes. Egyptian law does not contain a concept of group assessment under which group losses may be offset against profits within a group of companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax	Various
Customs duties	
General, ad valorem	Various
On value of machinery needed for investments by companies	5
Stamp duties on bills, promissory notes and letters of guarantee as well as most types of documents, contracts, checks and receipts (shares and bonds listed on the Egyptian Stock Exchange are exempt)	Various
Social insurance	
On monthly base salary, up to LE 625; paid by	
Employer	26
Employee	14
On amount in excess of LE 625 of the base salary, with a maximum excess amount of LE 500 a month; paid by	
Employer	24
Employee	11
On contract labor force	18

E. Miscellaneous Matters

Foreign-Exchange Controls. Egypt has a free-market exchange system. Exchange rates are determined by supply and demand, without interference from the central bank or the Ministry of the Economy.

Debt-to-Equity Rules. Egypt does not impose debt-to-equity restrictions.

Transfer Pricing. For purchases from a head office or foreign affiliates, any difference between the transfer price and the prevailing market price may be justified by the presentation of evidence to the tax authorities.

F. Treaty Withholding Tax Rates

Dividends paid to nonresidents are not subject to withholding tax under Egyptian domestic law. Consequently, the following table sets forth maximum withholding rates provided in Egypt's tax treaties for interest and royalties only.

	Interest (%)	Royalties (%)
Austria	15	0
Bahrain	According to domestic law in each country	According to domestic law in each country
Belarus	10	15
Belgium	15	15/25
Bulgaria	15	15
Canada	15	15
China	10	8
Cyprus	15	10
Czech Republic	0	10
Denmark	15	20
Finland (a)		
From Finland	0	25
From Egypt	32	25
France	25	Trademarks 25 Other 15
Germany	15	Trademarks 25 Other 15
Hungary	15	15
India	32	According to domestic law in each country
Indonesia	15	15
Iraq		
From Iraq	10	15
From Egypt	32	15
Italy	25	15
Japan	32	15
Jordan	15	20
Korea (South)	10/15	15
Lebanon	10	5
Libya	32	32
Malta	10	12
Morocco	20	10
Netherlands	12	12
Norway		
From Norway	0	15
From Egypt	32	0
Pakistan	0	15
Palestine	15	15
Poland	12	12
Romania (c)	15	15
South Africa	12	15
Sudan	32	Films 3 Other 10
Sweden	15	14
Switzerland	15	12.5
Syria	15	20
Tunisia	10	15
Turkey	10	10
United Arab Emirates	10	10
United Kingdom	15	15
United States	15	15

	Interest (%)	Royalties (%)
Yemen	10	10
Yugoslavia (b)	15	15
Nontreaty countries	32	32

(a) A final draft of a new tax treaty with Finland was initialed on 17 September 1997, but the new treaty has not yet been ratified.
(b) The treaty with Yugoslavia applies to the republics that formerly comprised Yugoslavia.
(c) This treaty is being renegotiated.

Egypt has signed double tax treaties with Albania, Armenia, Bangladesh, Greece, Ireland, Kazakhstan, Kuwait, Mongolia, Norway, Oman, Senegal, Seychelles, the Slovak Republic, Spain, Sri Lanka, Tanzania, Thailand, Uganda and Vietnam, but these treaties have not yet been ratified. Tax treaty negotiations are under way with Congo, Macedonia, Malaysia, North Korea, the Russian Federation and Singapore.

EL SALVADOR

Please direct all inquiries regarding El Salvador to Rafael Sayagués of the Costa Rica office (telephone: [506] 204-9029; mobile: [1] (305) 310-8007; fax: [506] 204-7305; e-mail: rafael.sayagues@cr.ey.com).

A. At a Glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	15/25 (a)
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	0 (a)
Interest	10 (b)
Royalties from Know-how and Technical Services	20 (b)
Lottery Prizes and Other Prize Winnings	25 (b)
Other Payments Made to Nonresidents	20 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	0

(a) See Section B.
(b) This withholding tax is imposed on foreign companies and individuals. It is considered a final tax if the recipient does not file an annual income tax return.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The Salvadorian tax system is based on the territorial principle. As a result, all income derived from movable and immovable property in El Salvador and from activities carried out within the country is subject to income tax. Companies incorporated in El Salvador that carry out activities outside the country are not taxed on income derived from such activities.

Corporate Income Tax Rate. The standard rate of income tax is 25% for Salvadorian companies and foreign companies with a permanent establishment in El Salvador.

Capital Gains. Capital gains derived from transfers of movable and immovable property are subject to income tax. Capital gains derived from transfers of real estate are taxable under the rules applicable to capital gains, unless the seller owned the asset for at least three years before the sale of the property. Companies may carry forward capital losses for a five-year period to offset capital gains only.

The capital gain or loss on a transaction is computed by deducting from the sales price the following: the cost of the asset; improvements made to the asset; and all expenses necessary to complete the transaction. The cost of the asset is determined by deducting from the price paid by the seller for the asset the depreciation claimed under the tax law.

The taxation of capital gains is determined under special computation rules that divide the gain into two portions based on the number of years the assets were owned by the taxpayer. One portion of the gain is added to ordinary taxable income and is subject to the normal corporate income tax rate, while the other portion is subject to tax at a reduced rate of 12.5%.

Administration. The statutory tax year runs from 1 January through 31 December. Companies must file tax returns and pay their taxes within four months after the end of the tax year.

Companies with total assets of SVC 10 million (US$1,142,857) or more, or with gross income of SVC 5 million (US$571,428) or more, may be required to file an annual tax certification of their financial statements issued by an external certified public accountant (CPA) who is authorized by the CPA Surveillance Council.

Dividends. Dividends are not subject to income tax to the extent that the distributing company had already filed an income tax return and paid income tax on the income out of which the dividends are paid. Dividends remitted abroad are exempt from withholding tax if the distributing company has paid income tax on the income out of which the dividends are paid.

Foreign Tax Relief. The Salvadorian tax law does not provide for foreign tax relief, such as foreign tax credits.

C. Determination of Trading Income

General. Taxable income is computed in accordance with generally accepted accounting principles, subject to adjustments required by the Salvadorian tax law. The Salvadorian tax law requires the use of the accrual method of accounting.

Taxable income includes all income derived from transactions performed in El Salvador and assets located in the country. All costs and expenses necessary to produce and conserve taxable income are deductible for income tax purposes.

Imputed Income Taxation. The Salvadorian tax law does not provide rates and formulas for calculating imputed income. However, the tax authorities may determine taxable income based on certain information, including the following: investments made during the tax year; equity fluctuations; transactions and profits recorded in previous tax years; purchases and sales; value of imported goods; value of inventories; performance of similar businesses; and general expenses.

Inventories. Salvadorian income tax regulations provide that inventories may be valued at the acquisition cost or at the lower of cost or fair market value. The cost may be calculated based on the first-in, first-out (FIFO) or weighted-average cost methods.

Provisions. Provisions for contingent liabilities, such as doubtful debts, severance pay, and labor, are not allowed as deductible expenses. However, payments of such liabilities are considered to be deductible expenses.

Tax Depreciation. The acquisition cost for products that are consumable within a period of 12 months or less may be fully deducted from taxable income in the year of acquisition. Property with a useful life of more than 12 months may be depreciated using the following straight-line rates.

Asset	Rate (%)
Buildings	5
Machinery	20
Other movable property	50

Only a portion of the acquisition cost of used machinery and movable property may be deducted for tax purposes. The deductible percentages, which are based on the asset's life, are shown in the following table.

Asset's Useful Life (Years)	Deductible Percentage (%)
1 but less than 2	80
2 but less than 3	60
3 but less than 4	40
4 or more	20

The useful life of a used asset is determined when the asset is purchased. The depreciation on the deductible portion of the acquisition cost is calculated according to the normal depreciation rules.

Relief of Losses. Capital losses may be carried forward for five years to offset capital gains only. Ordinary losses may not be carried back or forward.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; transfers of fixed assets with a useful life of at least two years are exempt	13
Transfer of real property tax; transfers of real property for less than SVC 250,000 are not taxable	3
Customs duties	5 to 30
Contributions to social previsional system; imposed on salaries up to SVC 35,000 (US$4000)	6.5
Contributions to social security system; imposed on salaries up to SVC 6,000 (US$685)	7

E. Foreign-Exchange Controls

The currency in El Salvador is the colon (SVC). However, since 2002, all transactions and operations in El Salvador must be carried out and denominated in U.S. dollars. The permanent exchange rate in El Salvador is SVC 8.75 = US$1.

No restrictions are imposed on foreign-trade operations or foreign-currency transactions.

F. Tax Treaties

El Salvador has not entered into any tax treaties with other countries.

EQUATORIAL GUINEA

(Country Code 240)

MALABO **GMT +1**

Ernst & Young
Calle Nigeria 24
Apdo (P.O. Box) 52
Malabo
Equatorial Guinea

9-67-19
Fax: 9-16-86
E-mail: ernst.young@intnet.gq

Corporate Tax

Philippe Baffreau	**9-67-19** **E-mail: philippe.baffreau@ga.eylaw.com**
Nicolas Chevrinais	**9-67-19** **E-mail: nicolas.chevrinais@ga.eylaw.com**
Gaetan Mboza *(resident in Gabon)*	**[241] 74-21-68** **E-mail: gaetan.mboza@ga.eylaw.com**

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (b)
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	40 (c)
Interest	40
Royalties from Patents, Know-how, etc.	40
Payments for Oil and Gas Services	6.25 (d)
Branch Remittance Tax	– (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The minimum tax is 1% of turnover. See Section B for details.
(b) In certain circumstances, the tax is deferred or reduced (see Section B).
(c) This tax is imposed on payments to nonresidents.
(d) This tax applies to payments for services performed by subcontractors of oil and gas companies.
(e) It is not clear whether such a tax exists in Equatorial Guinea.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Equatorial Guinea (EG) companies are taxed on the territorial principle. As a result, EG companies carrying on business outside EG are not subject to corporate income tax in EG on the related profits. EG companies are those registered in EG, regardless of the nationality of the shareholders or where the companies are managed and controlled. Foreign companies engaged in business in EG are subject to corporate income tax on EG-source profits.

Tax Rate. The corporate income tax rate is 25%.

The minimum corporate tax is 1% of annual turnover (for further details, see *Administration* below).

Capital Gains. Capital gains are taxed at the regular corporate income tax rate. However, the tax can be deferred if all of the proceeds are used to acquire new fixed assets in EG within three years or in the event of a merger. If the business is totally or partially transferred or discontinued, only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased.

Administration. The tax year is the calendar year. Tax returns must be filed and tax must be paid by 30 April. The minimum tax must be paid by 31 March. The minimum tax may be set off against the regular income tax payable for the year.

Late payments are subject to a penalty equal to FCFA 50,000, plus an additional FCFA 50,000 for each month of delay.

Dividends. Dividends paid to nonresidents are subject to a 40% withholding tax.

Companies normally include dividends received in taxable income. However, a parent company may exclude up to 90% of the dividends received from a 25%-owned subsidiary if the parent company and the subsidiary have their registered office in a Central African Economic and Monetary Community (CEMAC) country.

Foreign Tax Relief. EG does not provide relief for foreign taxes paid.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the general accounting plan of the Organization for Harmonization of Business Law in Africa (Organisation pour l'Harmonisation en Afrique du Droit des Affaires, or OHADA).

Business expenses are generally deductible unless specifically excluded by law. The following expenses are deductible only if they are normal and substantiated: head office overhead and remuneration for certain services (studies and technical, financial or administrative assistance) paid to nonresidents; and royalties from patents, brands, models or designs paid to a non-CEMAC corporation participating in the management of, or owning shares in, the EG corporation.

The following expenses are not deductible:

- Rent expense for movable equipment paid to a shareholder holding, directly or indirectly, more than 10% of the capital;

- A portion of interest paid to a shareholder in excess of the central bank annual rate plus two points and, if the shareholder is in charge of management, on the portion of the loan exceeding one-half of the capital stock;
- Commissions and brokerage fees exceeding 5% of purchased imports;
- Certain specific charges, penalties and corporate tax; and
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director), gifts and subsidies.

Inventories. Inventories are normally valued at the lower of cost or market value. Cost must be determined under a weighted-average cost price method.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. The following are the straight-line depreciation rates for major categories of assets.

Asset	Rate (%)
Buildings	5 to 20
Plant and machinery, and transportation equipment	5 to 33
Office equipment	10 to 20

Relief for Losses. Losses may be carried forward three years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. EG law does not allow the filing of consolidated tax returns or provide any other form of tax relief for groups of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Turnover tax; imposed on transactions performed in EG that are not subject to the oil and gas sector withholding tax (see Section A)	
General rate	15
Reduced rate	6
Social security contributions; imposed on salaries; paid by	
Employer	21.5
Employee	4.5
Work Protection Fund and Professional Training Fund; imposed on salaries; paid by	
Employer (on gross salary)	1
Employee (on net salary)	0.5

E. Foreign-Exchange Controls

The EG currency is the franc CFA (FCFA).

Exchange control regulations exist in EG for financial transfers outside the franc zone, which is the monetary zone including France and its former overseas colonies.

F. Tax Treaties

EG has not entered into any tax treaties.

ESTONIA

(Country Code 372)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ee.ey.com

Accent marks are omitted from e-mail addresses.

TALLINN **GMT +2**

Ernst & Young Baltic AS
Tallinn Business Center
Harju 6 – 4th Floor
10130 Tallinn
Estonia

(6) 310-610
Fax: (6) 310-611

Corporate Tax

Tõnis Jakob **(6) 310-610**
Mobile: (50) 11-120

Hedi Wahtramäe **(6) 310-610**
Mobile: (50) 92-665

The tax law in Estonia has been frequently amended, and further changes are likely to be introduced. Because of these frequent changes and the rapidly changing economic and political situation in Estonia, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Tax Rate	26/74 (a)
Capital Gains Tax Rate (%)	0/26 (b)
Branch Tax Rate	26/74 (a)
Withholding Tax (%) (c)	
Dividends	0/26 (d)
Interest	0/26 (e)
Royalties	15 (f)
Rental Payments	26 (f)
Services	15/26 (g)
Salaries and Wages	26

(a) Resident companies and permanent establishments of nonresident companies registered with the Estonian authorities are not subject to tax on their income. They are subject only to tax at a rate of 26/74 on certain payments made by them. For details, see Section B.

(b) Resident companies and permanent establishments of nonresident companies registered with the Estonian authorities are not subject to tax on their capital gains. Nonresident companies without a permanent establishment in Estonia are subject to tax at a rate of 26% on their capital gains derived from Estonian sources. For further details, see Section B.

(c) These are final withholding taxes.

(d) Withholding tax at a rate of 26% is imposed on dividends paid to nonresident companies owning less than 25% (20%, effective from 1 May 2004) of the capital of the payer, nonresident individuals and nonresidents from low-tax jurisdictions. Other dividends are exempt from withholding tax.
(e) Interest is exempt from withholding tax if it is paid by resident banks to resident and nonresident individuals or if it is paid to nonresident banks in certain circumstances. A 26% withholding tax is imposed on other interest payments to resident and nonresident individuals and nonresident companies.
(f) Applicable to payments to resident and nonresident individuals and to nonresident companies.
(g) The 26% rate applies to payments to nonresidents from low-tax jurisdictions. The 15% rate applies to payments to other nonresidents for services rendered in Estonia.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies and permanent establishments of nonresident companies registered with the Estonian authorities are not subject to tax on their income. They are subject only to tax on the following payments made to resident legal entities, nonresident companies, resident individuals and nonresident individuals: dividends; fringe benefits; gifts; distributions of profits; and payments not related to the business of the payer. Resident companies are companies registered (effectively the same as incorporated) in Estonia. Nonresident companies without a registered permanent establishment in Estonia are subject to tax on their income derived from Estonia.

Tax Rates. Resident companies are subject to tax on the payments described in *Corporate Income Tax* above at a rate of $^{26}/_{74}$.

A 26% rate applies to income derived by nonresident companies without a permanent establishment in Estonia.

Capital Gains. Capital gains derived by resident companies and permanent establishments of nonresident companies registered with the Estonian authorities are exempt from tax.

Nonresident companies without a permanent establishment in Estonia are taxed at a rate of 26% on their capital gains derived from Estonian sources.

Capital gains derived from sales of shares and securities are exempt from tax. However, if 10% or more of the shares of a company are sold and if real estate and buildings account for 75% or more of the assets of the company, the capital gains derived from the sale of these shares are taxable.

Administration. The tax period is a month. Tax returns must be filed and income tax must be paid by the 10th day of the following month.

Dividends. A 26% withholding tax is imposed on dividends paid to nonresidents that hold less than 25% (20%, effective from 1 May 2004) of the share capital of the payer, nonresident individuals and nonresidents from low-tax jurisdictions. In addition, payers of dividends must pay income tax equal to $^{26}/_{74}$ of the amount of dividends paid. This income tax is treated as a payment of income tax by the distributing company rather than as tax withheld from the recipient of the dividends.

Dividends received are not included in taxable income.

Interest. Withholding tax at a rate of 26% is imposed on interest paid to resident and nonresident individuals and to nonresident companies. Interest paid by resident banks to resident and non-resident individuals and to nonresident banks in certain circumstances is exempt from withholding tax.

Foreign Tax Relief. A foreign tax credit may be claimed only against income tax payable on dividend distributions. The credit is available for the following foreign taxes:

- Foreign tax paid on dividends; and
- Foreign tax paid on profits out of which the dividends are paid, as well as income tax withheld from the dividends, if, at the time of payment of the dividends, the resident company receiving the dividends owns at least 20% of the shares or votes of the foreign company paying the dividends.

The total amount of the credit may not exceed $^{26}/_{74}$ of the amount of dividends paid by the foreign company.

C. Determination of Trading Income

Because resident companies and permanent establishments of nonresident companies registered with the Estonian authorities are not subject to tax on their income, they need not determine their trading income for tax purposes.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods and services, excluding exports	5/18
Social security tax	33
Land tax	1
Unemployment insurance contributions; paid by	
Employer	0.5
Employee	1

Other significant taxes include excise duty, stamp duties, heavy vehicles tax, charges on the use of Estonian natural resources and pollution charges.

E. Miscellaneous Matters

Foreign-Exchange Controls. The Estonian currency is the Estonian crown (EEK).

Estonia has insignificant foreign-exchange controls. Enterprises registered in Estonia may maintain bank accounts abroad without any restrictions.

Debt-to-Equity Rules. No debt-to-equity or thin-capitalization rules exist in Estonia.

Antiavoidance Legislation. Under the Taxation Act, if it is evident from the content of a transaction or act that the transaction or act is performed for the purposes of tax evasion, the actual economic substance of the transaction applies for tax purposes. If a fictitious transaction is entered into in order to conceal another transaction, the provisions of the concealed transaction apply for tax purposes.

Transfer Pricing. Under a transfer-pricing provision in the income tax law, pricing between resident and nonresident affiliated companies should be at arm's length. The tax authorities may adjust to an arm's length amount the profit of a company engaging in transactions with affiliated nonresident persons.

F. Treaty Withholding Tax Rates

	Dividends (a) %	Interest %	Royalties %
Austria	5/15	10	5/10 (b)
Belarus	10	10	10
Belgium	5/15	10	5/10 (b)
Canada	5/15	10	10
China	5/10	10	10
Czech Republic	5/15	10	10
Denmark	5/15	10	5/10 (b)
Finland	5/15	10	5/10 (b)
France	5/15	10	5/10 (b)
Germany	5/15	10	5/10 (b)
Iceland	5/15	10	5/10 (b)
Ireland	5/15	10	5/10 (b)
Italy	5/15	10	5/10 (b)
Kazakhstan	5/15	10	15
Latvia	0/15	0	0
Lithuania	0/15	0	0
Moldova	10	10	10
Netherlands	5/15	10	5/10 (b)
Norway	5/15	10	5/10 (b)
Poland	5/15	10	10
Sweden	5/15	10	5/10 (b)
Ukraine	5/15	10	10
United Kingdom	5/15	10	5/10 (b)
United States	5/15	10	5/10 (b)
Nontreaty countries	0/26 (c)	0/26 (c)	15/26 (d)

(a) The lower treaty rates apply to dividends paid to corporations owning at least 25% of the payer. The higher rate applies to other dividends.
(b) The lower rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
(c) See Section B.
(d) The 26% rate is the rate of withholding tax for rental payments. The 15% rate applies to royalties, including royalties paid for the use of industrial, commercial or scientific equipment.

ETHIOPIA

(Country Code 251)

ADDIS ABABA **GMT +3**

Ernst & Young
Mail Address:
P.O. Box 24875
Code 1000
Addis Ababa
Ethiopia

(1) 504-933
Fax: (1) 504-932
E-Mail: zemnegatu@telecom.net.et

Street Address:
Bole Road
MEGA Building – 11th Floor
Addis Ababa
Ethiopia

Corporate Tax

Zemedeneh Negatu	**(1) 504-933** **Mobile: (9) 201-741**

A. At a Glance

Corporate Income Tax Rate (%)	30/35/45 (a)
Capital Gains Tax Rate (%)	15/30 (b)
Branch Tax Rate (%)	30/35/45 (a)
Withholding Tax (%)	
Dividends	10 (c)
Interest	5 (c)
Royalties	5 (c)
Technical Services	10 (c)(d)
Branch Remittance Tax	10 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (f)

(a) The standard corporate income tax rate is 30%. Income from mining operations, excluding petroleum, natural gas and oil shale, is taxed at rates of 35% and 45%. The 35% rate applies to small-scale mining operations, and the 45% rate applies to large-scale mining operations. Small-scale and large-scale mining operations are classified in accordance with detailed rules. Income from petroleum, natural gas and oil shale operations is taxed at the standard rate of 30%.
(b) The 15% rate applies to gains derived from transfers of buildings located in municipal areas that are used for a business. The 30% rate applies to gains derived from transfers of shares of companies.
(c) This is a final tax for both residents and nonresidents.
(d) This withholding tax applies to technical services rendered outside Ethiopia.
(e) Remittances by branches to their foreign headquarters are considered to be distributions of dividends and are accordingly subject to dividend withholding tax at a rate of 10%.
(f) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. Nonresident companies are subject to tax on their Ethiopian-source income only. A company is resident in Ethiopia if it satisfies any of the following conditions:
- It has its principal office in Ethiopia.
- Its place of effective management is located in Ethiopia.
- It is registered in the trade register of the Ministry of Trade and Industry or of the trade bureaus of the regional governments of Ethiopia. Registered companies include permanent establishments of nonresident companies in Ethiopia.

Tax Rates. The standard rate of corporate income tax is 30%. Income from mining operations, excluding petroleum, natural gas and oil shale, is taxed at rates of 35% and 45%. The 35% rate applies to small-scale mining operations, and the 45% rate applies to large-scale mining operations. Small-scale and large-scale mining operations are classified in accordance with detailed rules. Income from petroleum, natural gas and oil shale operations is taxed at the standard rate of 30%.

Certain investment activities approved by the Ethiopian Investment Authority qualify for income tax exemptions and other incentives. For example, new export-oriented investments in manufacturing, agroindustrial activities or the production of agricultural products may qualify for income tax exemptions ranging from five to seven years, while two-year tax exemptions are available for investments in the expansion and upgrading of existing businesses engaged in such activities. Enterprises that incur losses during the period of income tax exemption may carry forward their losses to years following the expiration of the tax-exemption period for a period equaling half the tax-exemption period.

Capital Gains. Capital gains derived from transfers of buildings located in municipal areas that are used for a business, factory or office are subject to tax at a rate of 15%. Capital gains derived from transfers of shares of companies are subject to tax at a rate of 30%.

Subject to certain limitations, losses incurred on transfers of the properties described above may be used to offset gains. Unused capital losses may be carried forward indefinitely.

Subject to limitations, gains or losses are recognized on transfers of assets used in a business (other than buildings) and are subject to corporate income tax.

Administration. The Ethiopian Federal Inland Revenue Authority administers and collects the corporate income tax and capital gains tax.

The tax year (year of assessment) is the Ethiopian budgetary year, which runs from 7 July to 6 July of the following calendar year. If a company's accounting year differs from the Ethiopian budgetary year, its basis period for the tax year is the accounting year ending within the tax year.

An advance corporation tax of 2% is withheld from payments for goods or services if the payments exceed certain thresholds. The tax is withheld from payments for goods if the payments amount to more than Birr 10,000 in a single transaction or supply contract. For payments for services, the tax is withheld if the payments amount to more than Birr 500 in a single transaction or supply contract.

Companies must file annual tax returns, together with their annual accounts, within four months after the end of their accounting year. Companies must pay the tax shown in the tax return reduced by the amount of the advance payments withheld and any foreign tax credits. The tax office audits the company's return and annual accounts to determine the final assessment.

Companies that fail to pay tax by the due date must pay interest at a rate that is 25% above the highest commercial lending interest rate that prevailed during the preceding quarter.

Dividends. A 10% final withholding tax is imposed on dividends paid by share companies and withdrawals of profit from private limited companies. The tax applies to both residents and non-residents.

Remittances by branches to their foreign headquarters are considered to be distributions of dividends and are accordingly subject to dividend withholding tax at a rate of 10%.

Other Withholding Taxes. A 5% final withholding tax is imposed on interest on deposits paid to residents and nonresidents.

A 5% final withholding tax is imposed on royalties. Residents receiving royalties from abroad pay the 5% tax on the royalties.

A 10% withholding tax is imposed on payments for technical services rendered outside Ethiopia to residents of Ethiopia.

Foreign Tax Relief. Foreign tax paid may be used as a credit against tax payable with respect to the foreign-source income, limited to the amount of tax in Ethiopia that would otherwise be payable on such income.

C. Determination of Trading Income

General. Taxable income is the amount of income subject to tax after the deduction of all expenses and other deductible items allowed under the tax law.

Expenses are deductible to the extent they are incurred for the purpose of earning, securing, and maintaining business income.

Subject to restrictions, reinvestments by resident companies of their profit to increase the capital of another company may be deducted for tax purposes.

Foreign-Exchange Gains and Losses. All net gains or losses arising from transactions in foreign exchange are considered to be taxable income or deductible losses in the year in which they arise.

Provisions. Specifically identifiable provisions for bad debts are allowed if the company has taken all reasonably necessary steps to recover the debts. General provisions and provisions for stock obsolescence are not allowed.

Financial institutions may deduct special (technical) reserves in accordance with the National Bank of Ethiopia directives. However, the taxable income of banks is increased by amounts withdrawn from such reserves.

Tax Depreciation. Buildings and other structures are depreciated using the straight-line method at an annual rate of 5%. A straight-line depreciation rate of 10% applies to intangible assets.

The following assets are depreciated using a pooling system.

Assets	Rate (%)
Computers, information systems, software products and data storage equipment	25
Fixed assets of companies engaged in mining activities	25
Other business assets	20

Under the pooling system, the depreciation rate is applied to the depreciation base, which is the book value of the category as recorded in the opening balance sheet of the tax year, increased by certain costs incurred during the tax year, and decreased by certain amounts received during the tax year. The tax base is increased by the following costs: the cost of assets acquired or created; the cost of improvements that are capitalized; and the costs of renewal and reconstruction of assets. The tax base is decreased by the sales price of assets disposed of and compensation received for the loss of assets.

A negative depreciation base is added to taxable income. If the depreciation base is Birr 1,000 or less, the entire depreciation base is deductible.

No depreciation is allowed on the revaluation of business assets.

Maintenance and improvement expenses exceeding 20% of the depreciation base of a category of business assets increase the depreciation base of that category.

Fine arts, antiques, jewelry, trading stock and other business assets not subject to wear and tear and obsolescence may not be depreciated.

Relief for Losses. Companies may carry forward net operating losses for three years. However, if a company incurs losses in any of the three years following the year of the loss, the loss carryforward period may be extended a year for each loss year in the three-year period, up to a maximum loss carryforward period of six years. Earlier losses must be set off first. Losses may not be carried back.

Group of Companies. The Ethiopian tax law does not allow the filing of consolidated returns.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT); levied on all supplies of goods and services made in Ethiopia and on imports, except for exempt items	
Standard rate	15
Certain items, including exports	0
Equalization turnover tax; imposed on persons not registered for VAT	
Goods sold locally	2
Services rendered locally by contractors and grain mills, and on rentals of tractors and combine-harvesters	2
Other services	10
Excise tax; levied on specified goods manufactured in Ethiopia and imports; for locally produced goods, tax is imposed when production is completed and is based on production cost; for imports, tax is imposed on Cost, Insurance, and Freight (CIF) value; rates vary among products; low rate applies to textile and garment products, and high rate applies to various items, including vehicles with engines exceeding 1,800 cc	10 to 100
Revenue stamp duties; levied on transfers of certain property, including vehicles	2

E. Tax Treaties

Ethiopia has entered into double tax treaties with various countries, including Italy, Kuwait and the Russian Federation.

FIJI

(Country Code 679)

SUVA **GMT +12**

Ernst & Young
Mail Address:
G.P.O. Box 1359
Suva
Fiji

331-4166
Fax: 330-0612
E-mail: ernstyoungfiji@is.com.fj

Street Address:
Provident Plaza 1
Level 3, Module 2
33 Ellery Street
Suva
Fiji

Corporate Tax
Francis Chung **330-2142**

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30 (a)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	15 (b)
Interest	10
Royalties from Patents, Know-how, etc.	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	8 (c)

(a) Applies only to profits from the sale of certain undeveloped land.
(b) The dividend withholding tax applies only to dividends that are paid out of profits that are not subject to tax.
(c) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to income tax on worldwide assessable income. Nonresident companies carrying on business through a branch pay tax only on Fiji-source income. A resident company is a company incorporated in Fiji. A company not incorporated in Fiji is considered a resident company if it carries on business in Fiji and has either its central management and control in Fiji or its voting power controlled by shareholders who are residents of Fiji.

Tax Rates. Resident companies and branches of nonresident companies are subject to tax at a rate of 30%.

Tax holidays of 10 or 20 years are available to qualifying hotel projects.

Capital Gains. In general, capital gains are not taxed. However, under special legislation, profits derived from the sale of certain undeveloped land are taxed at a maximum rate of 30%.

Administration. The Fiji tax year is the calendar year. For most companies, however, an alternative fiscal year is normally permitted. Tax for any fiscal year is payable in three installments according to the following schedule:
- 33.3% of the estimated liability for the year by the last day of the fiscal year;
- 33.3% no later than three months after the year-end; and
- 33.3% no later than seven months after the year-end or, if the assessment is received earlier following the filing of the tax return, the balance on assessment.

Companies are required to file tax returns within three months after the fiscal year-end, but extensions of an additional three, six or eight months are possible, depending on the level of taxable income.

Dividends. Dividends received by a resident company from another resident company are not taxable.

Foreign Tax Relief. Income derived by Fiji residents from treaty countries is subject to Fiji income tax, but credit is given for taxes paid, up to the amount of Fiji tax applicable on the same income.

Income derived from nontreaty countries is exempt to the extent that it was subject to income tax in such countries.

C. Determination of Trading Income

General. Income is defined as the aggregate of all sources of income, including annual net profit from a trade, commercial, financial or other business.

Expenses are deductible to the extent incurred in producing taxable income. Expenditures of a personal or capital nature are generally not deductible. Deductions are allowable for certain capital expenditures incurred in the agricultural and mining industries. Experimentation and research and development expenses incurred in projects connected with the taxpayer's business are deductible.

Inventories. There are no specific provisions for stock valuation for the purposes of year-end income determination. Valuations are generally made at cost or market value on a first-in, first-out (FIFO) or actual basis. The tax authorities have discretion to make adjustments if inventories are sold or otherwise disposed of at below market value.

Provisions. Provisions are not deductible until payments are made or, in the case of doubtful trading debts, until the debts are considered totally irrecoverable and have been written off.

Tax Depreciation. Depreciation of fixed assets acquired before 31 December 1997 that are used in the production of taxable income is calculated using the straight-line method. The following are some of the annual rates of depreciation prescribed by law.

Asset	Rate (%)
Commercial and industrial buildings	1.25 to 5
Office equipment	7
Heavy commercial motor vehicles	15
Passenger motor vehicles	10
Plant and machinery	7

An initial allowance of 30% is granted for plant, furniture, equipment and heavy commercial motor vehicles, and a 10% initial allowance is granted for buildings in the year the expenditure is incurred. The 30% initial allowance (but not the 10% initial allowance) reduces the base for computing normal depreciation in future years.

The annual allowance is granted beginning in the year the fixed asset is first used to generate income, but it is reduced by 50% for such year if the asset is first used in the second half of that year. The initial allowance, however, is available in the year the expenditure is incurred, regardless of whether the asset is used to generate income.

For assets, other than buildings, acquired on or after 1 January 1998, the initial allowance is eliminated, and the annual allowance is calculated by reference to an asset's effective life as determined by the authorities. The following are some of the minimum and maximum allowable annual depreciation rates and the corresponding effective lives to which they relate.

Effective Life Years	Minimum Depreciation Rate (%)	Maximum Depreciation Rate (%)	Assets in Category
Less than 2	100	100	Computer software
2 to less than 3	50	60	Dies
3 to less than 5	33 1/3	40	Computers
5 to less than 6 2/3	20	24	Gaming machines
6 2/3 to less than 10	15	18	Office machines
10 to less than 20	10	12	Furniture and fittings
20 to less than 40	5	6	Storage tanks
40 and above	2 1/2	3	Artworks

A company may adopt a depreciation rate lower than the maximum rate, but the rate may not be changed for the duration of the asset's life.

For buildings erected on or after 1 January 1998 and before 1 January 2001, the depreciation rates are the same as those mentioned in the first table in this section. The depreciation rates for buildings erected on or after 1 January 2001 range from 2.5% to 15%. However, the initial allowance of 10% is not available for such buildings.

Tax depreciation is subject to recapture on the sale of an asset, to the extent the sales proceeds exceed the tax value after depreciation. The amount recaptured may be set off against the cost of a replacement asset; otherwise, it is taxed as ordinary income in the year of sale.

Relief for Losses. Losses incurred before 2001 may generally be carried forward for six years. Losses incurred in 2001 and subsequent years may generally be carried forward for eight years. Losses incurred in agricultural activities may be carried forward indefinitely. Losses are not available for carryforward if the taxpayer's business in the year relief is claimed is substantially different from its business in the year the loss was incurred.

Groups of Companies. In general, no group relief measures exist. The only exception is losses incurred by agricultural companies for which special concessions are granted. Such losses may be set off against the profits of the holding or associated companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on virtually all goods and services (financial services and gambling are exempt)	12.5
Social security contributions to the national provident fund, paid by	
Employer	8 to 22
Employee (maximum rate)	8

E. Miscellaneous Matters

Foreign-Exchange Controls. All remittances abroad, except for payments for imports, require approval from the Reserve Bank of Fiji. Repayment of overseas loans, repatriation of capital and payment of interest and dividends are normally allowed. However, depending on the level of the country's foreign-exchange reserve, restrictions may be imposed on the nature, timing and amount of remittances that can be made.

Debt-to-Equity Ratios. Businesses owned and operated in Fiji by nonresidents are required to maintain the following debt-to-equity ratios.

Percentage of Nonresident Ownership		
Exceeding	Not Exceeding	Debt-to-Equity Ratio
50	70	5:1
70	90	4:1
90	–	3:1

In addition, the prior approval of the Reserve Bank of Fiji must be obtained before any local borrowing may be made.

Antiavoidance Legislation. Contracts, agreements or arrangements entered into that have the effect of altering the incidence of any tax may be rendered void by the tax authorities.

F. Treaty Withholding Tax Rates

	Dividends (a) %	Interest %	Royalties %
Australia	20	10	15
Japan	15	10	15
Korea	10/15 (b)	10	10
Malaysia	15	15	15
New Zealand	15	10	15

	Dividends (a) %	Interest %	Royalties %
Papua New Guinea	17	10	15
United Kingdom	15	10	15
Nontreaty countries	15	10	15

(a) Under the domestic tax law of Fiji, the dividend withholding tax applies only to dividends that are paid out of profits that are not subject to tax.
(b) The 10% rate applies if the recipient of the dividends is a company holding at least 25% of the capital of the payer. The 15% rate applies to other dividends.

FINLAND

(Country Code 358)

The e-mail addresses for the persons listed below are in the following standard format:
firstname.surname@fi.ey.com

HELSINKI **GMT +2**

Ernst & Young Oy
Elielinaukio 5 B
00100 Helsinki
Finland

(9) 172-771
Fax: (9) 1727-7707
E-mail: fi.ey.com

International Tax Services

Kirsi Hiltunen	**(9) 1727-7220** **Mobile: (40) 831-4344**
Marianne Malmgren	**(9) 1727-7406** **Mobile: (40) 556-4090**

Corporate Tax

Seppo Heiniö	**(9) 1727-7226** **Mobile: (40) 546-6633**
Hannele Liede	**(9) 1727-7337** **Mobile: (40) 726-0589**
Jukka Nisonen	**(9) 1727-7282** **Mobile: (40) 552-9058**
★ Esko Tuominen	**(9) 1727-7276** **Mobile: (400) 405-399**

Indirect Taxes

Petri Salomaa	**(9) 1727-7471** **Mobile: (40) 770-5505**
Päivi Taipalus	**(9) 1727-7425** **Mobile: (40) 844-9577**

TAMPERE **GMT +2**

Ernst & Young Oy
Hatanpään valtatie 26
33100 Tampere
Finland

(3) 3124-6100
Fax: (3) 3124-6111

Indirect Taxes

Kirsti Auranen	**(3) 3124-6120** **Mobile: (400) 621-692**

A. At a Glance

Corporate Income Tax Rate (%)	29
Capital Gains Tax Rate (%)	29 (a)
Branch Tax Rate (%)	29

Withholding Tax (%) (b)	
Dividends	29 (c)
Interest	0 (d)
Royalties	29 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10 (f)

(a) See Section B.
(b) Applicable only to payments to nonresidents. The rates may be reduced by tax treaties.
(c) No withholding tax is imposed on dividends paid to a parent company resident in another European Union (EU) country if the recipient of the dividends satisfies the following conditions: it holds directly at least 25% of the capital of the payer; it is not entitled to an imputation credit on dividends from Finland; and it is subject to the income tax law of its home country.
(d) In general, interest paid to resident individuals is subject to a final withholding tax of 29% if it is paid on bonds, debentures and bank deposits. Interest paid to nonresidents is generally exempt from tax.
(e) Royalties paid to resident individuals are normally subject to salary withholding.
(f) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in Finland are taxed on their worldwide income. Nonresident companies are taxed only on their Finnish-source income and property. Resident companies are those incorporated in Finland.

Rate of Corporate Income Tax. For 2004, corporations are subject to tax at a rate of 29%.

Capital Gains. Gains derived from the disposal of business assets are treated as ordinary business income. Gains derived from the disposal of plant, machinery and equipment are deducted from the remaining book value of similar assets, reducing the depreciable basis of the remaining assets.

Administration. Companies must file tax returns within four months after the end of their accounting period.

Tax is prepaid in 12 monthly installments during the accounting period. After the tax return is filed and processed by the tax authorities, a final settlement or refund is made. The tax is finalized within 10 months after the end of the accounting period. If the final assessment exceeds the total of the prepaid installments, interest at a rate of 4.5% (for 2003; the rate may change for 2004) is added to the final assessment. If the prepaid taxes exceed the final assessment, a refund with interest at a rate of 0.5% (for 2003; the rate may change for 2004) is paid. Supplementary tax (see *Dividends* below) may also be paid before the final assessment.

The tax authorities have the right to carry out tax audits within five years from the end of the assessment year. All major corporations can expect a tax audit, usually every fifth year.

If a corporation must pay additional tax as a result of an audit, a penalty of approximately 5% to 30% of the additional tax is usually charged. Also, interest is charged on the additional tax (but not on the penalties) at a rate of 9.5% (for 2003; the rate may change for 2004). Neither the penalty nor the interest is deductible when calculating taxable profits.

Dividends. Finland applies an imputation system (*avoir fiscal*) for dividends. Under this system, when a Finnish company pays dividends to another Finnish company, the payer must compute a tax (minimum income tax) equal to $^{29}/_{71}$ of the amount of the dividends declared for an accounting period. (The amount of the minimum income tax corresponds to the corporate tax rate [29%]). The Finnish shareholder includes the dividend and an imputation credit (equal to the amount of the computed tax) in taxable income. The imputation credit is subtracted from the Finnish shareholder's tax payable.

If the minimum income tax computed by the payer exceeds the payer's calculated income tax liability for the year (comparison tax, which is calculated at a rate of 29% for 2003), the company must pay the excess as a supplementary tax. If the comparison tax exceeds the minimum income tax, the excess amount (tax surplus) may be carried forward to the following 10 years and used as a credit against tax on distributions in such years.

Tax surpluses are lost if more than half of the shares of the distributing company are transferred during or after the year the dividend surplus arose. If such a change of ownership occurs in a company that owns at least 20% of the distributing company's shares (indirect change of ownership), the distributing company's shares are also deemed to be transferred. However, on application, the Provincial Office may grant an exception.

Foreign withholding tax paid on dividends that are tax-free in Finland may be included in calculating the comparison tax.

Certain exemptions apply to flow-through dividends.

Dividends distributed to nonresident shareholders are not subject to the supplementary tax if the Finnish distributing company receives a corresponding amount of dividends from a foreign company and if the foreign dividends are tax-exempt in Finland. If the company receiving a tax-exempt dividend from abroad does not distribute the entire dividend in the year of receipt, such dividend (dividend surplus) is added to foreign dividends received in subsequent years. The rules apply only to dividends paid by companies resident in a country that has entered into a tax treaty with Finland and has a corporate tax that does not substantially deviate from the Finnish corporate tax. In addition, the distributing company may not benefit from specific tax relief in its country of residence. However, the rules apply if the effective tax rate for the company is at least $^{3}/_{5}$ of the Finnish corporate tax rate.

Dividends received from abroad are granted relief from double taxation through tax treaties. In general, domestic law provides that dividend income from a tax treaty country is regarded as tax-free income for a corporation in Finland if the parent company holds at least 10% of the voting power or at least 25% of the share capital of the foreign company.

The Finnish dividend taxation system is likely to undergo a major change in the near future. This change will likely include the elimination of the imputation system.

Foreign Tax Relief. If there is no tax treaty in force, domestic law provides relief for foreign tax paid. The credit is granted only if the foreign tax is final and if the recipient Finnish corporation pays tax in the same year. If the Finnish company does not have any tax liability that year, no credit is granted. Under certain conditions, foreign tax credits may be carried forward one year. Foreign tax credits may not be carried back.

Under tax treaties, foreign tax is most frequently relieved by exemption or a tax credit. With developing countries, tax sparing may also be granted.

C. Determination of Trading Income

General. Taxable income is very closely tied to the income in the statutory accounts. Most of the deductions must be booked in the statutory accounts to be valid for tax purposes. As stated in the tax law, the definitions of both income and expenses are general and broad and include all expenses that are incurred to maintain or create new income.

In general, all expenses incurred on an arm's length basis to produce or maintain income in the business are deductible. Fifty percent of entertainment expenses is deductible. Expenses incurred to obtain tax-free income as well as income taxes and penalties are not deductible.

Inventories. Inventories are valued at the lowest of cost, replacement cost or market value on a first-in, first-out (FIFO) basis. Companies may allocate fixed manufacturing overhead to the cost of inventory for accounting and tax purposes if certain conditions are met. Obsolete inventories should be provided for or discarded.

Provisions. Deductions of warranty reserves and provisions for doubtful debts are limited to the amount of actual expected costs.

A corporation may create a replacement reserve if it derives a capital gain on the disposal of its business premises or if it receives insurance compensation for a fixed asset because of a fire or other accident. The replacement reserve must be used to buy new depreciable assets during the next two years. This time limit can be extended on application.

If created from the profit on the sale of a previous office, a replacement reserve can only be used to buy a building or shares that entitle the holder to the use of office space and to the maintenance of that space.

Inventory and operating reserves are no longer allowed.

Tax Depreciation. The Business Tax Act provides detailed rules for the depreciation of different types of assets. The depreciable base is the acquisition cost, which includes related levies, taxes and installation costs. Depreciation expense for tax purposes is not permitted to exceed the cumulative depreciation expense reported in the annual financial statements. Plant machinery, equipment and buildings are generally depreciated using the declining-balance method.

Machinery and equipment are combined into a pool for depreciation purposes. Companies may vary the annual depreciation in this pool from 0% to 25%. All machinery and equipment with a life of more than three years are classified as depreciable assets.

The depreciable basis is decreased by proceeds from sales of assets in the pool. If the sales price exceeds the depreciable basis, the excess is added to taxable income. If the remaining balance of machinery and equipment is higher than the fair market value, additional depreciation may be claimed.

Equipment with a short life (up to three years), such as tools, is usually expensed. Equipment with an acquisition price of less than €850 may also be expensed, with a maximum deduction of €2,500 per year.

The maximum depreciation rates for buildings vary from 4% to 20%. The depreciation percentage depends on the use of the building. The depreciation rate for factories, warehouses, shops and similar buildings is 7%.

Accelerated depreciation is granted for investments made by small and medium-sized companies in 1994 through 2003 in new manufacturing facilities and tourist centers in developing areas. The accelerated depreciation is allowed in the year the asset is placed in service and in the following two years. The maximum rates under this law are 37.5% for machinery and equipment and 10.5% for qualifying buildings. This accelerated depreciation is also granted for investments that substantially increase the productive capacity of an old plant.

Intangible assets, such as patents and goodwill, are depreciated using the straight-line method over 10 years, unless the taxpayer demonstrates that the asset's useful life is less than 10 years.

Relief for Losses. Losses may be carried forward for 10 years. If there is an ownership change involving more than 50% of a company's shares, losses being carried forward generally may not be deducted in the year the change of ownership occurs or in any following years. Under certain circumstances, an indirect change in ownership may result in the nondeductibility of losses. In special cases, on application, the local tax authorities may allow tax losses to be deducted, regardless of a change in ownership.

Losses may not be carried back.

Groups of Companies. Corporations are taxed individually in Finland. No consolidated tax returns are applicable. A kind of group taxation is, however, introduced by allowing group contributions for limited liability companies. Group contributions are tax-deductible for the payer and included in the income of the recipient. By transfers of these contributions, income can be effectively allocated among group companies. To qualify, both companies must be resident in Finland, and there must be at least 90% ownership, direct or indirect, from the beginning of the tax year. Both companies must also have the same accounting period. The taxpayer cannot create a loss by crediting group contributions.

If the local tax authorities allow tax losses to be deducted regardless of a change in ownership, these losses may generally not be covered by group contributions. However, on application, the local tax authorities may allow such tax losses to be covered by group contributions in special circumstances.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on the sale, rental, importation or repair of goods, and on services unless specifically exempt; exempt services include financial services and insurance services	22
Net assets tax, levied on the net taxable assets of branches of foreign corporations (not on resident corporations) and on partnerships; tax treaties usually prevent the application of the tax	1
Social security taxes, paid by the employer as a percentage of salaries; rates effective from 1 January 2003 (may change for 2004)	
National pension premium and health insurance premium	2.964/5.164/6.064
Employment pension premium; average rate	16.7
Group life, accident and unemployment insurance premium, on total salaries paid by the employer (average rates, which may change for 2004)	
Up to €840,940	1.781
Amount in excess of €840,940	3.631

E. Miscellaneous Matters

Foreign-Exchange Controls. In recent years, exchange controls were eliminated.

There are no restrictions on repatriating earnings, interest and royalties abroad. The commercial bank involved in the transfer must notify only the Bank of Finland for statistical purposes.

Transfer Pricing. Related-party transactions are accepted if they are carried out at arm's length. Corporate income can be adjusted if the transactions are not as they would have been between independent parties.

Debt-to-Equity Rules. Direct investments are usually made with a combination of equity and foreign or domestic loans. In general, there are no thin-capitalization rules that affect the deductibility of interest. Interest determined on an arm's length basis is normally fully deductible. To ensure deductibility, an advance ruling procedure is available.

Controlled Foreign Companies. Under Finland's controlled foreign company (CFC) legislation, Finnish shareholders are subject to tax on their respective shares of the CFC's income if they and certain related parties own at least 10% of the CFC's share capital or are entitled to at least 10% of the return on capital of the company.

A company is considered to be “controlled” if one or more Finnish tax residents directly or indirectly owns at least 50% of the share capital of the company or if one or more Finnish tax residents is entitled to at least 50% of the return on capital of the company.

To determine whether a company is a CFC, the steps described below must be followed.

It first must be determined whether the company is controlled by Finnish residents. If not, the CFC rules do not apply. Under the act, a company is controlled by Finnish residents if residents of Finland for tax purposes own more than 50% of the share capital or the voting shares of the company, or if certain other circumstances exist.

If the company is controlled by Finnish residents, the income of the company must be analyzed. The CFC rules do not apply to income derived from the following: industrial production or similar production activity; shipping; sales or marketing activity regarding the first two categories of activities; and group companies carrying on any of the activities mentioned above that are resident in the same country as the CFC.

If the company is not excluded from the CFC rules based on the nature of its income, it must be determined if the company is resident for tax purposes in a tax treaty country.

For a company not resident for tax purposes in a tax treaty country, it must be determined if the effective tax rate (the effective tax rate is computed by determining the tax on taxable income calculated according to Finnish tax rules) of the company is at least 3/5 of the Finnish corporate tax rate (currently, 29%), or 17.4%. If the effective tax rate is below 17.4%, the CFC rules apply to the company.

For a company resident for tax purposes in a tax treaty country, if the effective tax rate is below 17.4%, the theoretical tax rate in the treaty country (corporate income tax rate according to the tax law of the country) must be determined. If the theoretical tax rate is at least 75% of the corporate tax rate in Finland (29%), or 21.75%, it must be determined whether the company has taken advantage of any special tax reliefs.

Special tax reliefs are reliefs that are not available to all companies in the company’s country of residence. These reliefs include reliefs for foreign companies and reliefs for all companies based on location. If the company in the treaty country has not taken advantage of special tax reliefs and if the overall tax rate in its home country is at least 21.75%, the CFC rules do not apply. Such company is not subject to the CFC rules even if the effective tax rate for the company is less than 17.4%.

If the company has taken advantage of special tax reliefs, it must be determined whether the effective tax rate for the company is at least 17.4%. If yes, the CFC rules do not apply.

Antiavoidance Legislation. Under a general antiavoidance provision in the law, the tax authorities may look through certain transactions.

F. Treaty Withholding Tax Rates

	Dividends (aa) %	Interest (w) %	Royalties %
Argentina	0	15 (ff)	3/5/10/15 (gg)
Australia	0/15 (ll)	10	10
Austria	0/10	0	5
Barbados	5/15 (f)	5	0/5 (c)
Belgium	0/15 (b)	10	0/5 (c)
Brazil	0/10 (ee)	0/15	10/15/25 (d)
Bulgaria	10	0	0/5 (c)
Canada	10/15 (f)	10	0/10 (e)
China	0/10 (ee)	10	7/10 (y)
Czechoslovakia (bb)	5/15 (b)	0	0/5 (c)
Czech Republic	0	0	0/1/5/10 (hh)
Denmark	0/15 (b)	0	0
Egypt	10	0	25
Estonia	0/5 (b)	10	5/10 (x)
France	0	10	0
Germany	10/15 (b)(z)	0	0/5 (c)
Greece	0/13 (b)	10	0/10 (c)
Hungary	5/15 (b)	0	0/5 (c)
Iceland	0/15 (b)	0	0
India	0/15 (pp)	0/10 (q)	10/15 (q)
Indonesia	10/15 (b)	10	10/15 (g)
Ireland	0/15	0	0
Israel	5/15 (h)	25	10
Italy	10/15 (h)	15 (i)	0/5 (j)
Japan	10/15 (k)	10	10
Korea	10/15 (b)	10 (i)	10
Latvia	0/5 (b)	10	5/10 (x)
Lithuania	0/5 (b)	10	5/10 (x)
Luxembourg (l)	5/15 (b)	0	0/5 (c)
Macedonia	0/15 (u)	10	0
Malaysia	5/15 (f)	15 (i)	5
Malta	5/15 (b)	10	0/10 (c)
Mexico	0	0/10/15	10
Morocco	15	10	10
Netherlands	0 (oo)	0	0
New Zealand	15	10	10
Norway	0/15 (b)	0	0
Pakistan	0	15 (ff)	10
Philippines	15/28 (f)	15	15/25 (m)
Poland	0	0	0/10 (c)
Portugal	10/15 (b)	15	10
Romania	0/5 (mm)	0/5	2.5/5
Russian Federation	0/5/12 (s)	0	0
Singapore	5/10 (qq)	5	5
Slovak Republic	0/5/15 (nn)	0	1/5/10
South Africa	0	0	0
Spain	10/15 (b)	10	5
Sri Lanka	15	10 (i)	0/10 (c)
Sweden	0/15 (b)	0	0
Switzerland	0/5 (n)	0	0
Tanzania	20	15	20
Thailand	15/20/29 (o)	10/25 (p)	15
Turkey	15/20 (b)	15	10
Ukraine	0/5/15 (cc)	0	0/5/10 (dd)

	Dividends (aa) %	Interest (w) %	Royalties %
United Arab Emirates	0	0	0
United Kingdom	0 (q)	0 (q)	0 (q)
United States	5/15 (f)	0	0/5 (r)
Uzbekistan	0/5/15 (ii)	0/5 (jj)	0/5/10 (kk)
Vietnam	5/10/15 (bb)	10	10
Yugoslavia (v)	5/15 (b)	0	10
Zambia	5/15 (b)	15	0/5/15 (t)
Nontreaty countries	29	0	29

(a) A 10% rate applies if the recipient owns more than 50% of the issued capital of the payer. Otherwise, royalties are exempt from withholding.
(b) The lower rate applies if the recipient is a corporation owning at least 25% of the payer.
(c) The rate is 0% for royalties received for the use of or the right to use any copyright of literary, artistic or scientific work, including cinematographic films or tapes for television or radio broadcasting.
(d) A 10% rate applies to royalties received for the use of or the right to use cinematographic films or tapes for television or radio broadcasting and copyrights of literary, artistic or scientific works produced by a resident of Brazil or Finland. A 25% rate applies to royalties from trademarks. For all other royalties, the rate is 15%.
(e) Copyright royalties for the production or reproduction of any literary, dramatic, musical or artistic work (other than motion picture films) are exempt from tax.
(f) The lower rate applies if the recipient is a company owning at least 10% of the voting power of the payer.
(g) The rate is 10% for royalties for copyrights of literary, artistic or scientific works, including films and tapes; otherwise, the rate is 15%.
(h) The lower rate applies if the recipient is a corporation with voting rights in excess of 50% of the payer.
(i) Interest on certain loans is exempt from withholding.
(j) The rate is 0% for royalties received for the use of or the right to use any copyright of literary, artistic or scientific work, excluding cinematographic films or films and tapes for television or radio broadcasting.
(k) The 10% rate applies if the recipient has owned at least 25% of the voting rights of the payer for at least six months before the end of the payer's fiscal year. The 15% rate applies to other dividends.
(l) 1929 holding companies are excluded from benefits under this tax treaty.
(m) The rate is 15% for royalties paid by an enterprise registered with and engaged in preferred areas of activities, for royalties for cinematographic films or tapes for television or broadcasting, and for royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work.
(n) The 0% rate applies if the recipient is a corporation owning at least 20% of the voting power of the payer.
(o) The 20% rate applies if the recipient of the dividends is a corporation that owns at least 25% of the payer. The 15% rate applies to dividends paid to recipients described in the preceding sentence if the payer is an industrial enterprise.
(p) The withholding rate is 10% if the recipient is a financial institution.
(q) A higher rate applies in certain circumstances. Please consult the tax treaty.
(r) Copyright royalties, including royalties for motion picture films, are exempt.
(s) The 0% rate applies for as long as Finland maintains an imputation system. The 5% rate applies if the recipient of the dividends owns at least 30% of the share capital of the payer and has invested in the payer foreign capital in excess of US$100,000. The 12% rate applies to other dividends.
(t) The rate for royalties received is 0% for the use of or the right to use any copyright of literary, artistic or scientific work; 5% for the use of or the right to use any copyright of cinematographic films and tapes and films for television or radio broadcasting; and 15% for the use of or the right to use any patent, trademark, design or model, plan, secret formula or process, or any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
(u) The 0% rate applies if the recipient of the dividends owns at least 10% of the voting rights of the payer. The 15% rate applies to other dividends.
(v) Finland is honoring the Yugoslavia treaty with respect to Croatia and Slovenia.
(w) Under Finnish domestic law, interest paid to nonresidents is generally exempt from tax.

(x) The 5% rate applies to industrial royalties; the 10% rate applies to other royalties.
(y) The 7% rate applies to industrial, scientific and commercial royalties. The 10% rate applies to other royalties.
(z) A 25% rate applies to distributions to silent partners.
(aa) Under an European Union (EU) directive, which has been incorporated into Finnish domestic law, no withholding tax is imposed on dividends paid by a Finnish subsidiary to a parent company located in another EU state if the recipient of the dividends satisfies the following conditions:
- It holds directly at least 25% of the capital of the payer;
- It is not entitled to an imputation credit on dividends from Finland; and
- It is subject to the income tax law of its home country.

(bb) The 5% rate applies if the recipient owns at least 70% of the share capital of the payer. The 10% rate applies if the recipient owns at least 25%, but less than 70%, of the share capital of the payer. The 15% rate applies to other dividends.
(cc) The 0% rate applies for as long as Finland maintains an imputation system. The 5% rate applies if the recipient is a corporation that owns at least 20% of the payer.
(dd) The 0% rate applies to royalties for software programs, patents, models or drawings. The 5% rate applies to other industrial royalties. The 10% rate applies to royalties for literary, artistic or scientific works, including cinematographic films or tapes for television or radio broadcasting.
(ee) The 0% rate applies for as long as Finland maintains an imputation system.
(ff) A lower rate applies in certain circumstances. Please consult the tax treaty.
(gg) The 3% rate applies to royalties paid to a news agency. The 5% rate applies to artistic royalties. The 10% rate applies to industrial royalties. The 15% rate applies to other royalties.
(hh) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or radio broadcasting. The 1% rate applies to amounts paid under financial leases of equipment. The 5% rate applies to amounts paid under operating leases of equipment and computer software. The 10% rate applies to other royalties.
(ii) The 0% rate applies for as long as Finland maintains an imputation system. The 5% rate applies if the recipient is a corporation that owns at least 10% of the voting power of the payer. The 15% rate applies to other dividends.
(jj) The 0% rate applies in certain circumstances. Please consult the tax treaty.
(kk) The 0% rate applies to royalties paid for the use of, or right to use, computer software, patents, designs, models or plans. The 5% rate applies to royalties paid for the use of, or the right to use, secret formulas or processes, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies to royalties for the use of, or right to use, trademarks and copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting.
(ll) The 15% rate applies if the dividends are paid out of income that was not taxed at the standard corporate tax rate. For other dividends, the rate is 0%.
(mm) The standard withholding tax rate for dividends is 5%. However, as long as the tax credit (*avoir fiscal*) system continues to apply in Finland to dividends paid by Finnish companies to Finnish resident individuals, dividends paid by Finnish companies to Romanian residents are exempt from Finnish withholding tax.
(nn) The standard withholding tax rate for dividends is 15%. The rate is reduced to 5% if the recipient of the dividends is a corporation holding at least 25% of the share capital of the distributing company. However, as long as the tax credit (*avoir fiscal*) system continues to apply in Finland to dividends paid by Finnish companies to Finnish resident individuals, dividends paid by Finnish companies to Slovakian residents are exempt from Finnish withholding tax.
(oo) The standard withholding tax rate for dividends is 15%. However, as long as the tax credit (*avoir fiscal*) system continues to apply in Finland to dividends paid by Finnish companies to Finnish resident individuals, dividends paid by Finnish companies to Dutch residents are exempt from Finnish withholding tax.
(pp) The standard withholding tax rate for dividends is 15%. However, as long as the tax credit (*avoir fiscal*) system continues to apply in Finland to dividends paid by Finnish companies to Finnish resident individuals, dividends paid by Finnish companies to Indian residents are exempt from Finnish withholding tax.
(qq) The 5% rate applies if the recipient is a company owning at least 10% of the voting power of the payer.

FRANCE

(Country Code 33)

The e-mail addresses for the persons listed below who are resident in France are in the following standard format:

firstname.surname@fr.eylaw.com

The e-mail addresses for persons who are not resident in France are listed below the respective persons' names.

PARIS **GMT +1**

EY Law **Société d'Avocats** **Tour Ernst & Young** **Faubourg de l'Arche** **11 allée de l'Arche** **92037 Paris La Défense Cédex** **France**	**(1) 46 93 62 36** **Fax: (1) 58 47 70 21**

International Tax Services – Core

Claire Acard	**(1) 55 61 10 85** **Mobile: (6) 11 24 38 58**
Raphaël Coin	**(1) 46 93 64 98** **Mobile: (6) 74 58 25 64**
Patrick Dibout	**(1) 46 93 79 38** **Mobile: (6) 07 71 73 16**
Eric Fourel	**(1) 55 61 11 22** **Mobile: (6) 11 67 09 94**
Thomas Germain	**(1) 46 93 44 73**
Jean-Marc Girard	**(1) 46 93 60 04** **Mobile: (6) 08 76 16 64**
★ Robert Tarika	**(1) 46 93 67 83** **Mobile: (6) 08 72 04 81**

International Tax Services Desks Abroad

Philippe Paul-Boncour *(resident in New York)*	**[1] (212) 773-9164** **E-mail: philippe.paulboncour@ey.com**
Jacques-Henry de Bourmont *(resident in Frankfurt)* *(resident in Munich)*	 **[49] (69) 152-08-449** **[49] (89) 55985-3761** **E-mail: jacques-henry.bourmont@de.ey.com**
Guillaume Rubechi *(resident in Frankfurt)*	**[49] (69) 152-08-187** **Fax: [49] (69) 152 08 295** **E-mail: guillaume.rubechi@de.ey.com**
Frederic Vallat *(resident in New York)*	**[1] (212) 773-5889** **E-mail: frederic.vallat@ey.com**

International Tax Services – Supply Chain

★ Jean-Marc Girard	**(1) 46 93 60 04** **Mobile: (6) 08 76 16 64**
Lee Oster	**(1) 46 93 86 21** **Mobile: (6) 71 04 21 61**

International Tax Services – Transfer Pricing

Jean-Marc Girard	**(1) 46 93 60 04** **Mobile: (6) 08 76 16 64**
★ Antoine Glaize	**(1) 55 61 14 06** **Mobile: (6) 23 08 80 06**

★ Curt B. Kinsky	**(1) 46 93 65 71** **Mobile: (6) 84 51 81 28**
Sabine Sardou	**(1) 46 93 64 31** **Mobile: (6) 08 87 97 71**
Robert Tarika	**(1) 46 93 67 83** **Mobile: (6) 08 72 04 81**

International Tax Services – Mergers and Acquisitions

Raphaël Coin	**(1) 46 93 64 98** **Mobile: (6) 74 58 25 64**
★ Jean-Marc Girard	**(1) 46 93 60 04** **Mobile: (6) 08 76 16 64**

International Tax Services – Capital Markets

Claire Acard	**(1) 55 61 10 85** **Mobile: (6) 11 24 38 58**
Raphaël Coin	**(1) 46 93 64 98** **Mobile: (6) 74 58 25 64**

Human Capital

Jack Anderson	**(1) 46 93 67 75** **Mobile: (6) 08 76 16 66**
★ Laurence Avram-Diday	**(1) 46 93 68 96** **Mobile: (6) 08 76 17 88**
Inga Baran	**(1) 46 93 68 19** **Mobile: (6) 82 59 31 93**
Emmanuel Morisson-Couderc	**(1) 46 93 63 69** **Mobile: (6) 82 55 73 25**
Bernard Oury	**(1) 46 93 67 44** **Mobile: (6) 08 76 17 26**

Foreign Desks

Joseph B. Lee-Gilligan, *United States*	**(1) 46 93 60 00**
Lee A. Oster, *United States*	**(1) 46 93 86 21**
Andreas Sinz, *Germany*	**(1) 46 93 62 36**

Corporate Tax Services

Herve Bidaud	**(1) 55 61 10 19**
Yann de Kergos	**(1) 55 61 11 10**
Patrick Dibout	**(1) 46 93 79 38** **Mobile: (6) 07 71 73 16**
Dominique Gaveau	**(1) 46 93 65 68** **Mobile: (6) 82 55 73 75**
Didier Langlois	**(1) 46 93 67 68** **Mobile: (6) 08 76 15 52**
Herve Leherissel	**(1) 55 61 13 02**
Veronique Ménard	**(1) 46 93 65 98** **Mobile: (6) 08 76 16 05**
Lionel Nentille	**(1) 55 61 10 96** **Mobile: (6) 07 37 09 83**
Frederic Teper	**(1) 55 61 13 03** **Mobile: (6) 12 49 26 34**

Transaction Services

★ Frédéric Laureau	**(1) 46 93 68 77** **Mobile: (6) 08 76 18 19**
Philippe Legentil	**(1) 46 93 62 48** **Mobile: (6) 08 74 64 56**
Frederic Teper	**(1) 55 61 13 03** **Mobile: (6) 12 49 26 34**

Indirect Taxes and Customs

Eric Botter	**(1) 46 93 73 53** **Mobile: (6) 08 87 97 90**
★ Patrick Donsimoni	**(1) 46 93 48 70**

Financial Services and Insurance

★ Claire Acard	**(1) 55 61 10 85**
Matthieu Dautriat	**(1) 46 93 62 36** **Mobile: (6) 19 69 07 12**
Hélène de Barmon	**(1) 46 93 63 74** **Mobile: (6) 08 36 22 88**

Real Estate

Thomas Germain	**(1) 46 93 44 73**

Private Client Services

★ Jerome Barre	**(1) 55 61 14 18**
Audrey Cantarano	**(1) 46 93 82 27** **Mobile: (6) 11 08 89 98**

Legal Services (Heads of Practices)

Jean Pascal Amoros, *Corporate Law*	**(1) 55 61 10 88**
Dominique Gerry, *Corporate Law*	**(1) 46 93 60 01** **Mobile: (6) 08 87 97 30**
★ Hervé Labaude, *Managing Partner – Tax and Law*	**(1) 46 93 62 11** **Mobile: (6) 86 18 02 34**
Alain Ménard, *Labor Law*	**(1) 46 93 84 75** **Mobile: (6) 82 59 32 95**
Eric Teynier, *Litigation and Arbitration*	**(1) 46 93 83 07** **Mobile: (6) 88 38 40 99**

LYON **GMT +1**

EY Law
Société d'Avocats
Tour Cristal Parc
113 Boulevard de Stalingrad
69626 Villeurbanne Cedex
France

(4) 72 44 19 19
Fax: (4) 72 44 18 77

Corporate Tax Services

Lionel Benant	**(4) 78 63 17 20** **Mobile: (6) 80 11 58 44**
Christian Leroy	**(4) 72 44 19 86** **Mobile: (6) 80 17 86 49**

Human Capital

Philippe Legeais	**(4) 72 44 19 19**

STRASBOURG **GMT +1**

EY Law
Société d'Avocats
Tour Europe
20 Place des Halles
67055 Strasbourg Cedex
France

(3) 88 15 24 50
Fax: (3) 88 22 65 27

Corporate Tax Services

Joel Fisher	**(3) 88 15 24 50**
Luc Julien Saint-Amand	**(3) 88 15 24 54** **Mobile: (6) 88 28 40 48**

A. At a Glance

Corporate Income Tax Rate (%)	33 1/3 (a)
Capital Gains Tax Rate (%)	19/33 1/3 (a)(b)
Branch Tax Rate (%)	33 1/3 (a)
Withholding Tax (%)	
Dividends	25 (c)(d)
Interest	15 (c)(e)

Royalties from Patents, Know-how, etc.	33⅓ (c)(e)
Branch Remittance Tax	25 (f)
Net Operating Losses (Years)	
Carryback	3
Carryforward	5 (g)

(a) Surtaxes are imposed on the corporate income tax and capital gains tax. For details, see Section B.
(b) For details concerning these rates, see Section B.
(c) These are the withholding tax rates under French domestic law. Tax treaties may reduce or eliminate the withholding taxes.
(d) Under the European Union (EU) Parent-Subsidiary Directive, dividends distributed by a French subsidiary to an EU parent company are exempt from withholding tax, if, among other conditions, the recipient holds 25% or more of the shares of the subsidiary for at least two years.
(e) Withholding tax on interest and royalties paid between associated companies of different EU states will be eliminated when France implements EU Directive 2003/49/EC, dated 3 June 2003. France's implementation of this directive is expected to occur by 1 January 2004.
(f) Branch remittance tax is not levied on French branches of companies that are resident in EU states and are subject to tax in their home countries.
(g) Under the draft 2004 Finance Bill, losses incurred on or after 1 January 2004 and any loss carryforwards remaining as of that date may be carried forward indefinitely.

B. Taxes on Corporate Income and Gains

Corporate Tax. The taxation of French companies is based on a territorial principle. As a result, French companies carrying on a trade or business outside France are generally not taxed in France on the related profits. However, under the French controlled foreign company (CFC) rules contained in Article 209 B of the French Tax Code, income earned by a French enterprise through a foreign enterprise may be taxed if such income is subject to an effective tax rate that is less than two-thirds of the French tax rate on similar income (for further details, see Section E). French companies are those registered in France, regardless of the nationality of the shareholders or where the companies are managed and controlled. Foreign companies carrying on an activity in France are subject to French corporate tax on French-source profits.

Branches of foreign companies generally may not claim a deduction for royalties and interest paid to their head office. Profits realized in France by such branches are deemed to be distributed, normally resulting in the imposition of a branch withholding tax of 25% on after-tax income. Branch withholding tax is not levied on the profits of French branches of companies that are resident in EU states and are subject to corporate income tax in their home countries. Branch withholding tax may be reduced or eliminated by tax treaties. Although branch withholding tax normally applies to undistributed profits, such profits may be exempted from the tax if an application is filed with the tax authorities.

Rates of Corporate Tax. The standard corporate tax rate is 33⅓%.

A 3% surtax is imposed on the gross corporate income tax, which is the corporate income tax before offset of tax credits or loss carryback receivables. This surtax also applies to the tax on long-term and short-term capital gains (for details concerning the taxation of capital gains, see *Capital Gains* below). Consequently, for the 2004 financial year, taking into account the 3% surtax, the effective tax rate is 34.33% (33.33% + 1%).

A social security surtax of 3.3% is assessed on the corporate tax. This surtax is imposed on the portion of corporate tax due exceeding □763,000 before offsetting the *avoir fiscal* (see *Dividends* below) and tax credits granted under tax treaties (see *Foreign Tax Relief* below). The 3.3% surtax applies unless a company meets both of the following conditions: its annual turnover is less than □7,630,000; and at least 75% of the company is owned directly or indirectly by individuals. Members of consolidated groups must take into account the global turnover of the group in determining whether they reach the □7,630,000 threshold. For the 2003 financial year, taking into account the 3% surtax and the social security surtax, the effective rate of French corporate income tax is 35.43% (33.33% + 1% + 1.1%).

Until 2009, a reduced corporate tax rate of 15% applies to □38,120 of a company's profits if certain conditions are met, including the following:
- The turnover of the company is less than □7,630,000; and
- At least 75% of the company is owned by individuals or by companies that are at least 75%-owned by individuals.

Taxable entities are subject to a minimum tax, which is based on the turnover of the company, including value-added tax (VAT). The minimum tax is calculated using the following schedule.

Turnover Inclusive of VAT € (Thousands)		Minimum Corporate Income Tax
Exceeding	**Not Exceeding**	**€**
0	76	0
76	150	750
150	300	1,125
300	750	1,575
750	1,500	2,175
1,500	7,500	3,750
7,500	15,000	15,000
15,000	75,000	18,750
75,000	–	30,000

The minimum tax is creditable against corporate tax due for the current financial year and the following two years.

Capital Gains. Effective from 1 January 1997, long-term capital gains, which were subject to a reduced rate of 19%, are taxed at the standard rate of 33 1/3% plus the two surtaxes (for details, see *Rates of Corporate Tax* above). However, a reduced rate of 19% applies to capital gains derived by parent companies from disposals of qualifying shares of subsidiaries. To qualify for the reduced rate, the shareholding must either be eligible for the parent-subsidiary regime (see *Dividends* below) or be recorded as a participation (as opposed to a portfolio investment) for accounting purposes. Effective from the 2003 financial year, taking into account the surtaxes, the effective rate for capital gains qualifying for the reduced rate is 20.19% (19% + 0.57% + 0.627%).

The reduced rate also applies to income derived from the licensing of patents or patentable rights.

For the 19% rate to apply, the net after-tax long-term capital gains must be recorded in a special reserve account. Dividends paid out of long-term capital gains are subject to additional taxation (equalization tax) at a rate equal to the difference between the standard rate ($33\frac{1}{3}\%$) and the reduced rate (19%). The two surtaxes apply to this additional corporate tax.

Long-term capital losses may be carried forward 10 years to offset long-term capital gains. Long-term capital losses incurred before 1 January 1997 should first offset long-term capital gains. Up to $\frac{19}{33}$ of the balance may be set off against profits taxed at the standard rate.

Short-term capital gains are included in ordinary income and subject to the standard corporate tax rate. Short-term losses may offset ordinary income.

Administration. In general, companies must file a tax return within three months after the end of their financial year.

Corporate income tax is prepaid in four installments. Companies with a year-end of 31 December must pay the installments on 15 March, 15 June, 15 September and 15 December. The balance of corporate tax is due by 15 April of the following year. Other companies must pay the balance of corporate tax due within $3\frac{1}{2}$ months after the end of their financial year. The 3% surtax (see *Rates of Corporate Tax* above) is paid together with the balance of the corporate tax. For companies with a financial year ending between 1 March and 31 December, 3% of the corporate income tax for the preceding financial year must be paid together with the fourth installment of the corporate income tax.

The rules governing the payment of corporate income tax also apply to the payment of the 3.3% surtax.

Effective for fiscal years ending on or after 31 December 2000, companies that generated turnover exceeding □15 million [excluding value-added tax (VAT)] in the preceding year must file their corporate income tax and VAT returns electronically. If a company does not comply with this requirement, a 0.2% penalty is imposed. Other companies may elect to file such returns electronically.

In general, late payment and filing are subject to a 10% penalty. If additional tax is payable as a result of a reassessment of tax, interest is charged at 0.75% per month (9% per year). Many exceptions and specific rules apply to interest and penalties.

Dividends. Dividends paid by a French company result in the granting of a tax credit (*avoir fiscal*). Only dividends as defined in the administrative guidelines dated 14 December 2001 benefit from the *avoir fiscal*. A company should analyze carefully the issue of whether a distribution is within the scope of such definition before it makes the distribution.

The granting of the *avoir fiscal* is designed to reduce double taxation of corporate profits, that is, taxation at both the corporate and shareholder levels. If the distributed profits were not subject to tax in France (for example, if they were derived from foreign branches or if they consist of dividends exempt from tax under the parent-subsidiary regime; see below) or if they were derived in a financial year that ended more than five years before the dividend distribution, the shareholders are still entitled to the tax credit, but the company must pay equalization tax (*précompte mobilier*). The equalization tax serves as a substitute for corporate tax. Under guidelines of the French tax authorities, a nonresident shareholder of a company may be reimbursed for equalization tax paid by the company if the shareholder is resident of a country that has entered into a tax treaty with France (regardless of the provisions of the tax treaty) and if the shareholder does not benefit from the transfer of the *avoir fiscal*.

For tax credits generated on or after 1 January 2003, the amount of the tax credit equals 10% of the dividend if the beneficiary of the tax credit is a company that does not apply the parent-subsidiary regime. The credit equals 50% of the dividend if the beneficiary of the tax credit is an individual or a company that applies the parent-subsidiary regime.

Under the parent-subsidiary regime, on election, dividends received by companies are exempt from corporate income tax if the recipient holds 5% or more of the share capital of the distributing company. The recipient must also commit itself to hold the shares for at least two years unless these shares were subscribed to on their issuance. Parent companies benefiting from the parent-subsidiary regime are subject to corporate income tax on 5% of the gross dividend income (dividend plus tax credit). Dividends received by French branches of foreign companies may benefit from the parent-subsidiary regime.

Distributions of dividends made by French holding companies that hold at least two-thirds of their investments in foreign companies and meet certain other conditions are exempt from equalization tax. The dividends of such companies are not entitled to the tax credit. Foreign tax credits are transferred to these companies' shareholders.

The draft 2004 Finance Bill provides for the abolition of the *avoir fiscal* and the *précompte mobilier* for dividends distributed on or after 1 January 2005. At the time of writing, parliament had not yet approved this bill. As a result, the above rules regarding the taxation of dividends continue to apply until the 2004 Finance Bill is enacted and takes effect.

In general, a 25% withholding tax is imposed on dividends paid to nonresidents. However, under the EU Parent-Subsidiary Directive, dividends distributed by a French subsidiary to an EU parent company are exempt from withholding tax, if, among other conditions, the recipient holds 25% or more of the shares of the subsidiary for at least two years.

Withholding Taxes on Interest and Royalties. Under French domestic law, a 15% withholding tax is imposed on interest paid to nonresidents, and a 33 1/3% withholding tax is imposed on royalties paid to nonresidents.

Interest paid on debentures issued after 1 January 1987 is exempt from withholding tax. Interest paid by French companies on loans obtained abroad is also exempt from withholding tax if certain conditions are met. Interest paid outside France by international treasury pools established in France is not subject to withholding tax.

Tax treaties may reduce or eliminate the withholding taxes on interest and royalties.

Withholding tax on interest and royalties paid between associated companies of different EU states will be eliminated when France implements EU Directive 2003/49/EC, dated 3 June 2003. France's implementation of this directive is expected to occur by 1 January 2004. The rules described above continue to apply until the implementation of the directive takes effect in France.

Foreign Tax Relief. In general, French law does not allow a foreign tax credit; income subject to foreign tax and not exempt from French tax under the territoriality principle is taxable net of the foreign tax paid. However, most tax treaties provide for a tax credit that generally corresponds to withholding taxes on passive income.

C. Determination of Trading Income

General. The assessment is based on financial statements prepared according to generally accepted accounting principles, subject to certain adjustments.

Deductibility of Interest. In general, interest payments are fully deductible. However, certain restrictions are imposed.

Interest paid on loans from direct shareholders is deductible to the extent that the share capital is fully paid up and the interest rate does not exceed the average interest rate on loans with an initial duration of more than two years granted by banks to French companies. Effective from 1 January 2003, this restriction also applies to interest paid outside France by international treasury pools established in France.

An additional limitation is imposed on interest paid on loans from shareholders holding either of the following: de jure or de facto more than 50% of the voting or financial rights in the share capital of the company; or the power of management of the company. Interest paid on such loans is deductible only if the total amount of the loans does not exceed 150% of the share capital of the company. This limitation does not apply to interest paid to parent companies as defined under the French parent-subsidiary regime (see Section B). According to the French tax authorities, foreign parent companies do not qualify for this exception to the limitation rule.

Parent companies may deduct interest on loans to finance the acquisition of shareholdings even if the dividends derived on such shareholdings are exempt under the parent-subsidiary regime.

Inventories. Inventory is normally valued at the lower of cost or market value. Cost must be determined under a weighted-average cost price method; a first-in, first-out (FIFO) basis is also generally acceptable, but a last-in, first-out (LIFO) basis is not permitted.

Reserves. In determining accounting profit, companies must book certain reserves, such as reserves for a decrease in the value of assets, risk of loss or expenses. These reserves are normally deductible for tax purposes. In addition, legislation provides for the deduction of special reserves, including reserves for foreign investments and price increases.

Capital Allowances. In general, assets are depreciated using the straight-line method. However, qualifying industrial assets are generally depreciated using the declining-balance method.

The following are some of the acceptable straight-line rates.

Asset	Rate (%)
Commercial buildings	2 to 5
Industrial buildings	5
Office equipment	10 to 20
Motor vehicles	20 to 25
Plant and machinery	5 to 10*

* General rates. Alternatively, plant and machinery may be depreciated using the declining-balance method at rates generally ranging from 12.5% to 50%.

Certain specified assets may be depreciated using accelerated depreciation methods. For example, pollution-control buildings completed before 1 January 2006, as well as qualifying software, may be fully depreciated over a 12-month period.

Land is not depreciable. Intangible assets are depreciable in limited circumstances. In general, goodwill is not depreciable.

Capital gains derived from sales of depreciable assets are treated as short-term capital gains up to the amount of previously deducted depreciation allowances.

Relief for Tax Losses. In general, a loss incurred during a given financial year may be carried forward for five years. However, losses attributable to depreciation may be carried forward indefinitely. In addition, enterprises subject to corporate tax may carry back such losses against undistributed profits for the three preceding financial years. The carryback results in a credit equal to the loss multiplied by the current corporate tax rate, but limited to the amount of corporate tax paid during the prior three years. The credit may be used to reduce corporate income tax payable during the following five years, with any balance refunded at the end of the five-year period. A significant change in the company's activity may jeopardize the loss carryover and carryback.

Under the draft 2004 Finance Bill, losses incurred on or after 1 January 2004 and any loss carryforwards remaining as of that date may be carried forward indefinitely. At the time of writing, parliament had not yet approved the bill. Consequently, the rules described above continue to apply until the bill is enacted and enters into effect.

Groups of Companies. Related companies subject to corporate tax may elect tax consolidation. Under the tax-consolidation regime, the parent company files a consolidated return and pays tax based on the net taxable income of companies included in the consolidated group. The group includes the French subsidiaries in which the parent has a shareholding of at least 95% and for which the parent company has elected consolidation.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, standard rate	19.6
Business activity tax (*taxe professionnelle*), on annual rental value of tangible assets; rate determined locally (limited to 3.5% of the value added by the business); national average rate	23.16
Social security contributions, on gross salary (approximate percentage); paid by	
Employer	35 to 45
Employee	18 to 23
General social security tax (*contribution sociale généralisée*, CSG), on all income	7.5
Social debt repayment tax *(contribution reimboursement de la dette sociale*, CRDS), on all income	0.5
Registration duty	
On sales of shares in stock companies (*sociétés anonymes*, or *SAs*); maximum tax is €3,049 per sale; for shares in quoted companies, tax imposed only if sale is formalized by a deed	1
On sales of professional premises, housing, businesses, shares of private limited liability companies (*sociétés à responsabilité limitée*, or SARLs), interests in general partnerships (*sociétés en nom collectif*, or SNCs) and shares of companies whose assets primarily consist of real estate	4.8

E. Miscellaneous Matters

Foreign-Exchange Controls. French exchange-control regulations have been eased. Direct French investments into foreign countries are now almost completely unrestricted. In general, direct foreign investments into France, except in certain sensitive sectors, are subject to an administrative declaration only. For current operations, such as loans between residents and nonresidents and the opening of foreign bank accounts by French companies, the regulations have been almost totally eliminated.

Payments to Residents of Tax Havens. Under Article 238 A of the French Tax Code, interest, royalties or other remuneration paid to an entity established in a tax haven or on a bank account located in a tax haven are deemed to be fictitious and not at arm's length. If the French entity cannot prove that the operation is effective (that is, it compensates services effectively rendered) and at arm's length, the amount paid is not deductible for tax purposes.

Transfer Pricing. French entities controlled by, or controlling, entities established outside France are taxable in France on any profits transferred directly or indirectly to the entity located abroad through an increase or decrease in purchase or sale prices or by any other means.

Controlled Foreign Companies. French companies subject to corporate tax that have a foreign branch benefiting from a privileged tax regime, or that hold, directly or indirectly, an interest (shareholding or share in the profits) of at least 10% or an investment of at least €22,800,000 in any type of structure benefiting from a privileged tax regime in its home country, are subject to French corporate tax on their share of the foreign company's earnings. For this purpose, a privileged tax regime is a regime under which the effective tax paid is less than two-thirds of the tax that would be paid in France on similar profits. Such foreign company is known as a controlled foreign company (CFC). Tax paid by a CFC in its home country may be credited against French corporate tax.

To avoid tax liability for its share of a CFC's earnings, the French company must prove that the CFC engages in an industrial or commercial activity and that most of the CFC's business is carried out in the CFC's local market.

Headquarters and Logistics Centers. The French tax authorities issue rulings that grant special tax treatment to headquarters companies and logistics centers companies. These companies are subject to corporate income tax at the normal rate on a tax base corresponding to 6% to 10% of annual operating expenses, depending on the company's size. In addition, certain employee allowances are exempt from income tax.

Reorganizations. On election of the companies involved, mergers, spin-offs, split-offs and dissolutions without liquidation may qualify for a special rollover regime.

F. Treaty Withholding Tax Rates

This table is for illustrative purposes only.

	Dividends %	Interest %	Royalties (h) %
Algeria	0	0/15	33⅓
Argentina	15	0/20	18
Armenia	5/15	10	5/10
Australia	15	0/10	10
Austria	0/15 (a)	0	0
Bahrain	0	0	0
Bangladesh	10/15	0/10	10
Belgium	0/10/15 (a)	0/15	0
Benin	25	0/15	0
Bolivia	15	15	15
Botswana (i)	0/5/12	0/10	0/10
Brazil	15	0/10/15	10/15/25
Bulgaria	5/15	0	5
Burkina Faso	15/25	0/15	0
Cameroon	15	0/15	15
Canada	5/10/15 (b)	0/10	0/10
Central African Republic	25	0/15	0
China (g)	10	0/10	10
Comores	0/15	0	0
Congo	15/20	0	15
Côte d'Ivoire	15	0/15	0/10
Cyprus	10/15	0/10	0/5
Czechoslovakia (c)	10	0	0/5
Denmark	0 (a)	0	0
Ecuador	15	0/10/15	15
Egypt	5/15	0/25	15/25

	Dividends %	Interest %	Royalties (h) %
Estonia	5/15	10	5/10
Finland	0/15 (a)	0/10	0
French Polynesia	25	0	33 1/3
Gabon (f)	15/25	0/15	0/10
Germany	0/15 (a)	0	0
Ghana	5/15	10/12.5	10/12.5
Greece	0/25 (a)	0	5
Guinea (i)	0/15	0/10	0/10
Hungary	5/15	0	0
Iceland	5/15	0	0
India	15	0/10/15	0
Indonesia	10/15	0/10/15	10
Iran	15/20	0/15	0/10
Ireland	0/10/15 (a)	0	0
Israel	5/10/15	5/10	0/10
Italy	0/5/15 (a)	0/10	0/5
Jamaica	10/15	0/10	10
Japan	0/5/15	0/10	10
Jordan	5/15	0/15	5/15/25
Kazakhstan	5/15	0/10	10
Korea	10/15	0/10	10
Kuwait	0	0	0
Latvia	0/5/15	0/10	0/5/10
Lebanon	0	0	33 1/3
Lithuania	5/15	0/10	5/10
Luxembourg	0/5/15/25 (a)	0/10	0
Macedonia (i)	0/15	0	0
Madagascar	15/25	0/15	10/15
Malawi	10/25	0/15	0
Malaysia	5/15	0/15	10
Mali	15/25	0/15	0
Malta	5/15	0/10	10
Mauritania	25	0/15	0
Mauritius	5/15	0/15	0/15
Mayotte	15/25	0/15	0
Mexico	0/5/15	0/15	0/15
Monaco	0/25	0/15	33 1/3
Mongolia	5/15	10	5
Morocco	0/15	0/10/15	5/10
Namibia	5/15	10	10
Netherlands	0/5/15 (a)	0/10	0
New Caledonia	5/15	0	0/10
New Zealand	5/15	0/10	10
Niger	15/25	0/15	0
Nigeria	12.5/15	0/12.5	12.5
Norway	0/15	0	0
Oman	0/5	0	0
Pakistan	10/15	0/10	10
Philippines	10/15	0/10/15	0/15
Poland	5/15	0	0/10
Portugal	0/15 (a)	10	5
Qatar	0	0	0
Romania	10	0/10	10
Russian Federation	5/10/15	0	0

	Dividends %	Interest %	Royalties (h) %
St. Pierre and Miquelon	5/15	0	0/10
Saudi Arabia	0	0	0
Senegal	15	0/15	0
Singapore	10/15	0/10	0/33⅓
South Africa	5/15	0	0
Spain	0/10/15 (a)	0/10	5
Sri Lanka	25	0/10	0/10
Sweden	0/15 (a)	0	0
Switzerland	0/15	0	5
Thailand	15/20	0/15	5/15
Togo	15/25	0/15	0
Trinidad and Tobago	10/15	0/10	0/10
Tunisia	25	0/12	5/15/20
Turkey	15/20	0/15	10
Ukraine	0/5/15	2/10	0/5/10
USSR (e)	15	10	0
United Arab Emirates	0	0	0
United Kingdom	0/5/15 (a)	0	0
United States	5/15	0/15	0/5
Uzbekistan (i)	5/10	5	15
Venezuela	0/5/15	0/5	5
Vietnam	5/15	0	10
Yugoslavia (d)	5/15	0	0
Zambia	10/25	0/15	0
Zimbabwe	10/15/20	10	10
Nontreaty countries	25	15	33⅓

(a) Dividends paid by French companies to parent companies located in other EU member states are exempt from withholding tax if the parent company makes a commitment to hold at least 25% of the distributing company for an uninterrupted period of at least two years. However, the Denmark treaty provides that all dividends are exempt from withholding tax.

(b) Withholding tax rates of 10% and 15% apply with respect to Quebec.

(c) France is honoring the Czechoslovakia treaty with respect to the Czech and Slovak Republics. France is negotiating tax treaties with the Czech and Slovak Republics.

(d) France is honoring the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and Slovenia.

(e) France has agreed with Georgia and Turkmenistan to apply the France-USSR tax treaty. For Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan, France applies the France-USSR tax treaty, but not necessarily the other countries. Estonia, Latvia and Lithuania have announced that the France-USSR treaty does not apply. France has entered into tax treaties with Armenia, Kazakhstan, the Russian Federation and Ukraine. The withholding tax rates under these treaties are listed in the table above. It has signed a tax treaty, which has not yet been ratified, with Uzbekistan (22 April 1996). The withholding tax rates under this treaty are listed in the table above.

(f) France has signed a protocol to the existing tax treaty with Gabon (20 September 1995), which has not yet been ratified. The rates listed in the table are the rates under the existing tax treaty.

(g) The tax treaty between France and China is not applicable to Hong Kong.

(h) Withholding tax on interest and royalties paid between associated companies of different EU states will be eliminated when France implements EU Directive 2003/49/EC, dated 3 June 2003. France's implementation of this directive is expected to occur by 1 January 2004.

(i) This treaty has not yet been ratified.

GABON

(Country Code 241)

LIBREVILLE **GMT +1**

Ernst & Young
Immeuble Sonagar
Avenue du Colonel Parant
B.P. 1013
Libreville
Gabon

74-32-17, 74-21-68
Fax: 72-64-94

Corporate Tax

Gaetan Mboza

74-21-68
Mobile: 30-10-07
E-mail: gaetan.mboza@ga.eylaw.com

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35 (a)(c)
Withholding Tax (%)	
Dividends	20 (d)(e)
Interest	10 (f)
Royalties from Patents, Know-how, etc.	10 (d)
Payments for Services	10 (g)
Branch Remittance Tax	20 (h)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The minimum tax is 1.1% of turnover (unless exempt). See Section B for details.
(b) In certain circumstances, the tax is deferred or reduced (see Section B).
(c) If an election is made, a 10% withholding tax is imposed on CIE Petroleum Contractors (foreign companies without a permanent establishment in Gabon that have contracted with oil companies established in Gabon). Oil companies' subcontractors with a permanent establishment in Gabon are subject to tax on taxable turnover. The tax rate for these subcontractors is currently 7.682% (see Section D).
(d) Applicable to payments to residents and nonresidents.
(e) This tax also applies to directors' fees, nondeductible expenses, adjustments of profits following a tax examination and interest on bonds and debentures. The rate is 22% for directors' fees. A 30% withholding tax is imposed on "lots," which are exceptionally high bond discounts given only for certain specified bonds selected at random. The withholding tax is imposed on the amount of the discount.
(f) This withholding tax is imposed on interest paid on debt claims, bank deposits and guarantees to corporations that do not have their seat in Gabon or to nonresident individuals. Also, see footnote (e) for details concerning withholding tax on interest on bonds and debentures.
(g) Applicable to payments by resident companies to nonresidents for services, including professional services, rendered or used in Gabon.
(h) This tax applies if the profits are remitted to the head office.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Gabonese companies are taxed on the territoriality principle. As a result, Gabonese companies carrying on a trade or business outside Gabon are not taxed in Gabon on the related profits. Gabonese companies are those registered in Gabon, regardless of the nationality of the shareholders or where the companies are managed and controlled. Foreign companies with activities in Gabon are subject to Gabonese corporate tax on Gabonese-source profits.

Tax Rates. The corporate income tax rate is 35%. The minimum corporate tax payable is 1.1% of annual turnover, but not less than FCFA 600,000. For the purpose of calculating the minimum tax, an allowance of 25% of annual turnover for the previous year is granted for purchase activities (sales of goods not manufactured by the seller), and a 10% allowance is granted for manufacturing activities (sales of goods manufactured by the seller). Up to one-third of the minimum tax paid in a year in which a company incurs a loss may be deducted from the corporate tax payable in each of the three years following the year of the loss.

Capital Gains. Capital gains are taxed at the regular corporate rate. The tax, however, can be deferred if all of the proceeds are used to acquire new fixed assets in Gabon within three years or in the event of a merger.

If the business is totally or partially transferred or discontinued, only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased.

Administration. The fiscal year is the calendar year. Tax returns must be filed by 30 April.

Companies must pay the corporate tax (or the minimum tax) in three installments, which are due on 30 November, 30 January and 30 April. The first installment is equal to 25% of the preceding year's corporate tax. The second and third installments are each equal to 33.33% of such tax. Companies must pay any balance of tax due by the due date for the tax return, which is 30 April.

Late payments are subject to a penalty of 10% and interest of 1% a month.

Dividends. Dividends paid are subject to a 20% withholding tax. Resident recipients must include the gross dividend in taxable income, but they receive a corresponding 20% tax credit to prevent double taxation.

A parent corporation may exclude up to 90% of the dividends received from a 25%-owned subsidiary if the parent company and the subsidiary have their registered office in a Central African Economic and Customs Union (UDEAC) country (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon). In this case, however, the withholding tax credit described in the preceding paragraph is not allowed.

A parent corporation receiving dividends from a 20%-owned Gabonese subsidiary may offset such net dividends against its own distributions subject to withholding tax.

Foreign Tax Relief. In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from Gabonese tax under the territoriality principle is taxable net of the foreign tax. A tax treaty with France, however, provides a tax credit that corresponds to the withholding tax on dividends.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the general accounting plan of the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA).

Business expenses are generally deductible unless specifically excluded by law. The following expenses are deductible only if they are normal and substantiated: head office overhead and remuneration for certain services (studies and technical, financial or administrative assistance) paid to nonresidents; and royalties from patents, brands, models or designs paid to a non-UDEAC corporation participating in the management of, or owning shares in, the Gabonese corporation.

The following expenses are not deductible:
- Rent expense for movable equipment paid to a shareholder holding, directly or indirectly, more than 10% of the capital;
- A portion of interest paid to a shareholder in excess of the central bank annual rate plus two points and, if the shareholder is in charge of management, on the portion of the loan exceeding one-half of the capital stock;
- Commissions and brokerage fees exceeding 5% of purchased imports;
- Certain specific charges, penalties and corporate tax; and
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director), gifts and subsidies.

Inventories. Inventory is normally valued at the lower of cost or market value. Cost must be determined on a weighted-average cost price method. A first-in, first-out (FIFO) basis is also generally acceptable.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Buildings	8 to 20
Plant and machinery and transport equipment	8 to 33
Office equipment	15 to 25

An accelerated depreciation method may be used for certain fixed assets acquired after 1 January 1990, subject to the approval of the tax authorities.

Equipment for the exploitation and transformation of natural resources that is specified in the Investment Charter (the charter, which is designed to encourage investments in Gabon, details tax and other rules with respect to investors) may be depreciated using the declining-balance method, subject to the approval of the Minister of Finance in charge of the relevant sector.

Relief for Tax Losses. Losses may be carried forward three years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. There is no provision for the fiscal integration of Gabonese companies equivalent to a consolidated filing position.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Business activity tax (*patente*), calculated based on the nature of the business, the value of equipment and the number of employees	Various
Special tax on subcontractors of petroleum companies — a global tax including a contractual payment amount, income tax, vocational training tax and payroll tax; on taxable turnover	7.682
Registration duties, on transfers of real property or businesses	4 to 10
Social security contributions, on an employee's gross salary; limited to FCFA 1.5 million a month	
Employer	20.1
Employee	2.5
Value-added tax (VAT); on corporations realizing annual turnover in excess of FCFA 80 million from general business activities, on corporations realizing annual turnover in excess of FCFA 60 million from rendering services, on corporations realizing annual turnover in excess of FCFA 500 million from forestry activities and on specified medium-sized companies realizing annual turnover in excess of FCFA 40 million	
Standard rate	18
Reduced rate, on certain items such as sugar	10
Withholding tax on local service providers that are not subject to VAT; tax based on the total amount of the invoice	9.5

E. Foreign-Exchange Controls

The Economic and Monetary Community of Central Africa Countries (CEMAC) Act, dated 29 April 2000, provides exchange-control regulations, which apply to financial transfers outside the franc zone, which is a monetary zone including France and its former overseas colonies. CEMAC consists of Cameroon, the Central African Republic, Chad, Congo, Equatorial Guinea and Gabon.

F. Treaty Withholding Tax Rates

Gabon has signed a multilateral tax treaty with the members of UDEAC (see Section B). Gabon has also signed the Organisation Commune Africaine et Mauricienne (OCAM) multilateral tax treaty. The withholding rates under these multilateral treaties and the treaty with France are listed in the following table.

	Dividends %	Interest %	Royalties %
Benin	20 (a)	20	– (b)
Cameroon	20 (a)	20	– (b)
Central African Republic	20 (a)	20	– (b)
Chad	20 (a)	20	– (b)
Congo (c)	20 (a)	20	– (b)
Côte d'Ivoire	20 (a)	20	– (b)
Equatorial Guinea	20 (a)	20	– (b)
France (e)	20 (a)	20	10
Senegal	20 (a)	20	– (b)
Togo	20 (a)	20	– (b)
Nontreaty countries	20	10 (d)	10

(a) The withholding tax is imposed by the state of the payer.
(b) No withholding tax is imposed, but the income is subject to tax in the state of the recipient.
(c) Congo and Gabon have signed both the UDEAC and OCAM treaties. The withholding rates are the same under each treaty.
(d) See footnotes (e) and (f) to Section A.
(e) Gabon has signed a protocol to its tax treaty with France, but the protocol has not yet been ratified. The rates listed in the table are those under the existing treaty between the countries.

GEORGIA

(Country Code 995)

TBILISI **GMT +4**

Ernst & Young Audit, LLC
Leselidze Street, 44
Tbilisi 380005
Georgia

(32) 751-065
Fax: (32) 751-066

International Tax

Zurab Nikvashvili
(32) 751-065
Mobile: (77) 406-174
E-mail: zurab.nikvashvili@ge.ey.com

This chapter reflects the law as of 28 October 2003. Because of the rapidly changing economic and political situation in Georgia, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Profits Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Permanent Representation Tax Rate (%)	20
Withholding Tax (%)	
Dividends	10
Interest	10
Royalties from Patents, Know-how, etc.	10

Management Fees	10
Income from International Transport or International Communications	4
Insurance Premiums	4
Payments of Other Georgia-Source Income to Foreign Companies	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

B. Taxes on Corporate Income and Gains

Corporate Profits Tax. Enterprises carrying on activities in Georgia, including enterprises with foreign investment, are subject to tax. Enterprises with foreign investment include 100% foreign-owned subsidiaries, joint ventures and foreign legal entities operating through a permanent establishment.

Georgian legal entities are subject to tax on their worldwide income. For tax purposes, Georgian legal entities are entities incorporated in Georgia, including 100%-owned subsidiaries of foreign companies, and legal entities incorporated in a foreign country, but managed in Georgia.

Foreign legal entities are subject to tax on Georgian-source income only. Income earned through a permanent establishment in Georgia, reduced by tax-deductible expenses, is taxed at the regular corporate tax rate of 20%. A permanent establishment is defined as any permanent location for business activities in Georgia and generally includes any organization or natural person who represents a foreign legal entity conducting commercial activities in Georgia. Domestic tax law and double tax treaties list activities that do not result in a taxable permanent establishment. Foreign legal entities without a permanent establishment in Georgia are subject to withholding tax on their Georgian-source income at a rate of 4% or 10% (see Section A).

Georgian law allows foreign investment in various forms, including investment through 100% foreign-owned subsidiaries, share participations in joint stock companies and in joint ventures with Georgian legal entities and citizens, permanent establishments and other types of participations.

Tax Rate. The regular corporate tax rate is 20%.

Capital Gains. Capital gains are included in taxable profits and are subject to tax at the regular corporate tax rate. Capital losses can be offset against capital gains only. Capital losses in excess of capital gains cannot be deducted against other income, but can be carried forward for up to five years.

Administration. The tax year is the calendar year.

Both Georgian legal entities and foreign legal entities conducting business activities in Georgia through a permanent establishment must make advance payments of profits tax. The payments are based on percentages of profits tax liability for the preceding year. The following are the due dates and the percentages for the payments: 15 May, 30%; 15 August, 30%; and 15 November, 40%. Advance payments of tax are applied against the profits tax liability for the current tax year.

If the total advance payments exceed the tax due for the tax year, the excess is applied against any outstanding liabilities for other taxes. If no outstanding tax liabilities exist, taxpayers may apply for a refund. However, in practice, refunds are rare, and accordingly taxpayers may need to apply overpayments against future tax liabilities.

Annual tax declarations and statements of accounts must be submitted to the tax authorities by 1 April of the year following the tax year.

Interest is charged on late tax payments at a rate of 0.15% of the tax due for each day of delay. In addition, if taxpayers spend money from bank accounts not registered with the tax authorities during the period of delay, a penalty is imposed in the amount of 30% of the balance of tax due or of the money spent for other purposes. If tax declarations are not filed by the applicable due date, a penalty is imposed in an amount equal to 5% of the amount of tax stated in the declaration for each month of delay, up to a maximum of 25%. The maximum penalty for the late filing of a tax declaration is GEL 1,000 (approximately US$500) for each month of delay. A penalty for an understatement of tax in a tax declaration is imposed at a rate of 25% of the understated amount; the rate increases to 50% for understatements of between GEL 5,000 and GEL 10,000 and to 100% for understatements exceeding GEL 10,000.

Dividends. Dividends paid are subject to income tax withholding at a rate of 10%. Dividends received by Georgian legal entities or Georgian permanent establishments of foreign legal entities from Georgian companies are included in taxable profits, and the recipients of the dividends may apply the tax withheld on the dividends against their profits tax liabilities.

Dividends received by Georgian legal entities from foreign legal entities are included in taxable profits.

Foreign Tax Relief. Foreign income tax may be credited against Georgian tax imposed on the same income, limited to the amount of such Georgian tax.

C. Determination of Trading Income

General. Taxable profits include the following: trading profits; capital gains; profits from financial activities; gratuitously received assets, works and services; and other items of income. Income received in foreign currency is converted into lari at the daily exchange rate determined by the National Bank of Georgia for the date of receipt of the income.

To be deductible, expenses must be related to a company's business activities. Taxpayers may use either the cash or accrual method of accounting.

Repair expenses are deductible up to an amount equal to 5% of the net book value of the asset category for which the repairs were made. Any excess expenses must be capitalized into the value of the asset.

Costs-of-production regulations and norms provide details concerning the deductibility of other costs. The norms limit the amounts deductible for certain categories of expenses.

Inventories. Inventories are valued at the lower of cost or market. Costs for storage and transportation must be included in the value of inventory. The first-in, first-out (FIFO), last-in, first-out (LIFO) or average cost method may be used to value inventory.

Provisions. Banks may deduct allocations to reserves for bad debts. Insurance companies may deduct allocations to reserve funds for claims payouts. No other provisions are deductible.

Deductions for bad debts are allowed only if income relating to such debts had been reflected in the company's gross income and, accordingly, taxed.

Relief for Losses. Enterprises may carry forward a loss incurred in a tax year to the following five tax years. Losses may not be carried back.

Groups of Companies. Georgian law does not contain any measures allowing members of a group to offset profits and losses.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on goods sold and services rendered, excluding exports from Georgia; reverse-charge VAT is imposed on works and services carried out in Georgia by nonresident entities	20
Tax on economic activity, on gross revenue less material expenses	1
Road users tax, on gross revenue; tax is imposed regardless of extent of road use (a 1% rate applies to most companies)	0.1 to 5
Assets tax, on the annual average net book value of fixed assets	1
Tax on transfer of immovable property, paid by the purchaser on the purchase price	2
Social insurance contributions, paid by employers on employees' gross salary	31
Small business tax (SBT); imposed on gross income of entities that carry out economic activities, earn annual gross income (excluding interest and dividends) not exceeding GEL 100,000 and employ a synchronized system for reflecting income (in certain circumstances, the tax applies to companies engaged in cash machine and cashbox operations); SBT taxpayers are exempt from profits, economic activity and road fund taxes	5

Georgia also imposes several other minor federal and local taxes.

E. Foreign-Exchange Controls

The Georgian currency is the lari (GEL). The lari is a nonconvertible currency outside Georgia. Enterprises may buy or sell foreign currencies through authorized banks or foreign-exchange offices in Georgia.

Georgia does not impose restrictive currency control regulations. Individuals and enterprises may open bank accounts abroad without any restriction if they declare such accounts with the tax authorities. In general, all transactions performed in Georgia between Georgian entities or individuals must be performed in lari. Transactions with nonresident entities may be conducted in other currencies.

F. Treaty Withholding Tax Rates

Georgia considers none of the tax treaties of the former USSR to be in force, with the exception of the USSR's treaties with France and Germany. Georgia also has tax treaties in force with the following countries: Armenia; Azerbaijan; Bulgaria; Greece; Iran; Kazakhstan; the Netherlands; Romania; Turkmenistan; Uzbekistan; and Ukraine. It has ratified tax treaties with Belgium, Italy, Poland and the Russian Federation, but these treaties are not yet in force.

GERMANY

(Country Code 49)

The e-mail addresses for the persons listed below who are resident in Germany are in the following standard format:

firstname.surname@de.ey.com

Accent marks are omitted from e-mail addresses. The e-mail addresses for persons who are not resident in Germany or who have e-mail addresses varying from the standard format are listed below the respective persons' names.

NATIONAL

National Directors of Tax

★ Dr. Thomas Borstell *(resident in Duesseldorf)*	**(211) 9352-10601** **Mobile: (160) 9391-0601** **Fax: (211) 935-210605**
★ Rolf Zeppenfeld *(resident in Cologne)*	**(221) 2779-25649** **Mobile: (160) 9392-5649** **Fax: (221) 2779-25637**

International Tax Services – Core

★ Dr. Manfred Burkert *(resident in Hamburg)*	**(40) 36132-11229** **Mobile: (160) 9391-1229**
Roland Haeussermann *(resident in Munich)*	**(89) 14331-13046** **Mobile: (160) 9391-3046**
Andrea Kopf *(resident in Munich)*	**(89) 14331-13642** **Mobile: (160) 9391-3642**
Ralf-Christian Mueller *(resident in Munich)*	**(89) 14331-13673** **Mobile: (160) 9391-3673**

Business Development

Stefan Theisen *(resident in Hamburg)*	**(40) 36132-11343** **Mobile: (160) 9391-1343**
Ruprecht von Uckermann *(resident in Munich)*	**(89) 14331-13033** **Mobile: (160) 9391-3033**

Tax Desks Abroad

Thomas Eckhardt *(resident in New York)*	**[1] (212) 773-8265** **Mobile: [1] (646) 339-4002** **E-mail: thomas.eckhardt@ey.com**

Ilona Kahl *(resident in New York)*	**[1] (212) 773-0350** **Mobile: [1] (917) 309-6501** **E-mail: ilona.kahl@ey.com**
Jörg Menger *(resident in New York)*	**[1] (212) 773-5250** **Mobile: [1] (917) 981-5696** **E-mail: jorg.menger@ey.com**
Uwe Woywode *(resident in New York)*	**[1] (212) 773-2452** **E-mail: uwe.woywode@ey.com**

BERLIN — GMT +1

Ernst & Young AG
Franzoesische Straße 48
10117 Berlin
Germany

(30) 25471-0
Fax: (30) 25471-550

Corporate – International Inbound

Tim Hackemann	**(30) 25471-21718** **Mobile: (160) 9392-1718**
Udo Kiel	**(30) 25471-21176** **Mobile: (160) 9392-1176**
Burchard-Alexander Kreisch	**(30) 25471-21710** **Mobile: (160) 9392-1710**
Ulrike Schramm	**(30) 25471-21470** **Mobile: (160) 9392-1470**
Ute Witt	**(30) 25471-21660** **Mobile: (160) 9392-1660**

Corporate - Multinational Tax Consulting

Ilona Kahl *(resident in New York)*	**[1] (212) 773-0350** **Mobile: [1] (917) 309-6501** **E-mail: ilona.kahl@ey.com**

Human Capital

Wolfgang Apel	**(30) 25471-21255** **Mobile: (160) 9392-1255**
Marcus Krohn	**(30) 25471-21391** **Mobile: (160) 9392-1391**

Indirect Tax and Customs

Andreas Funke	**(30) 25471-21215** **Mobile: (160) 9392-1215**
Peter Schilling	**(30) 25471-21262** **Mobile: (160) 9392-1262**

Public Services

◆ Franz-Josef Epping	**(30) 25471-21782** **Mobile: (160) 9392-1782**
Andrea Seifert	**(30) 25471-21644** **Mobile: (160) 9392-1644**

Real Estate

Markus Boehl	**(30) 25471-21450** **Mobile: (160) 9392-1450**
Dr. Peter Jegzentis	**(30) 25471-21668** **Mobile: (160) 9392-1668**
Michael Kohl	**(30) 25471-21203** **Mobile: (160) 9392-1203**
Dennis Kloeppel	**(30) 25471-21355** **Mobile: (160) 9392-1355**

Bookkeeping Advisory Services

Ulrich Schulte	**(30) 25471-21265** **Mobile: (160) 9392-1265**
Katrin Stepper	**(30) 25471-21725** **Mobile: (160) 9392-1725**

COLOGNE GMT +1

Ernst & Young AG **Ludwigstraße 8** **50667 Cologne** **Germany**	**(221) 2779-0** **Fax: (221) 2779-25637/25537 (Tax)**

National Director of Tax

★ Rolf Zeppenfeld	**(221) 2779-25649** **Mobile: (160) 9392-5649** **Fax: (221) 2779-25637**

International Tax Services

Ute Benzel	**(221) 2779-25648** **Mobile: (160) 9392-25648** **Fax: (221) 2779-25637**

Corporate – International Inbound

Ralph Doll	**(221) 2779-25678** **Mobile: (160) 9392-5678** **Fax: (221) 2779-25537**
Carsten Sobotta	**(221) 2779-25639** **Mobile: (160) 9392-5639** **Fax: (221) 2779-25537**
Stephanie Vogt	**(221) 2779-25677** **Mobile: (160) 9392-5677** **Fax: (221) 2779-25637**

Corporate – Multinational Tax Consulting

Christian Biel	**(221) 2779-25676** **Mobile: (160) 9392-5676** **Fax: (221) 2779-25537**
Gabriele Kirchhof	**(221) 2779-25680** **Mobile: (160) 9392-5680** **Fax: (221) 2779-25537**
◆ York Zoellkau	**(221) 2779-25647** **Mobile: (160) 9392-5647** **Fax: (221) 2779-25537**

Transfer Pricing/Tax-Effective Supply Chain Management

Stephan Beck	**(221) 2779-25645** **Mobile: (160) 9392-5645** **Fax: (221) 2779-25637**

Indirect Tax

Sibylle Schilling	**(221) 2779-25664** **Mobile: (160) 9392-5664** **Fax: (221) 2779-25537**

Compliance

Claudia Schlesinger	**(221) 2779-25661** **Mobile: (160) 9392-5661** **Fax: (221) 2779-25537**

Human Capital

Bettina Willmann	**(221) 2779-25618** **Mobile: (160) 9392-5618** **Fax: (221) 2779-25637**

DORTMUND GMT +1

The telephone numbers for the Dortmund office are expected to change in 2004.

Ernst & Young AG **Maerkische Strasse 115/117** **44141 Dortmund** **Germany**	**(231) 5501-0** **Fax: (231) 5501-250**

International Tax Services

Soeren Goebel	**(231) 5501-212** **Mobile: (160) 9392-2212**

Corporate – Multinational Tax Consulting

Tino Boller *(EU Law)*	**(231) 5501-276**
Carl-Josef Husken	**(231) 5501-229** **Mobile: (160) 9392-2229**
Thomas Ketteler *(EU Law)* *(resident in Essen)*	**(201) 8437-176**
Stephan Kunze *(resident in Essen)*	**(201) 8437-108** **Mobile: (160) 9391-0108**
◆ Christoph Spiekermann	**(231) 5501-226** **Mobile: (160) 9392-2226**

Corporate – International Inbound

Paul Georg Schaub *(resident in Essen)*	**(201) 8437-161** **Mobile: (160) 9392-0161**
Joerg Schindler *(resident in Essen)*	**(201) 8437-192**

Eastern Europe

Silvia Iwanek *(resident in Essen)*	**(201) 8437-122** **Mobile: (160) 9391-5122**
Daniela Johannsenova *(resident in Essen)*	**(201) 8437-121** **Mobile: (160) 9391-5121**

Indirect Tax

Daniela Gerhards *(resident in Essen)*	**(201) 8437-173**
Markus Kramer	**(231) 5501-214**

Closed-End Funds

Dr. Joern Reinfeld *(resident in Essen)*	**(201) 8437-102** **Mobile: (160) 9392-0102**
Ursula Stoffel *(resident in Essen)*	**(201) 8437-156** **Mobile: (160) 9392-0156**

DRESDEN — GMT +1

Ernst & Young AG **Forststraße 2a** **01099 Dresden** **Germany**	**(351) 8141-30** **Fax: (351) 8141-410**

Corporate – International Inbound

Arell Buchta	**(351) 8141-364** **Mobile: (170) 790-3364**
◆ Christa Peterson	**(351) 8141-310** **Mobile: (170) 790-3310**

Corporate – Multinational Tax Consulting

Christina Walter	**(351) 8141-30**

DUESSELDORF — GMT +1

Ernst & Young AG **Am Wehrhahn 50** **40211 Duesseldorf** **Germany**	**(211) 935-20** **Fax: (211) 935-210687 (Tax)**

National Director of Tax

★ Dr. Thomas Borstell	**(211) 935-210601** **Mobile: (160) 9391-0601** **Fax: (211) 935-210605**

International Tax Services

Dr. Michael Pfaar *(resident in Shanghai)*	**[86] (21) 6219-1219**
Marion Sangen-Emden	**(211) 935-210428** **Mobile: (160) 9391-0428** **Fax: (211) 935-218342**
Wolfgang Westphaelinger	**(211) 935-218369** **Mobile: (160) 9391-8369** **Fax: (211) 935-218342**

Corporate – International Inbound

Stefanie Busch	**(211) 935-218313** **Mobile: (160) 9391-8313** **Fax: (211) 935-218491**
Heribert Classen	**(211) 935-210517** **Mobile: (160) 9391-0517** **Fax: (211) 935-210686**
Iris Deterding-Hermuth	**(211) 935-210670** **Mobile: (160) 9391-0670** **Fax: (211) 935-210607**
Ruediger Gudd	**(211) 935-210508** **Mobile: (160) 9391-0508** **Fax: (211) 935-210686**
Jens Hagenhoff	**(211) 935-218328** **Mobile: (160) 9391-8328** **Fax: (211) 935-218491**
Beate Ilting	**(211) 935-210516** **Mobile: (160) 9391-10516** **Fax: (211) 935-210686**
Petra Kraiczek	**(211) 935-210407** **Fax: (211) 935-210687**
Marie-Luise Krampe	**(211) 935-210505** **Fax: (211) 935-210686**
Stefan Loer	**(211) 935-210434** **Mobile: (160) 9391-0434** **Fax: (211) 935-210689**
Harald Masur	**(211) 935-210420** **Mobile: (160) 9391-0420** **Fax: (211) 935-210689**
Peter Melerski	**(211) 935-210142** **Mobile: (160) 9391-0142** **Fax: (211) 935-210624**
Michael Prick	**(211) 935-210507** **Fax: (211) 935-210687**
Dr. Tillmann Pyszka	**(211) 935-218353** **Mobile: (160) 9391-8353** **Fax: (211) 935-218359**
Harald Reisen	**(211) 935-210439** **Mobile: (160) 9391-0439** **Fax: (211) 935-210689**
Alexander Roebel	**(211) 935-210424** **Mobile: (160) 9391-0424** **Fax: (211) 935-210661**
◆ Wolfgang Roehs	**(211) 935-210522** **Mobile: (160) 9391-0522** **Fax: (211) 935-210687**
Walter Schriedels	**(211) 935-210520** **Mobile: (160) 9391-0520** **Fax: (211) 935-210692**
Dr. Helmut Urbas	**(211) 935-210623** **Mobile: (160) 9391-0623** **Fax: (211) 935-210607**
Matthias Wacht	**(211) 935-218366** **Mobile: (160) 9391-8366** **Fax: (211) 935-218491**
Michael H. Wild	**(211) 935-210669** **Mobile: (160) 9391-0669** **Fax: (211) 935-218660**

Corporate – Multinational Tax Consulting

Dr. Matthias Wehling	**(211) 935-218397** **Mobile: (160) 9391-8397** **Fax: (211) 935-218274**

Mergers and Acquisitions

Dr. Heinrich Juergen Watermeyer	**(211) 935-210527** **Mobile: (160) 9391-0527** **Fax: (211) 935-218342**

Transfer Pricing

Dr. Dirk Brueninghaus	**(211) 935-210606** **Mobile: (160) 9391-0606** **Fax: (211) 935-210600**
Yukika Sano	**(211) 935-212337** **Mobile: (160) 9391-0606** **Fax: (211) 935-218274**
★ Oliver Wehnert	**(211) 935-210627** **Mobile: (160) 9391-0627** **Fax: (211) 935-210600**
Dr. Ludger T. Wellens	**(211) 935-210319** **Mobile: (160) 9391-0319** **Fax: (211) 935-210600**

Foreign Desks

Kazuo Araki, *Japan*	**(211) 935-210345** **Mobile: (160) 9391-0345** **Fax: (211) 935-218026**
Takuji Kuniyoshi, *Japan*	**(211) 935-210316** **Mobile: (160) 9391-0316** **Fax: (211) 935-210682**

Human Capital

Thorsten Koch	**(211) 935-210454** **Mobile: (160) 9391-0454** **Fax: (211) 935-210639**
Michael Meinke	**(211) 935-218352** **Mobile: (160) 9391-8352** **Fax: (211) 935-218540**
Jan Pinternagel	**(211) 935-218387** **Mobile: (160) 9391-8387** **Fax: (211) 935-218540**
Patricia von Gruchalla	**(211) 935-210673** **Mobile: (160) 9391-0673** **Fax: (211) 935-210639**
Martina Wiesemann	**(211) 935-218343** **Mobile: (160) 9391-8343** **Fax: (211) 935-218540**

Indirect Taxes and Customs

Alexander Thoma	**(211) 935-210501** **Mobile: (160) 9391-0501** **Fax: (211) 935-210687**

ESSEN — GMT +1

The telephone numbers for the Essen office are expected to change in 2004.

Ernst & Young AG **Wittekindstraße 1 a** **45131 Essen** **Germany**	**(201) 8437-0** **Fax: (201) 8437-250**

International Tax Services

Soeren Goebel *(resident in Dortmund)*	**(231) 5501-212** **Mobile: (160) 9392-2212**

Corporate – Multinational Tax Consulting

Tino Boller *(EU Law)* *(resident in Dortmund)*	**(231) 5501-276**
Carl-Josef Husken *(resident in Dortmund)*	**(231) 5501-229** **Mobile: (160) 9392-2229**
Thomas Ketteler *(EU Law)*	**(201) 8437-176**
Stephan Kunze	**(201) 8437-108** **Mobile: (160) 9391-0108**
◆ Christoph Spiekermann *(resident in Dortmund)*	**(231) 5501-226** **Mobile: (160) 9392-2226**

Corporate – International Inbound

Paul Georg Schaub	**(201) 8437-161** **Mobile: (160) 9392-0161**
Joerg Schindler	**(201) 8437-192**

Eastern Europe

Silvia Iwanek	**(201) 8437-122** **Mobile: (160) 9391-5122**
Daniela Johannsenova	**(201) 8437-121** **Mobile: (160) 9391-5121**

Indirect Tax

Daniela Gerhards	**(201) 8437-173**
Markus Kramer *(resident in Dortmund)*	**(231) 5501-214**

Closed-End Funds

Dr. Joern Reinfeld	**(201) 8437-102** **Mobile: (160) 9392-0102**
Ursula Stoffel	**(201) 8437-156** **Mobile: (160) 9392-0156**

FRANKFURT AM MAIN — GMT +1

Ernst & Young AG
Eschersheimer Landstrasse 14
60322 Frankfurt am Main
Germany

(69) 152-08-01
Fax: (69) 152-08-27514

International Tax Services

Dr. Stefan Koehler	**(69) 152-08-26315** **Mobile: (160) 9392-6315** **Fax: (69) 152-08-26111**

Corporate – International Inbound

Volker Bock	**(69) 152-08-27459** **Mobile: (160) 9392-7459** **Fax: (69) 152-08-27174**
Carola Deusser	**(69) 152-08-26361** **Mobile: (160) 9392-6361** **Fax: (69) 152-08-24740**
Ralf Eberhardt	**(69) 152-08-27241** **Mobile: (160) 9392-7241** **Fax: (69) 152-08-27499**
Christiane Fiack	**(69) 152-08-26347** **Mobile: (160) 9392-6347** **Fax: (69) 152-08-26603**
Angelika Froelich	**(69) 152-08-27447** **Mobile: (160) 9392-7447** **Fax: (69) 152-08-27386**
Michael Hartmann	**(69) 152-08-27236** **Mobile: (160) 9392-7236** **Fax: (69) 152-08-27166**
Sabine Kiener	**(69) 152-08-26168** **Mobile: (160) 9392-6168** **Fax: (69) 152-08-24859**

◆ Dr. Felix Klinger	**(69) 152-08-27458** **Mobile: (160) 9392-7458** **Fax: (69) 152-08-27514**
Prof. Dr. Manfred Orth	**(69) 152-08-28065** **Mobile: (160) 9392-8065** **Fax: (69) 152-08-27411**
Nina Pladies	**(69) 152-08-27454** **Mobile: (160) 9392-7454** **Fax: (69) 152-08-27284**
Susan Pitter	**(69) 152-08-26317** **Mobile: (160) 9392-6317** **Fax: (69) 152-08-24740**
Matthias Roche	**(69) 152-08-26267** **Mobile: (160) 9392-6267** **Fax: (69) 152-08-26418**
Thomas Schmelzer	**(69) 152-08-26367** **Mobile: (160) 9392-6367** **Fax: (69) 152-08-26418**
Annette E. Schmitz	**(69) 152-08-27285** **Mobile: (160) 9392-7285** **Fax: (69) 152-08-27499**
Iris Schrage	**(69) 152-08-27245** **Mobile: (160) 9392-7284** **Fax: (69) 152-08-27166**
Markus Schuhmann	**(69) 152-08-26487** **Mobile: (160) 9392-6487** **Fax: (69) 152-08-26148**
Dr. Angelika Thies	**(69) 152-08-27658** **Mobile: (160) 9392-7658** **Fax: (69) 152-08-27174**
Joerg Wegmann	**(69) 152-08-26268** **Fax: (69) 152-08-26602**

Corporate – Multinational Tax Consulting

Claudia Dedio	**(69) 152-08-26440** **Mobile: (160) 9392-6440** **Fax: (69) 152-08-26100**
Karl Friederichs	**(69) 152-08-26170** **Mobile: (160) 9392-6170** **Fax: (69) 152-08-26100**
Cornelia Fuchs-Herget	**(69) 152-08-26345** **Mobile: (160) 9392-6345** **Fax: (69) 152-08-26111**
Ulrich E. Michaelis	**(69) 152-08-26277** **Mobile: (160) 9392-6277** **Fax: (69) 152-08-24859**
Barbara Mueller	**(69) 152-08-27007** **Mobile: (160) 9392-7007** **Fax: (69) 152-08-26418**
Martina Oberlaender-Helbig	**(69) 152-08-26215** **Mobile: (160) 9392-6215** **Fax: (69) 152-08-24859**
Erich Rekow	**(69) 152-08-26434** **Mobile: (160) 9392-6434** **Fax: (69) 152-08-26602**
Edgar Weller	**(69) 152-08-26275** **Mobile: (160) 9392-6275** **Fax: (69) 152-08-24859**
Dr. Barbara Zuber	**(69) 152-08-27436** **Mobile: (160) 9392-7436** **Fax: (69) 152-08-26111**

Mergers and Acquisitions

Uwe Buehler	**(69) 152-08-26951** **Mobile: (160) 9392-6951** **Fax: (69) 152-08-26349**

Klaus Kraemer-Erkrath	**(69) 152-08-26271** **Mobile: (160) 9392-6271** **Fax: (69) 152-08-26100**
Dr. Carsten Kuhlmann	**(69) 152-08-27445** **Mobile: (160) 9392-7445** **Fax: (69) 152-08-27514**
★ Michael Kunz	**(69) 152-08-26253** **Mobile: (160) 9392-6168** **Fax: (69) 152-08-26349**
Juergen Lauber-Noell	**(69) 152-08-24705** **Mobile: (160) 9392-4705** **Fax: (69) 152-08-26349**
Rolf Schoenbrodt	**(69) 152-08-28085** **Mobile: (160) 9392-8085** **Fax: (69) 152-08-27450**

Transfer Pricing

Dr. Ulf Andresen	**(69) 152-08-27133** **Mobile: (160) 9392-7133** **Fax: (69) 152-08-26411**
Stephan Marx	**(69) 152-08-26147** **Mobile: (160) 9392-6147** **Fax: (69) 152-08-26411**
Annette Schrickel	**(69) 152-08-24807** **Mobile: (160) 9392-4807** **Fax: (69) 152-08-26411**

Indirect Tax

Stephanie Alzuhn	**(69) 152-08-24279** **Mobile: (160) 9392-4279** **Fax: (69) 152-08-26519**
Kurt Endres	**(69) 152-08-26118** **Mobile: (160) 9392-6118** **Fax: (69) 152-08-26519**

Capital Markets

Klaus G. Brinkmann	**(69) 152-08-26287** **Mobile: (160) 9392-6287** **Fax: (69) 152-08-26419**
Rosheen Dries	**(69) 152-08-26163** **Mobile: (160) 9392-6163** **Fax: (69) 152-08-26419**
Horst Mertes	**(69) 152-08-27185** **Mobile: (160) 9392-7185** **Fax: (69) 152-08-27105**
★ Wolfgang Oho	**(69) 152-08-26452** **Mobile: (160) 9392-6452** **Fax: (69) 152-08-26419**
Stefan Ottenthal	**(69) 152-08-26264** **Mobile: (160) 9392-6264** **Fax: (69) 152-08-27370**
Gerald Plenge	**(69) 152-08-26348** **Mobile: (160) 9392-6348** **Fax: (69) 152-08-27370**
Beate Ruedig	**(69) 152-08-24132** **Mobile: (160) 9392-4132** **Fax: (69) 152-08-25136**
Ulrich Schaefer	**(69) 152-08-27233** **Mobile: (160) 9392-7233** **Fax: (69) 152-08-27370**
Bernd Schmitt	**(69) 152-08-27441** **Mobile: (160) 9392-7441** **Fax: (69) 152-08-27105**
Cara Schulze *(resident in London)*	**[44] (20) 7951-0777** **E-mail: cschulze@uk.ey.com**

Compliance

Reinhard Dirnberger	**(69) 152-08-26112** **Mobile: (160) 9392-6112** **Fax: (69) 152-08-26718**
Michael Peschanel	**(69) 152-08-26240** **Mobile: (160) 9392-6240** **Fax: (69) 152-08-26718**
Hans-Juergen Schade	**(69) 152-08-28072** **Mobile: (160) 9392-8072** **Fax: (69) 152-08-26216**

Human Capital

Walter Adam	**(69) 152-08-27188** **Mobile: (160) 9392-7188** **Fax: (69) 152-08-27606**
Ingrid Kunz	**(69) 152-08-26535** **Mobile: (160) 9392-6535** **Fax: (69) 152-08-27550**
Elisabeth Kurz	**(69) 152-08-27434** **Mobile: (160) 9392-7434** **Fax: (69) 152-08-27550**
Peter Mauritz	**(69) 152-08-27480** **Mobile: (160) 9392-7480** **Fax: (69) 152-08-27550**
Lee Serota	**(69) 152-08-26450** **Mobile: (160) 9392-6450** **Fax: (69) 152-08-26417**
★ Karin Skiba	**(69) 152-08-27435** **Mobile: (160) 9392-7435** **Fax: (69) 152-08-27606**
Frank Strauch	**(69) 152-08-24804** **Mobile: (160) 9392-4804** **Fax: (69) 152-08-26296**
Sylvia Vahl	**(69) 152-08-26145** **Mobile: (160) 9392-6145** **Fax: (69) 152-08-26296**

Foreign Desks

Jacques-Henry de Bourmont, *France*	**(69) 152-08-27449** **Fax: (69) 152-08-27500** **E-mail: jacques-henry.de.bourmont @de.ey.com**
Zonne Takahashi, *Japan*	**(69) 152-08-27437** **Fax: (69) 152-08-27295**

U.S. Tax

William Atkiels	**(69) 152-08-25460** **Mobile: (160) 9392-5460** **Fax: (69) 152-08-26417**
David Small	**(69) 152-08-26270** **Mobile: (160) 9392-6270** **Fax: (69) 152-08-26417**

Accounting Services

Jens Kurzweil	**(69) 152-08-27353** **Mobile: (160) 9392-7353** **Fax: (69) 152-08-27170**

FREIBURG I. BR. — GMT +1

Ernst & Young AG **Bismarckallee 15** **79098 Freiburg i Br.** **Germany**	**(761) 3888-0** **Fax: (761) 3888-250**

Corporate – Multinational Tax Consulting

Horst Broszeit	**(761) 3888-164** **Mobile: (160) 9392-3164**
Ulrich Eberhardt	**(761) 3888-214** **Mobile: (160) 9392-3214**
Dr. Daniel Kiwitt	**(761) 3888-205** **Mobile: (160) 9392-3205**
◆ Dr. Max-Burkhard Zwosta	**(761) 3888-210** **Mobile: (160) 9392-3210**

Corporate – International Inbound

Thomas Linkerhaegner *(resident in Basel)*	**(761) 3888-271** **[41] (58) 286-8390** **Mobile: (160) 9392-3271**

Corporate – Tax Consulting

Uwe Hein	**(761) 3888-213** **Mobile: (160) 9392-3213**
Bernd Meier	**(761) 3888-230** **Mobile: (160) 9392-3230**

HAMBURG GMT +1

Ernst & Young AG
Duesternstraße 1
20355 Hamburg
Germany

(40) 36132-0
Fax: (40) 36132-11355

International Tax Services

★ Dr. Manfred Burkert	**(40) 36132-11229** **Mobile: (160) 9391-1229**

Corporate – International Inbound

Dr. Klaus Bracht	**(40) 36132-11232** **Mobile: (160) 9391-1232**
◆ Bernd Cloppenburg	**(40) 36132-12502** **Mobile: (160) 9391-2502**
Eva Doyé	**(40) 36132-11216** **Mobile: (160) 9391-1216**
Martin Ellerbusch	**(40) 36132-11246** **Mobile: (160) 9391-1246**
Benjamin Karten	**(40) 36132-12557** **Mobile: (160) 9391-2557**
Dr. Otto-Ferdinand Graf Kerssenbrock	**(40) 36132-12593** **Mobile: (160) 9391-2593**
◆ Wilfried Lahmann	**(40) 36132-11201** **Mobile: (160) 9391-1201**
Sylvia Midden	**(40) 36132-11225** **Mobile: (160) 9391-1225**
Dr. Norbert Neumann	**(40) 36132-11275** **Mobile: (160) 9391-1275**
Helmut Rundshagen	**(40) 36132-12565** **Mobile: (160) 9391-2565**
Barbara Scheit	**(40) 36132-12517** **Mobile: (160) 9391-2517**
Dr. Volker Streu	**(40) 36132-11235** **Mobile: (160) 9391-1235**
Edgar G. Temming	**(40) 36132-12500** **Mobile: (160) 9391-2500**

Corporate – Multinational Tax Consulting

Christina Buelow	**(40) 36132-11298**
Herbert Dahm	**(40) 36132-11241**
Hans Georg Heyne	**(40) 36132-12501** **Mobile: (160) 9391-2501**

Gerhard Hoppe	**(40) 36132-11245**
Reinhard Scheidmann	**(40) 36132-12504** **Mobile: (160) 9391-2504**

Transfer Pricing

Thomas Huelster	**(40) 36132-11236**

Human Capital

Ute Lendner	**(40) 36132-11305**
Frank Retzlaff	**(40) 36132-11264** **Mobile: (160) 9391-1264**

Indirect Tax

Peter Schilling *(resident in Berlin)*	**(30) 2547-1262** **Mobile: (160) 9392-1262**

Grants and Incentives

Stephan Naumann	**(40) 36132-12507** **Mobile: (160) 9391-2507**

Business Development

Stefan Theisen	**(40) 36132-11343** **Mobile: (160) 9391-1343**

HANNOVER — GMT +1

(A) **Ernst & Young AG** **Leisewitzstraße 47** **30175 Hannover** **Germany**	**(511) 8508-0** **Fax: (511) 8508-105**
(B) **Ernst & Young AG** **Sophienstraße 5** **30159 Hannover** **Germany**	**(511) 8508-0** **Fax: (511) 8508-550**

Corporate – International Inbound

Sabine Burghardt *(A)*	**(511) 8508-16130**
Joerg Fahlbusch *(B)*	**(511) 8508-17655** **Mobile: (160) 9391-7655**
Sabine Feilbach *(A)*	**(511) 8508-16140** **Mobile: (160) 9391-6140**
Jan Petersen *(A)*	**(511) 8508-16200** **Mobile: (160) 9391-6200**

Corporate – Multinational Tax Consulting

Dorothee Keller-Wellisch *(B)*	**(511) 8508-17729** **Mobile: (160) 9391-7729**
◆ Wilhelm Niggemann *(B)*	**(511) 8508-17651** **Mobile: (160) 9391-7651**

LEIPZIG — GMT +1

Ernst & Young AG **Grimmaische Straße 25** **04109 Leipzig** **Germany**	**(341) 2526-0** **Fax: (341) 2526-550**

Corporate – International Inbound

◆ Siegfried Herr	**(341) 2526-23015** **Mobile: (160) 9392-3015**
Ines Kanitz	**(341) 2526-23050** **Mobile: (160) 9392-3050**
Roland Schmidt	**(341) 2526-23522** **Mobile: (160) 9392-3522**

Corporate – Multinational Tax Consulting

Joerg Hellmann	**(341) 2526-22210** **Mobile: (160) 9392-2210**

MANNHEIM GMT +1

Ernst & Young AG
Theodor-Heuss-Anlage 2
68165 Mannheim
Germany

(621) 4208-11230
Fax: (621) 4208-42101

Corporate – International Inbound

Holger Baumgart	**(621) 4208-22281** **Mobile: (160) 9392-2281**
Thomas Honzen	**(621) 4208-11234** **Mobile: (160) 9391-1234**

Corporate – Multinational Tax Consulting

Annette Scholz	**(621) 4208-14236** **Mobile: (160) 9391-4236**
◆ Dr. Juergen Staiger	**(621) 4208-12231** **Mobile: (160) 9391-2231**
Martin Zwick	**(621) 4208-13248** **Mobile: (160) 9391-3248**

Human Capital

Jochen Reinig	**(621) 4208-11513**
◆ Julie Linn Teigland	**(621) 4208-11510** **Mobile: (160) 9391-1510**

MUNICH GMT +1

Ernst & Young AG
Arnulfstraße 126
80636 Munich
Germany

(89) 14331-0
Fax: (89) 14331-17225

International Tax Services

Roland Haeussermann	**(89) 14331-13046** **Mobile: (160) 9391-3046**
Andrea Kopf	**(89) 14331-13642** **Mobile: (160) 9391-3642**
Ralf Christian Mueller	**(89) 14331-13673** **Mobile: (160) 9391-3673**

Corporate – International Inbound

Klaus Eicker	**(89) 14331-12287** **Mobile: (160) 9391-2287**
Winfried Figna	**(89) 14331-13664** **Mobile: (160) 9391-3664**
Thomas Gieszinger	**(89) 14331-17175** **Mobile: (160) 9391-7175**
Stephan Goverts	**(89) 14331-17316** **Mobile: (160) 9391-7316**
Brigitte Hintzen	**(89) 14331-12107** **Mobile: (160) 9391-2107**
Peter Jung	**(89) 14331-13093** **Mobile: (160) 9391-3093**
Dr. Reinhard Lange	**(89) 14331-13079** **Mobile: (160) 9391-3079**
Klaus Loebel	**(89) 14331-13080** **Mobile: (160) 9391-3080**
Burkhard Lohmann	**(89) 14331-13610** **Mobile: (160) 9391-3610**

Marion Plett	**(89) 14331-13641** **Mobile: (160) 9391-3641**
◆ Oswald Rohrer	**(89) 14331-17310** **Mobile: (160) 9391-7310**
Susanne Spaeth	**(89) 14331-13655** **Mobile: (160) 9391-3655**
Uwe Woywode *(resident in New York)*	**[1] (212) 773-2452** **E-mail: uwe.woywode@ey.com**

Corporate – Multinational Tax Consulting

Hubert Kratzer	**(89) 14331-12189** **Mobile: (160) 9391-2189**
Richard Markl	**(89) 14331-13649** **Mobile: (160) 9391-3649**
Ulrike Steegborn	**(89) 14331-17206** **Mobile: (160) 9391-7206**
Jutta Wagner	**(89) 14331-13661** **Mobile: (160) 9391-3661**

Mergers and Acquisitions

Reinhard Ewert	**(89) 14331-13727** **Mobile: (160) 9391-3727**
Helmut Mendel	**(89) 14331-17315** **Mobile: (160) 9391-7315**
Peter Schmid	**(89) 14331-17160** **Mobile: (160) 9391-7160**

Transfer Pricing

Thomas Niessen	**(89) 14331-13598** **Mobile: (160) 939-3598**

Foreign Tax Desk

Harry A. Shannon III, *United States*	**(89) 14331-13623** **Mobile: (160) 9391-3623**

Japanese Business Group

Hiroyuki Hayashi	**(89) 14331-13635** **Mobile: (160) 9391-3635**

Bookkeeping Advisory Services

Petra Kunze	**(89) 14331-13229** **Mobile: (160) 9391-3229**

Human Capital

Ulrike Hasbargen	**(89) 14331-17324** **Mobile: (160) 9391-7324**
Yvonne Heinke	**(89) 14331-13679** **Mobile: (160) 9391-3679**

Indirect Tax

Karin Streb	**(89) 14331-13644** **Mobile: (160) 9391-3644**
Joachim Strehle	**(89) 14331-13643** **Mobile: (160) 9391-3643**

Private Clients

Dr. Tom Offerhaus	**(89) 14331-13645** **Mobile: (160) 9391-3645**
Susanne von Petrikowsky	**(89) 14331-17323** **Mobile: (160) 9391-7323**

Real Estate

Dr. Karl Hamberger	**(89) 14331-13662** **Mobile: (160) 9391-3662**
Klaus Hagenmeyer	**(89) 14331-13663** **Mobile: (160) 9391-3663**

Global Financial Services

Peter Schmittmann	**(89) 14331-12378** **Mobile: (160) 9391-2378**

NURENBERG GMT +1

Ernst & Young AG
Forchheimer Str. 2
90425 Nurenberg
Germany

(911) 9342-0
Fax: (911) 9342-193 (Tax)

Corporate – International Inbound

Ellen Blaetterlein	**(911) 9342-166**

Corporate – Multinational Tax Consulting

◆ Dr. Rolf Mueller	**(911) 9342-120** **Mobile: (160) 9392-8120**
Georg Scheper	**(911) 9342-160**

RAVENSBURG GMT +1

Ernst & Young AG
Gartenstrasse 86
88212 Ravensburg
Germany

(751) 36243-0
Fax: (751) 36243-10

Corporate – International Inbound

Konrad Ebert	**(751) 36243-56** **Mobile: (160) 9391-0756**

Corporate – Multinational Tax Consulting

◆ Achim Mueller	**(751) 36243-51** **Mobile: (160) 9391-0751**

STUTTGART GMT +1

Ernst & Young AG
Mittlerer Pfad 15
70499 Stuttgart
Germany

(711) 9881-0
Fax: (711) 9881-15228 (Tax)

International Tax Services

Joachim Dieterlen	**(711) 9881-15223**
Matthias Franz	**(711) 9881-15141**
Dr. Juergen Haun	**(711) 9881-15307** **Mobile: (160) 9391-5307**
Dr. Helmut Hauswirth	**(711) 9881-15297** **Mobile: (160) 9391-5297**
Prof. Wolfgang Kessler *(resident in Freiburg I. Br.)*	**(761) 3888-23510**
Steffen Reichl	**(711) 9881-14087**
Hagen Reiser	**(711) 9881-14391**
Ursula Schweickert	**(711) 9881-15596** **Mobile: (160) 9391-5596**

Corporate – International Inbound

Rudolf Kernke	**(711) 9881-11723**
Dr. Frank Moszka	**(711) 9881-19464** **Mobile: (160) 9391-9464**
Klaus Schwarz	**(711) 9881-11743**
Ferry Wittchen	**(711) 9881-12720**
Ruediger Wutzel	**(711) 9881-14431**

Corporate – Multinational Tax Consulting

Thomas Berttram	**(711) 9881-15524** **Mobile: (160) 9391-5524**
Harald Diebel	**(711) 9881-19185**

Peter Doerrfuss	**(711) 9881-15276**
Harald Eisele	**(711) 9881-15241**
Wolfgang Ellesser	**(711) 9881-15291** **Mobile: (160) 9391-5291**
◆ Ekkehard Gross	**(711) 9881-15224**
Guenther Jordan	**(711) 9881-15264**
Roland Kaufmann	**(711) 9881-15348**
Gerhard Kaufmann-Noelte	**(711) 9881-12774**
Rolf Krautter	**(711) 9881-15328**
Dieter Narr	**(711) 9881-15326**
Oliver Neika	**(711) 9881-15285**
Guenter Singer	**(711) 9881-15305** **Mobile: (160) 9391-5305**
Guenter Thomann	**(711) 9881-19105** **Mobile: (160) 9391-9105**
Doris Wachter	**(711) 9881-19296** **Mobile: (160) 9391-9296**
Gerhard Wagner	**(711) 9881-12785**

Mergers and Acquisitions

Prof. Dr. Michael Schaden	**(711) 9881-14421**
Dr. Hartmut Winkler	**(711) 9881-15281** **Mobile: (160) 9391-5281**

Transfer Pricing

Cornelia Wolff	**(711) 9881-18565** **Mobile: (160) 9391-8565**

Eastern Europe

Rainer Schuppert	**(711) 9881-15262** **Mobile: (160) 9391-5262**

Insolvency/Recapitalization

Joachim Grau	**(711) 9881-15311** **Mobile: (160) 9391-5311**

Human Capital

Dr. Hanno Kiesel	**(711) 9881-15266** **Mobile: (160) 9391-5266**
★ Mark Smith	**(711) 9881-12734** **Mobile: (160) 9391-2734**

Public Services

Ursula Augsten	**(711) 9881-15280** **Mobile: (160) 9391-5280**
Petra Boele	**(711) 9881-13821** **Mobile: (160) 9391-3821**
Dagmar Stock	**(711) 9881-15628** **Mobile: (160) 9391-5628**

Indirect Tax and Customs

★ Christa Breucha	**(711) 9881-15244**
Thomas Bert Knauer	**(711) 9881-14088**
Kay Masorsky	**(711) 9881-14409** **Mobile: (160) 9391-4409**
Dr. Martin Robisch	**(711) 9881-15306**

LUTHER MENOLD RECHTSANWALTSGESELLSCHAFT MBH (ERNST & YOUNG LAW ALLIANCE PRACTICE)

Fritjof Boerner, *Intellectual Property/Information Technology*	**(221) 2779-500** **E-mail: fritjof.boerner@luthermenold.de**
Axel Braun, *Labor Law*	**(221) 2779-500** **E-mail: axel.braun@luthermenold.de**

Ingrid Kalisch, *Banking and Finance*	**(69) 152-08-27160** **E-mail: ingrid.kalisch@luthermenold.de**
Stefan Kraus, *Managing Partner/ General Contacts*	**(221) 2779-500** **E-mail: stefan.kraus@luthermenold.de**
Thomas Kapp, *EU/Competition and Trade*	**(711) 9881-500** **E-mail: thomas.kapp@luthermenold.de**
Michael Oltmanns, *Corporate/ Mergers and Acquisitions*	**(69) 152-08-27160** **E-mail: michael.oltmanns @luthermenold.de**
Thomas Reith, *General Contacts*	**(711) 9881-500** **E-mail: thomas.reith@luthermenold.de**
Erich Schmid, *Commercial/ Arbitration and Litigation*	**(711) 9881-500** **E-mail: erich.schmid@luthermenold.de**
Joerg Schneider-Brodtmann, *Intellectual Property/ Information Technology*	**(711) 9881-500** **E-mail: joerg.schneider-brodtmann @luthermenold.de**
Stefan Sihler, *Real Estate*	**(30) 5900-4310** **E-mail: stefan.sihler@luthermenold.de**
Ulrich Theune, *Commercial/ Arbitration and Litigation*	**(40) 3785-2180** **E-mail: ulrich.theune@luthermenold.de**
Ralf-Dietrich Tiesler, *Labor Law*	**(711) 9881-500** **E-mail: ralf-dietrich.tiesler @luthermenold.de**
Axel Zitzmann, *Corporate/ Mergers and Acquisitions*	**(211) 9352-500** **E-mail: axel.zitzmann@luthermenold.de**

This chapter reflects significant changes to the tax law, which were enacted during the last week of December 2003. In general, the changes are effective for the 2004 tax year, which, for calendar year taxpayers, is the 2004 calendar year. For noncalendar year taxpayers, some of the new rules apply from the 2003-04 tax year.

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Trade Tax Rate (Average Rate) (%)	18 (b)
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (a)(c)	
Dividends	20 (a)(c)(d)
Interest	0 (e)
Royalties from Patents, Know-how, etc.	20 (a)(c)(f)
Remuneration to Members of a Supervisory Board	30 (f)
Payments for Construction Work	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1 (g)
Carryforward	Unlimited (h)

(a) A 5.5% tax surcharge is imposed (see Section B).
(b) Local income tax imposed by municipalities. The rate varies from 13% to 20.5%, depending on the municipality. Trade tax is deductible as a business expense.
(c) These rates may be reduced by tax treaties or under the European Union (EU) Parent-Subsidiary Directive.
(d) This withholding tax applies to dividends paid to residents and nonresidents. Dividends distributed by a German subsidiary to an EU parent company are exempt from withholding tax if the recipient owns 25% or more of the subsidiary. This exemption also applies if the participation is 10% or more and if the EU country where the parent company is located grants on a reciprocal basis the exemption to German corporate shareholders owning a participation of at least 10%.

(e) A 30% interest withholding tax is imposed if a bank is the paying entity. For over-the-counter business, the rate is 35%. Over-the-counter business refers to bank transactions carried out over the bank counter, without the securities being on deposit at the bank. The interest withholding tax is not imposed on intercompany loans or interbank loans. Interest paid to nonresidents is not subject to the withholding tax, except for the 35% withholding tax on over-the-counter business. However, nonresidents may apply for a refund of the 35% withholding tax if a treaty exemption applies. A 25% withholding tax is imposed on certain types of debt instruments (see footnote (2) to Section F).

(f) This withholding tax applies to payments to nonresidents only.

(g) The loss carryback, which is optional, is available for corporate income tax purposes, but not for trade income tax purposes. The maximum carryback is □511,500.

(h) The carryforward applies for both corporate income tax and trade tax purposes. Effective for tax years ending after 31 December 2003, the maximum loss carryforward that may be used for corporate and trade tax purposes is restricted to 60% of annual taxable income.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporations, such as stock corporations (*Aktiengesellschaft*, AG) and limited liability companies (*gesellschaft mit beschraenkter Haftung*, GmbH), having their corporate seat or place of management within Germany (resident corporations) are subject to corporate income tax (*Koerperschaftsteuer*) on worldwide income, unless otherwise provided in tax treaties.

A nonresident corporation, whose corporate seat and place of management are located outside Germany, is subject to corporate income tax only on income derived from German sources. German-source income includes, among other items, business income from operations in the country through a branch, office or other permanent establishment, including a permanent representative, and income derived from the leasing and disposal of real estate located in Germany.

Rates of Corporate Income Tax. Corporate income tax is payable at a rate of 25% of taxable income, regardless of whether the income is distributed or retained.

On distribution of income, a corporation may receive a corporate income tax refund or be required to pay additional corporate income tax. This results from certain transitional rules relating to the former imputation tax credit system. The transitional rules expire in 2019 (for details regarding the new tax regime for dividends, see *Dividends* below). The 26.5% rate also applies to the taxable income of branches of nonresident companies, including their shares in the profits of partnerships.

A 5.5% surcharge is imposed on corporate income tax, resulting in an effective tax rate of 26.375%. Prepayments of corporate income tax and withholding tax payments are also subject to this surcharge.

Trade Tax. Municipalities impose a trade tax on income. However, for purposes of this tax, taxable income is subject to certain adjustments, such as a 50% add-back of interest on long-term debts. The effective tax rate varies from 13% to 20.5%, depending on the municipality.

Trade tax is a deductible business expense.

If a company operates in several municipalities the tax base is allocated according to the payroll paid at each site. Trade tax is a deductible expense for corporate income tax purposes. Certain enterprises, such as banks and real estate companies, receive privileged treatment under the trade tax law.

Withholding Tax on Construction Work. Construction work in Germany by companies is subject to withholding tax at a rate of 15%. The tax must be withheld even if the company does not have a tax presence in the form of a permanent establishment or permanent representative in Germany unless the company obtains a "certificate of non-taxation" from the competent tax office. Construction companies may obtain a refund of the withholding tax if they can prove that no German tax liability against which the withholding tax could be applied exists.

Capital Gains and Losses. Capital gains of corporations, except those derived from sales of shares, are treated as ordinary income. However, rollover relief is granted if gains derived from disposals of real estate are reinvested in real estate within four years and if certain other conditions are met.

Capital gains derived by corporations from sales of shares in corporations are exempt from corporate income tax and trade tax. However, for capital gains realized in tax years ending after 31 December 2003, 5% of the capital gain is deemed a nondeductible expense and, accordingly, the exemption is limited to 95% of the capital gain. This also applies to nonresident corporate sellers that owned at least 1% of the capital stock of a German company at any time during the five years preceding the sale, if the foreign seller cannot claim treaty protection. To the extent that write-downs of the shares have previously been deducted, normal income taxes are imposed on sales of these shares. If the shares were acquired through a tax-free contribution of a business or division of a business in exchange for shares, a seven-year holding period is required for the exemption. For capital gains derived from sales of shares that were acquired in a tax-free share-for-share exchange, the exemption does not apply if the shares were acquired in a tax-free contribution of a business or division of a business and if the seven-year holding period has not expired.

To prevent certain abuses, a German corporation that receives corporate shares below fair market value through an individual's contribution to capital is subject to tax on capital gains derived from sales of such shares within seven years after date of the contribution.

In general, capital losses are deductible. However, capital losses are not deductible if a gain resulting from such transaction would have been exempt from tax.

Administration. The tax year is the calendar year. If a company adopts an accounting period that deviates from the calendar year, tax is assessed for the taxable income in the accounting period ending within the calendar year. The adoption of a tax year other than the calendar year requires the consent of the tax office.

Annual tax returns must be filed on 31 May of the year following the tax year. However, extensions are granted if an application is submitted or if a licensed tax consultant prepares the return.

Payments on account of the estimated corporate income tax liability, usually determined at one-quarter of the liability for the previous year, are due on 10 March, 10 June, 10 September and 10 December. Prepayments of trade income tax are due on 15 February, 15 May, 15 August and 15 November. Final payments are due one month after the tax assessment notice issued by the tax authorities is received by the taxpayer.

Late tax payments as well as tax refunds are generally subject to interest at 0.5% per month. Interest begins to accrue 15 months after the end of the calendar year for which the tax is assessed. The interest is not deductible for corporate income tax purposes if the tax itself is not deductible. Late payment penalties are also charged at 1% a month if the unpaid balance is not settled within one month from the date of the assessment notice issued by the tax office. A penalty of up to 10% of the tax liability, but not more than □25,000, can be assessed if the tax return is not filed by the due date, including extensions granted.

Dividends. The recent German tax reform abolished the former corporate imputation system. Under the new regime, dividends received by German companies and branches of nonresident companies from their German and foreign subsidiaries are exempt from tax. This results from the introduction of a participation exemption (comparable to a full dividend-received deduction) for all intracorporate domestic or foreign dividends. The law imposes neither a minimum shareholding requirement nor a minimum holding period requirement for the participation exemption. The exemptions described above are contained in the domestic tax code. However, an applicable tax treaty may also provide an exemption for foreign dividends.

No deduction may be claimed for expenses that have a direct economic connection with tax-exempt income, to the extent that the expenses do not exceed the amount of the exempt income for that fiscal year. This rule generally applies to domestic dividends. Five percent of the tax-exempt dividend income received from foreign subsidiaries is treated as a nondeductible expense, while the expenses actually accrued are deductible.

For dividend income received in tax years ending after 31 December 2003, the 95% exemption rule applies to dividends received from both resident and nonresident corporations.

Expenses related to such income are fully deductible for corporate tax purposes. However, interest is deductible for corporate and trade tax purposes only if the new thin-capitalization requirements are satisfied (see Section E).

The new rules may be advantageous or disadvantageous for German corporate taxpayers, depending on the facts and circumstances relevant to the particular investment. For example, in multitiered German structures, the 5% rule may potentially result in a double or triple taxation of the same dividend income, each on the basis of a 5% income inclusion.

Dividends received from corporations in which the parent holds less than 10% at the beginning of its fiscal year are subject to trade tax. The same rule applies to dividends received from non-EU corporations, regardless of the percentage of ownership, if passive income accounts for more than 10% of the foreign corporation's gross income.

A German company may be entitled to a corporate tax refund on the distribution of dividends if the distributed profits were taxed under the former imputation tax credit system and if the credit has not already been utilized. However, for the period of 2003 through 2005, the credit is frozen unless it is realized through certain reorganization measures.

Foreign Tax Relief. Under German domestic tax law, foreign-source income, except for foreign intracompany dividends (see *Dividends* above), is usually taxable, with a credit for foreign income taxes paid, up to the amount of German tax payable on the foreign-source income, subject to per-country and per-item limitations. Excess foreign tax credit cannot be carried back or carried forward. Instead of a foreign tax credit, a deduction may be claimed for foreign income tax in loss years and in certain other instances. German tax treaties normally provide an exemption from German taxation of income from foreign real estate and foreign permanent establishments.

C. Determination of Trading Income

General. Taxable income of corporations is based on the annual financial statements, prepared under German generally accepted accounting principles (GAAP), subject to numerous adjustments for tax purposes. After the annual financial statements have been presented to the tax authorities, they may be changed only to the extent necessary to comply with GAAP and the tax laws.

Acquired goodwill must be capitalized for tax purposes, but may be amortized over 15 years. Intangibles acquired individually must also be capitalized for tax purposes and may be amortized over their useful lives (normally between 5 and 10 years). A company's own research and development and start-up and formation expenses may not be capitalized for tax purposes and must be currently expensed.

Inventories. Inventory is basically valued at acquisition cost or production cost, unless a lower value, in accordance with the lower of cost or market principle, is indicated. Under certain conditions, the last-in, first-out (LIFO) method can be used to value inventory assets, provided they are of a similar type.

Provisions. Until recently, provisions established under German GAAP have been broadly accepted for tax purposes. However, in the past few years, the scope of tax-deductible provisions has been severely limited by the following rules:

- Liabilities or accruals of obligations whose fulfillment is contingent on future revenue or profit may only be recorded when the condition occurs;
- Provisions for foreseeable losses from open contracts may not be established;
- Future benefits arising in connection with the fulfillment of an obligation must be offset against costs resulting from the obligation;
- Only the direct cost of nonmonetary obligations may be accrued;

- Provisions for obligations resulting from the operation of a business must be built up in equal increments over the period of operation; and
- Provisions for pension obligations must be calculated on an actuarial basis using an interest rate of 6% and built up over the period of employment.

Non-interest bearing long-term debt must be discounted at an annual rate of 5.5% if the remaining term exceeds 12 months.

Depreciation. Depreciation for movable (tangible) assets may be charged under the straight-line or declining-balance method. The declining-balance rate is limited to the lower of 20% or two times the straight-line rate. Useful lives of movable assets are published by the Ministry of Finance based primarily on tax audit experience; deviation from published useful life is possible, but requires justification by the taxpayer. Tax depreciation rates for buildings are provided by law. The Federal Ministry of Finance has published tax depreciation rates for movable fixed assets generally usable in trade and industry. Schedules for assets specific to certain industries are also available. The following are some of the straight-line rates under the general list.

Asset	Rate (%)
Office equipment	6 to 14 (a)
Motor vehicles	16.6 (a)
Plant and machinery	6 to 10 (a)
Airplanes	5 (a)
Personal computers or notebooks and related equipment	33.3 (a)
Nonresidential buildings (offices and factories)	
Constructed before 1 January 1925	2.5
Constructed after 31 December 1924 and application for the construction permit filed before 1 April 1985	2
Application for the construction permit filed after 31 March 1985	3 (b)

(a) Alternatively, the declining-balance method may be used (see above).
(b) Accelerated depreciation is allowed for buildings that are newly constructed in Germany.

Mark-to-Market Rule. Under a mark-to-market rule, a tax deduction for the write-down of an asset because of a permanent impairment in value is allowed only if the value is permanently lower. This rule is particularly relevant for assets that are not subject to ordinary depreciation, such as land or shares. For assets that have been written down to their going concern value, the write down must be reversed as soon as and to the extent that the asset has increased in value.

Disallowed Items. After income for tax purposes has been determined, certain adjustments must be made to arrive at taxable income. Major adjustments include the add-back of the following: corporate income tax; 50% of supervisory board fees; 20% of entertainment expenses and input value-added tax regarding such expenses; gifts to non-employees exceeding □40 per person per year; and expenses incurred in direct connection with tax-exempt income items (see the discussion regarding dividends in Section B). In addition, as a result of the recently introduced exemption for capital gains derived from sales of shares (see Section B), losses from sales of shares or write-downs of shares are no longer deductible for tax purposes and must be added back to the tax base.

Hidden Distribution of Income. Adjustments to taxable income as a result of a violation of arm's length principles are treated as a hidden distribution of income.

Tax Losses. Tax losses may be carried forward without a time limit. For corporate income tax (not trade tax) purposes, an optional loss carryback is allowed for one year. The maximum carryback is □511,500. Loss carryforwards may be not be allowed if the majority ownership of a corporation changes. Tax losses survive a change of ownership of the loss company only if such change of ownership does not affect the "economic identity" of the company. As a rule, a company loses its economic identity if more than 50% of the shares in the company directly or indirectly changes hands and if the company continues or resumes business activities with predominantly new business assets.

Effective for fiscal years ending after 31 December 2003, the maximum loss carryforward that may be used for corporate and trade tax purposes is restricted to 60% of annual taxable income.

Groups of Companies. German tax law provides for the filing of a consolidated tax return for a German group of companies (Organschaft), which allows losses of group companies to be offset against profits of other group companies. The German parent company must file the consolidated tax return. Only German companies in which the German parent company holds the majority of the voting shares at the beginning of the fiscal year of the subsidiary may be included (this requirement is known as financial integration). The tax consolidation covers corporate income tax, trade tax and value-added tax (VAT). To make the Organschaft effective for corporate income tax purposes, the German parent company and the German subsidiaries must enter into a profit-and-loss absorption agreement (Gewinnabfuehrungsvertrag). An Organschaft for trade income tax purposes is deemed to exist if an Organschaft is in place for corporate income tax purposes.

A nonresident company may become the head of a German consolidated group if the following requirements are satisfied:
- The company has registered a branch in the German Commercial Register;
- The profit-and-loss absorption agreement with the German group companies is entered into under the firm name of the branch; and
- The investments in the German subsidiaries are assets of the German branch.

The Organschaft for VAT requires the following:
- Financial integration;
- Economic integration of the lower-tier entities; and
- Integration in organizational matters.

In contrast to the other Organschaft forms, Organschaft for VAT can begin and end within the same fiscal year.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Real property tax, on assessed standard value of real property; rate varies by municipality	0.5 to 1.5
Real estate transfer tax (RETT), on sales and transfers of real property, including buildings, and on certain transactions that are deemed to be equivalent to transfers of real property, such as the assignment of at least 95% of the shares of a German or foreign company that holds title to domestic real property; levied on purchase price of real property or, in certain situations (such as when at least 95% of the shares of a real estate-owning company are transferred), on the assessed standard value of the real property	3.5
Value-added tax (Umsatzsteuer); on application, foreign enterprises may receive refunds of German VAT paid if they do not generate taxable turnover in Germany; such application must be filed by 30 June of the year following the year of the taxable transaction	
Standard rate	16
Reduced rate	7

E. Miscellaneous Matters

Foreign Losses. Losses incurred by foreign permanent establishments are not deductible if a German tax treaty provides that a permanent establishment's income is taxable only in the country where it is located. However, such losses may be taken into account if they are incurred in nontreaty countries or if a tax treaty provides for the credit method, subject to the condition that the foreign branch is engaged in a specified active trade.

Debt-to-Equity Rules. For the purposes of corporate income tax (but not trade tax), interest paid by a German subsidiary to a shareholder or related party on certain intercompany debt (tainted debt) is disallowed as a deduction and treated as a constructive dividend if and to the extent the debt provided (or deemed provided) to a shareholder exceeds 1.5 times the equity amount (safe haven), unless it can be demonstrated that an unrelated third party would also have granted such loans. For debt-bearing interest that is not computed as a percentage of the principal (hybrid debt, such as profit participating loans, silent partnerships and Genussscheine), no safe haven applies, and the arm's length test is not allowed. Holding companies that have as their primary purpose investing in and financing of subsidiaries or companies whose investments in subsidiaries account for at least 75% of their total gross assets qualify for an increased safe haven debt-to-equity ratio of 3:1. In such circumstances, the subsidiaries do not benefit from a safe haven of their own.

The thin-capitalization rules also apply to loans from an unrelated third party that has recourse (such as through a guarantee or the providing of other security) to the shareholder or related party.

The equity amount establishing the safe haven for the current fiscal year is based on the shareholders' equity shown in the statutory financial statements as of the end of the previous fiscal year. To calculate the debt-to-equity ratio, the equity amount is reduced by the book value of the company's investments unless the company qualifies as a holding company. For purposes of the test, losses incurred do not reduce a company's equity if they are offset by profits earned or contributions made within three years.

The German debt-to-equity rules in effect for tax years beginning before 31 December 2003 have been successfully challenged before the European Court of Justice and are not applied with respect to German subsidiaries of EU parent companies. The nondiscrimination clause of a tax treaty may also provide for protection against the current version of the law.

The amended German thin-capitalization rules, which are effective for fiscal years beginning after 31 December 2003, apply to any corporation, regardless of its residence, its shareholders or the residence of the related lending party.

Nonresident companies with related-party loans are affected by the new rules if they maintain a German branch, or own a German partnership, which generates German taxable income and if the proceeds from the related-party loan have been used to finance the German operations or the partnership investment. The safe haven of the nonresident company would be determined on the basis of the assets and liabilities that are effectively connected to its German business.

If a partnership is interposed between the shareholder and the corporation, or if the loan or asset is not granted to a corporation but to a subordinate partnership, the above rules apply if the corporation alone, or together with related parties as defined by Section 1(2) of the controlled foreign company (CFC) legislation, holds a direct or indirect stake of more than 25% in the partnership.

Interest is treated as a hidden profit distribution in certain circumstances in addition to those provided under the rules before the amendments, which apply if the interest is paid on short-term loans that are made by a major shareholder or a related party and if the tainted debt exceeds the so-called safe haven amount, which is fixed at 1.5:1 (debt-to-equity ratio). The new rules include a *de minimis* threshold for interest of €250,000.

In addition, a special set of rules exclude the deduction of interest expenses paid on intercompany debt that is incurred to finance the acquisition of shares from a related party. Such loans are protected by the safe harbor rule. As a result, interest expenses paid on intercompany debt to finance a related-party acquisition of shares are always treated as constructive dividends, regardless of the availability of any debt-to-equity safe harbor. The rule applies not only in the case of a direct share purchase, but also if the share purchase is effected through a partnership; that is, the taxpayer purchases a partnership that owns investments in corporations from a related party.

Under the new thin capitalization rules, the debt-to-equity ratio applicable to holding companies, which was previously 3:1, is reduced to the standard ratio of 1.5:1.

Foreign-Exchange Controls. No controls are imposed on the transfer of money in and out of Germany under current law. However, specific reporting requirements for certain transactions must be met.

Antiavoidance Legislation. Antiavoidance legislation is found in several tax laws. The Corporate Tax Law deals with hidden distributions of income by corporations, both within Germany and abroad. The Foreign Tax Affairs Law deals with all kinds of related or affiliated taxpayers, such as individuals, partnerships and corporations, and restricts itself to cross-border transactions. It contains extensive provisions on controlled foreign company and passive foreign investment company income. The General Tax Code contains a regulation that provides that a tax liability cannot be effectively avoided by an abuse of legal forms and methods if obtaining a tax advantage is the only reason for such an arrangement.

The Income Tax Law provides antiabuse rules against the unjustified reduction of German withholding taxes under a tax treaty or under the EU parent-subsidiary directive (treaty or directive shopping).

Germany's newer tax treaties include "switch-over" clauses as well as "subject-to-tax" clauses.

Transfer Pricing. The German tax law contains a set of rules that allow the adjustment of transfer prices. These rules include general measures on constructive dividend payments and constructive capital contributions and a specific adjustment provision in the controlled foreign company (CFC) legislation. All of the measures mentioned in the preceding sentence are based on the arm's length principle. Under the rules, uncontrolled price, resale price and cost-plus are acceptable methods. The profit-split method is accepted only as a method of last resort if information required for the standard methods cannot be obtained or if the company does not cooperate and an estimate of the income adjustment needs to be made. Increased reporting requirements apply to pooling arrangements.

Effective from 2003, specific documentation rules apply, and noncompliance may result in penalties of 5% to 10% of an adjustment following an audit of transfer prices.

F. Treaty Withholding Tax Rates

The rates listed below reflect the lower of the treaty rate, the rate under domestic tax law or the rate under the EU Parent-Subsidiary Directive. A domestic antiavoidance measure denies benefits under the treaties or the directive for a foreign recipient of dividends, interest or royalties if all of the following conditions exist: the parent company of the recipient is not entitled to an equal treaty benefit; the income is received directly; and the interposition of the intermediate holding company is not justified by good business reasons.

	Dividends (1) %	Interest (2) %	Royalties %
Argentina	15 (c)	15 (d)(e)(f)	15
Australia (aa)	15	10 (e)	10
Austria	0 (y)(jj)	0	0
Bangladesh	15	10 (d)(e)	10
Belgium	0 (y)(jj)	15 (e)(h)	0
Bolivia	10 (c)	15 (e)	15
Brazil	15	15 (e)(f)(k)	15 (p)
Bulgaria	15 (c)	0 (d)	5
Canada	5 (c)(y)	10 (d)(i)	10 (q)
China (u)	10 (c)	10 (d)(e)	10 (r)
Côte d'Ivoire	15 (c)	15 (d)(e)	10
Cyprus	10 (a)(y)	10 (a)(e)	0 (a)(s)
Czechoslovakia (gg)	5 (y)	0	5
Denmark	0 (y)(jj)	0	0
Ecuador	15	15 (e)(f)	15
Egypt	15 (c)	15 (d)(e)(bb)	15 (p)
Finland (aa)	0 (c)(y)(jj)	0	5 (t)
France	0 (c)(y)(z)(jj)	0	0
Greece (aa)	0 (y)(jj)	10 (e)	0 (n)
Hungary	5 (c)(y)	0 (d)	0
Iceland (aa)	5 (y)	0	0
India	10 (c)	10 (d)(e)	10
Indonesia	10 (c)(y)	10 (d)(e)(z)	15 (cc)(ff)
Iran	15 (y)	15 (e)	10
Ireland	0 (a)(jj)	0 (a)	0 (a)
Israel	25 (a)	15 (a)(e)	5 (a)(q)
Italy	0 (c)(y)(jj)	10 (d)(e)	5 (q)
Jamaica	15	12.5 (e)(k)	10
Japan	15 (c)	10 (e)	10
Kazakhstan	5 (c)(y)	10 (e)(mm)	10
Kenya	15	15 (e)	15
Korea	5 (c)(y)	10 (e)	10 (v)
Kuwait	5 (c)(y)	0 (d)	10
Liberia	10 (y)	20 (e)(k)	10 (v)
Luxembourg (ee)	0 (y)(jj)	0	5
Malaysia (aa)	5 (a)(y)	15 (a)(e)	10 (a)(w)
Malta	5 (a)(y)	0	0
Mauritius	5 (y)	20 (e)(m)	15
Mexico	5 (c)(y)	15 (d)(e)(kk)	10
Mongolia	5 (c)(y)	10 (d)(e)	10
Morocco	5 (a)(y)	10 (a)(e)	10 (a)
Namibia	10 (y)	0	10
Netherlands (aa)	0 (y)(jj)	0 (g)	0
New Zealand	15 (c)	10 (d)(e)	10
Norway	0 (c)(y)	0 (d)	0
Pakistan	10 (y)	20 (e)(k)	10
Philippines (aa)	10 (y)	15 (e)(f)	10 (w)
Poland (aa)	5 (c)(y)	0 (d)	0
Portugal	0 (c)(y)(jj)	15 (d)(e)(k)	10
Romania (aa)	10 (y)	10	10
Russian Federation	5 (c)(y)	0	0
Singapore (aa)	10 (y)	10 (e)	0 (w)
South Africa (aa)	7.5 (y)(dd)	10 (a)	0 (a)
Spain	0 (y)(jj)	10	5

	Dividends (1) %	Interest (2) %	Royalties %
Sri Lanka	15 (c)	10 (d)(e)(o)	10
Sweden	0 (c)(y)(jj)	0 (d)	0
Switzerland	0 (c)(y)	0	0
Thailand (aa)	15 (y)	25 (e)(k)	15 (x)
Trinidad and Tobago	10 (a)(y)	15 (a)(e)(k)	10 (a)(t)
Tunisia	15	10 (e)	15 (t)
Turkey	15 (c)(y)	15 (e)	10
Ukraine	5 (c)(y)	5 (b)(d)(e)	5 (l)
USSR (hh)	15 (c)	5 (d)(e)	0
United Arab Emirates	5 (y)	0 (d)	0
United Kingdom	0 (a)(y)(jj)	0 (a)	0 (a)
United States	5 (c)(y)	0 (d)	0
Uruguay	15 (c)	15 (e)	15 (ff)
Uzbekistan	5 (c)(y)	5 (d)(e)	5 (r)
Venezuela	5 (y)	5 (e)	5
Vietnam	5 (c)(y)	10 (d)(e)(ll)	10 (nn)
Yugoslavia (ii)	15	0	10
Zambia	5 (y)	10 (e)	10
Zimbabwe	10 (c)(y)	10 (d)(e)	7.5
Nontreaty countries	25	35/25/0 (j)	20

(1) These rates also apply to silent partnership income. Under German tax law, income from silent partnership is regarded as a dividend if the silent partnership is characterized as a typical silent partnership. Profits from an atypical silent partnership are considered business profits. Income from participation rights (Genussrechte) is treated as a dividend if the holder participates in profits and liquidation results. Otherwise, the income from participation rights is considered to be interest for treaty purposes.

(2) German interest withholding tax is imposed only on interest paid by banks (for details, see footnote (f) to Section A) and on interest payments on convertible and profit-sharing bonds and participating loans (rate of 25%). In addition, interest on loans secured by fixed property located in Germany is subject to a limited German tax liability; tax on such interest is not imposed by withholding tax but by the issuance of an assessment notice. If not otherwise noted, the treaty withholding tax rate also reduces the German statutory tax rate for interest on loans secured by fixed property located in Germany.

(a) The rate applies if the income is subject to tax in the other state.

(b) The rate is 2% for interest on loans granted by banks or for interest on loans granted in connection with sales on credit of industrial, commercial or scientific equipment or sales of merchandise or services between enterprises.

(c) Silent partnership income is taxed at the domestic rate of 25% (Hungary, 15%).

(d) Interest on participating loans and profit-sharing bonds is taxed at 25%.

(e) Under the Bolivia and Kazakhstan treaties, interest is exempt from withholding tax if it is paid to a contracting state. Under the other treaties, interest paid to the contracting states or subdivisions or paid to certain banks may be exempt from withholding tax.

(f) A 10% rate may apply to certain types of interest, such as interest paid on bank loans, or interest paid in connection with the sale of industrial, commercial or scientific equipment or with financing activities in the public sector (for Brazil, only in connection with footnote [k]).

(g) Interest on convertible bonds and profit-sharing bonds is taxed at 15%.

(h) Interest paid to an enterprise is exempt from withholding tax unless either of the following apply: the recipient is a company owning less than 25% of the paying company; or the interest is derived from bonds, except commercial bills of exchange.

(i) Interest on securities issued by a contracting state or subdivision thereof or paid to certain state banks or to a contracting state or subdivision thereof is exempt from withholding tax.

(j) Interest on loans secured by immovable property located in Germany may be subject to the 26.5% (25% from 2004) corporate income tax rate.

(k) Interest payments to banks or on loans granted by banks may be subject to a 10% withholding tax rate. This applies to Brazil only if the term of the bank loan exceeds seven years.

(l) A 0% rate applies to royalties for the use of, or right to use, scientific rights, patents, marks, samples, models, plans, formulas or procedures, as well as to royalties for the disclosure of industrial, commercial or scientific know-how.
(m) Interest payments to a company that is genuinely carrying on a banking enterprise or is controlled by one or more companies genuinely carrying on such an enterprise are exempt from tax.
(n) Royalties for motion picture films are treated as business profits.
(o) A 0% rate applies if the recipient is a bank.
(p) Trademark royalties are taxed at a rate of 20%.
(q) Copyright royalties for literary, dramatic, musical or artistic works (except motion picture films or television videotapes for Canada and Israel) are exempt from withholding tax.
(r) For royalties in connection with the use of technical, commercial or scientific equipment, the rate is reduced to 7% under the China treaty, to 2% under the Korea treaty and to 3% under the Uzbekistan treaty.
(s) Royalties for films and television are taxed at a rate of 5%.
(t) A 0% rate applies to royalties for the use of, or the right to use, copyrights, including those for films and television. For Tunisia, the rate is 10% and does not apply to film and television copyrights. For Finland and Tunisia, copyrights specifically include those for literary, scientific and artistic works. For Trinidad and Tobago, they specifically exclude film and television copyrights.
(u) This treaty does not apply to Hong Kong and Macau.
(v) A 20% rate applies to payments made for trademarks or for copyrights, excluding motion picture films or tapes for television or broadcasting.
(w) Royalties for copyrights of literary or artistic works, motion picture films, or television or broadcasting are taxed at 20%. For Malaysia and the Philippines, the copyrights include those for scientific works. For the Philippines, the tax rate is 15% for all royalties described in this footnote.
(x) Royalties for copyrights of literary, artistic or scientific works are taxed at 5%.
(y) The treaty withholding tax rate increases to 15% (Mongolia, Switzerland, Ukraine and the United States, 10%; Vietnam, 10%/15%; Iran, Thailand, Trinidad and Tobago, Turkey and Zimbabwe, 20%; Greece, 25%) if the recipient is not a corporation owning at least 25% (Austria, Canada, Denmark, France, Kuwait, Mexico, Mongolia, Namibia, Poland, the Russian Federation, Turkey, United Arab Emirates and the United States, 10%; Venezuela, 15%; Pakistan, Switzerland and Ukraine, 20%; Vietnam, 25%/70%) of the distributing corporation.
(z) Participating rights (Genussrechte) that qualify as equity are taxed at 20%.
(aa) The treaty (or a protocol to the treaty) is being renegotiated.
(bb) The rate is reduced to 0% for interest paid on a loan guaranteed by Hermes-Deckung (this relates to security given by the German government for loans in connection with deliveries by German suppliers to foreign customers, particularly customers in developing countries).
(cc) The rate is reduced to 10% for royalties for the use of commercial or scientific equipment.
(dd) The 7.5% rate applies to dividends paid to companies owning at least 25% of the voting shares of the payer. A 15% rate applies if a recipient company owns less than 25% of the voting shares and if it is subject to tax on such dividend income. Otherwise the full domestic German rate applies.
(ee) Holding companies established under 1929 or 1937 laws are not eligible for treaty benefits.
(ff) The withholding tax rate applicable to fees for technical services is 7.5% under the Indonesia treaty and 10% under the Uruguay treaty.
(gg) Germany has agreed with the Czech Republic and the Slovak Republic to apply the treaty with the former Czechoslovakia. Germany is negotiating tax treaties with the Czech Republic and the Slovak Republic.
(hh) Germany honors the USSR treaty with respect to all former Soviet republics except for Kazakhstan, the Russian Federation and Ukraine. This has been acknowledged by Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan and Turkmenistan. Germany has entered into tax treaties with Kazakhstan, the Russian Federation, Ukraine and Uzbekistan. Withholding tax rates under these treaties are listed in the above table. Germany is engaged in tax treaty negotiations with Azerbaijan, Georgia and Turkmenistan. It has initialed a tax treaty with Belarus. It has signed tax treaties with Estonia, Latvia, Lithuania and Tajikistan.
(ii) The treaty with the former Yugoslavia applies to Bosnia-Herzegovina, Croatia, Macedonia and Slovenia. Germany initialed tax treaties with Slovenia on 6 May 1999, with Croatia on 1 July 1999 and with Macedonia on 12 September 2002.

(jj) Dividends distributed by a German subsidiary to an EU parent company are exempt from withholding tax if the recipient owns 25% or more of the subsidiary. This exemption also applies if the participation is 10% or more and if the EU country where the parent company is located provides the exemption reciprocally. If the EU directive does not apply, the following rules apply: the withholding tax rate increases to 5% (Italy, Finland, Luxembourg, Netherlands and Spain, 10%) if the recipient owns at least 10% (Italy, Finland, Luxembourg, Netherlands and Spain, 25%) of the distributing company; and for Belgium, Greece, Ireland, Portugal, Sweden and the United Kingdom, the withholding tax rate increases to 15% (Ireland 10%, Greece 25%) for all shareholdings.

(kk) The rate is 10% for interest on loans granted by banks, insurance companies and pension funds.

(ll) The rate is reduced to 5% as long as German domestic law does not impose withholding tax on interest payments to nonresidents.

(mm) The rate is 0% for interest in connection with sales of merchandise.

(nn) The rate is reduced to 7.5% for royalties in connection with the use of technical equipment.

Germany has signed a tax treaty with Papua New Guinea. It has initialed tax treaties with Ghana and Oman. Germany is negotiating tax treaties with Chile, Costa Rica, Cuba, Lebanon, Saudi Arabia, Singapore, and Syria.

GHANA

(Country Code 233)

ACCRA **GMT**

Ernst & Young
Mail Address:
P.O. Box KA 16009
KIA – Accra
Ghana

(21) 779-868, 779-223
Fax: (21) 778-894
E-mail: kk.pcl@ighmail.com

Street Address:
G15 White Avenue
Airport Residential Area
Accra
Ghana

Corporate Tax

Paul K. Kumahor — **(21) 779-383**, **Mobile: (24) 311-900**, **E-mail: pkumahor@eyghana.com**

Samuel A. Quaye — **(21) 774-275**, **Mobile: (24) 386-468**, **E-mail: squaye@eyghana.com**

Isaac N. Sarpong — **(21) 774-275**, **Mobile: (20) 811-1118**, **E-mail: isarpong@eyghana.com**

A. At a Glance

Corporate Income Tax Rate (%)	32.5
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	32.5
Withholding Tax (%) (a)	
Dividends	10 (b)
Interest	10 (c)
Royalties	15 (c)
Management and Technology Transfer Fees	20 (c)

Directors' Fees	15
Technical Service Fees	20 (c)
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0 (d)
Carryforward	5 (e)

(a) Applicable to payments to residents and nonresidents.
(b) This is a final tax for both residents and nonresidents without a permanent establishment in Ghana.
(c) This is a final tax for nonresidents without a permanent establishment in Ghana only.
(d) Losses incurred on completion of long-term contracts may be carried back to prior tax years.
(e) This applies to enterprises engaged in mining, farming or manufacturing. For this purpose, a manufacturing business is a business that manufactures primarily for export.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their income accruing in or derived from Ghana and on their income brought into or received in Ghana. A company is resident in Ghana if it is incorporated under the laws of Ghana or if its management and control are exercised in Ghana. Nonresident companies are subject to tax only on their income accruing in or derived from Ghana.

Rates of Corporate Tax. The standard corporate income tax rate is 32.5%. Companies listed on the Ghana Stock Exchange are subject to corporate income tax at a rate of 30%. A corporate income tax rate of 25% applies to hotels.

Income derived from nontraditional exports is taxed at a rate of 8%. Income derived by banks from loans granted to farming enterprises is subject to tax at a rate of 20%. The rate of tax applicable to income derived by a financial institutions from loans to leasing companies is 20%.

Income derived from nontraditional exports is taxed at a rate of 8%. The tax rate for hotels is 25%. Rural or community banks are subject to tax at a rate of 8% after their period of exemption. Income derived by banks from loans granted to farming enterprises is subject to tax at a rate of 20%.

For petroleum companies, the tax rate is 50%, but the law allows a different rate, or a different type of tax, to be negotiated with the government in petroleum agreements. After a company has recovered all outlays from an oil field plus a specified rate of return after deduction of tax, royalties and an inflation adjustment, the government may negotiate for an additional share of the crude oil profits.

Companies engaged in mining operations are subject to additional profit tax at a rate of 25% on their "carryforward cash balance" at the end of the year of assessment. To calculate the carryforward cash balance, certain amounts are added to or deducted from chargeable income. The following amounts are added to chargeable income:
- Interest paid on capital used in the mining operations;
- Capital allowances granted or due; and
- Negative cash balance brought forward from the previous year.

The following amounts are deducted from chargeable income:
- Income tax paid or payable on company profits for the year of assessment;
- Capital expenditure incurred during the year of assessment; and
- Additions to inventory during the year of assessment.

Tax Incentives. Ghana offers tax exemptions and tax reductions to companies engaged in certain activities.

For the first five years after construction or after acquisition from a registered real estate company, rental income derived by companies from residential and commercial property is exempt from tax. Income derived from the construction, sale or lease of residential premises is exempt from tax for a company's first five years of operation.

Rural banks are exempt from tax for their first 10 years of operation.

Cocoa farmers are exempt from tax on income derived from cocoa. Cattle ranchers are exempt from tax for the first 10 years of operation. Income derived from tree crops, such as coffee, palm oil, shea butter, rubber and coconut, is exempt from tax for 10 years following the first harvest. For a company's first five years of operation, income derived from poultry, fishing and cash crops, such as maize, rice, pineapple, cassava and yams, is exempt from tax. Companies engaged in the processing of crops, fish or livestock derived from Ghana are exempt from tax for their first three years of commercial production.

Nonresident companies engaged in air and sea transportation are exempt from tax, if the Commissioner of the Internal Revenue Service (IRS) is satisfied that companies resident in Ghana are granted an equivalent exemption by the nonresident company's country of residence.

Manufacturing enterprises located in regional capitals other than Accra and Tema are entitled to a 25% income tax rebate. All manufacturing enterprises located outside regional capitals are entitled to a 50% tax rebate.

Capital Gains. Capital gains on chargeable assets are subject to tax at a rate of 10%. Capital losses may not offset capital gains.

Capital gains tax is imposed on gains derived from the disposal of the following assets:
- Buildings.
- Businesses and business assets, including goodwill, but excluding the following: assets acquired in mergers, amalgamations and reorganizations of companies if continuity of underlying ownership in the assets of at least 25% exists; trading stock; and Class 1, 2, 3 and 4 depreciable assets (see Section C).
- Land other than agricultural land.
- Shares other than those publicly traded on the Ghana Stock Exchange.

To calculate capital gains, the cost basis of the asset is deducted from the proceeds received on the disposal of an asset. The cost basis of a chargeable asset is the sum of the following:

- Cost of the asset including incidental costs;
- Expenditure incurred to alter or improve the asset; and
- Expenditure relating or incidental to the disposal of an asset.

Capital gains are exempt from tax if the amount received on the disposal of an asset is wholly used to acquire a similar asset within a year of the disposal or if the gain is less than ¢500,000.

Administration. The Internal Revenue Service (IRS) is responsible for the administration and collection of corporate income tax and capital gains tax.

The tax year (year of assessment) is the calendar year. If a company's accounting year differs from the calendar year, its basis period for a year of assessment is the accounting year ending within the tax year.

Companies must file their tax returns within four months after the end of their accounting year.

Assessed tax must be paid within 30 days of receipt of notice of assessment from the Commissioner of the IRS. The commissioner may compute a provisional assessment, which is payable in quarterly installments by 31 March, 30 June, 30 September and 31 December of the tax year if the company's accounting year is the calendar year. In general, companies whose accounting years differ from the tax year must make quarterly payments at the end of the third, sixth, ninth and twelfth months of their accounting year.

Companies that fail to pay tax by the due date must pay interest at the Bank of Ghana rediscount rate plus 5% on the amount due.

Dividends. A 10% withholding tax is imposed on dividends paid by resident companies. This is a final tax. Dividends received from nonresident companies are treated as chargeable income and are subject to tax at the normal corporate tax rate of 32.5%.

Foreign Tax Relief. Foreign tax is allowed as a credit against tax payable with respect to income. The amount of tax chargeable with respect to the income is reduced by the amount of the credit.

C. Determination of Trading Income

General. Chargeable income is based on the income reported in companies' financial statements, adjusted for nondeductible expenses, tax-exempt income and capital allowances.

To be deductible, expenses must be wholly, exclusively and necessarily incurred in the production of income by the company during the financial year. Expenses that may be deducted include the following:

- Interest;
- Rent;
- Repair of plant, premises, plant, machinery and fixtures;
- Bad debts (see *Provisions* below);
- Research and development expenditure; and
- Foreign exchange losses (see *Foreign-Exchange Gains and Losses* below)

If the commissioner believes the profits reported by a branch, subsidiary or associated company of a nonresident company are unrealistic, the commissioner may compute the company's profits by applying to the consolidated profits of the group a ratio of the local entity's turnover to the group's worldwide turnover (this is the income-splitting measure of the antiavoidance rules in the income tax law; see Section E).

Foreign-Exchange Gains and Losses. Foreign-exchange gains and losses are not included in the computation of chargeable income until they are realized. Foreign-exchange gain or loss is realized when the liability under a contract in foreign currency is discharged or when the right to receive foreign currency under a contract is satisfied by actual receipt. No foreign-exchange gains or losses are recognized with respect to transactions engaged in by residents that could reasonably be expected to be conducted in local currency. Foreign-exchange losses of a capital nature may be capitalized and depreciated at a rate of 10% using the declining-balance method. A company may claim a deduction for foreign-exchange losses only if it notifies the Commissioner of the IRS in writing of the existence of the debt claim, debt obligation or foreign-exchange holding on which the loss was incurred. Such notification must be made by the due date for filing the income tax return for the accounting year in which the debt arose or the foreign currency was acquired (for companies whose accounting years differs from the calendar year, the tax year is the year in which their accounting year ends).

If a person enters into separate transactions that result in a foreign-exchange gain and a foreign-exchange loss and if the transaction resulting in the foreign-exchange loss would not have been entered into had the transaction resulting in the foreign-exchange loss not occurred or vice versa, the foreign-exchange loss is deductible only to the extent of the amount of the foreign-exchange gain.

Inventories. In general, companies must calculate the cost of trading stock using the absorption-cost method. Stock may be accounted for using the first-in, first-out (FIFO) method or the average-cost method. After a company chooses one of the methods, it must use the method consistently from period to period. A company can change the method only with the written permission of the Commissioner of the IRS.

Provisions. Bad debts incurred in business are deductible if the company proves to the satisfaction of the Commissioner of the IRS that the debts have become bad. The new income tax law is silent on provisions for bad and doubtful debts. The commissioner is expected to issue a Practice Note on this matter in the near future.

All amounts recovered with respect to bad debts that were deducted must be included in chargeable income in the accounting year of the recovery.

Capital Allowances (Tax Depreciation). Capital allowances are granted with respect to depreciable assets. For the purpose of granting capital allowances, depreciable assets are allocated to six different classes. Assets in Classes 1 to 4 are placed in a pool, and capital allowances granted with respect to the pool. Capital allowances for Classes 5 and 6 assets are granted for the individual assets. To claim capital allowances, companies must notify the Commissioner of the IRS within one month after placing an asset in service. The table below presents the various classes of assets and details for calculating their capital allowances.

Class	Assets	Rate %	Formula for Calculating Capital Allowances
1	Computers and data handling equipment	40	(A x B x C) ÷ 365 (a)
2	Automobiles; buses and minibuses; goods vehicles; construction and earth-moving equipment, heavy general purpose or specialized trucks; trailers and trailer-mounted containers; plant and machinery used in manufacturing; and costs of a capital nature with respect to long-term crop planting costs	30	(A x B x C) ÷ 365 (a)
3	Mineral and petroleum exploration and production rights; mineral and petroleum prospecting, exploration and development costs; buildings, structures and works of a permanent nature used with respect to the assets in this category described above that are likely to be of little or no value when the rights are exhausted or the prospecting, exploration or development ends; and plant and machinery used in mining or petroleum operations	80% of the cost base of assets added to the pool during the basis period and 50% of the balance of the pool, if any	(A x B x C) ÷ 365 (a)
4	Railroad cars, locomotives and equipment; vessels barges, tugs, and similar water transportation equipment; aircraft; specialized public utility plant, equipment, and machinery; office furniture, fixtures and, equipment; and any depreciable asset not included in another class;	20	(A x B x C) ÷ 365 (a)

Class	Assets	Rate %	Formula for Calculating Capital Allowances
5	Buildings, structures and works of a permanent nature other than those included in Class 3	10	(A x B x C) ÷ 365 (c)(d)
6	Intangible assets other than those included in Class 3	– (e)	[(A÷D) x C] ÷ 365 (d)(f)

(a) A is the written-down value of the pool at the end of a basis period, B is the depreciation rate applicable to the pool, C is the number of days in the period.
(b) The formula is the same as for Classes 1 and 2, except that 5% of the cost basis of assets is added back to the pool at the end of the period to determine the written-down value.
(c) A is the cost base of the asset, B is the depreciation rate, and C is the number of days in the basis period.
(d) The total amount of capital allowances granted for a Class 5 or 6 asset may not exceed the cost basis of asset.
(e) The rate is determined by formula.
(f) A is the cost base of the asset, C is the number of days in the basis period, and D is the useful life of the asset in whole years calculated at the time the asset is acquired.

Relief for Losses. Enterprises engaged in mining, farming or manufacturing may carry forward their losses for five years. For this purpose, a manufacturing business is a business that manufactures primarily for export. In general, losses may not be carried back. However, losses incurred on completion of long-term contracts may be carried back to prior tax years.

Groups of Companies. Each company must file a separate tax return. There is no provision for offsetting losses against profits within a group of companies.

D. Value-Added Tax

Value-added tax (VAT) is levied on all supplies of goods and services made in, or imported into, Ghana, except for exempt items. The rate of VAT is 12.5%.

E. Miscellaneous Matters

Foreign-Exchange Controls. The currency in Ghana is the cedi (¢).

The Exchange Control Act 1961 governs foreign-exchange controls in Ghana, but the Bank of Ghana exercises much discretion in administering the act. For example, contrary to the law, the central bank has permitted the operation of foreign-exchange bureaus.

Trading in foreign-currency on the Ghana Stock Exchange was introduced recently. In addition, a new foreign-exchange act, which will liberalize foreign-exchange controls, will be introduced in parliament in the near future.

Antiavoidance Legislation. A company must obtain a tax-clearance certificate to engage in certain transactions, including the purchase of goods in commercial quantities from producers, distributors, manufacturers or importers. The income tax law contains the following three specific antiavoidance measures: income splitting (see Section C); transfer pricing (see *Transfer Pricing* below) and thin capitalization (exempt-debt to exempt-equity ratio; see *Debt-to-Equity Ratio* below).

Transfer Pricing. If the Commissioner of the IRS determines that a transaction between two related companies is artificial and fictitious and is carried out to reduce the tax of either company, the commissioner may adjust the transaction for tax purposes to ensure that the proper amount of tax is paid.

Debt-to-Equity Ratio. If an "exempt-controlled resident entity," other than a financial institution, has an "exempt debt" to "exempt equity" ratio in excess of 2:1, no deduction is allowed for interest paid or a foreign-exchange loss incurred on the portion of the debt that exceeds the 2:1 ratio. Broadly, an "exempt-controlled resident entity" is a resident entity of which at least 50% of its underlying ownership or control is held by an "exempt person," which is a nonresident person or a resident person meeting certain criteria. The law also provides detailed definitions of "exempt debt" and "exempt equity."

F. Treaty Withholding Tax Rates

The following are the maximum withholding rates under Ghana's double tax treaties for dividends, interest, royalties, and management and technology transfer fees.

	Dividends %	Interest %	Royalties and Management and Technology Transfer Fees (a) %
Denmark (b)	10	10	15/20
France	10	10	15/20
Gambia (b)	10	10	15/20
Nigeria (b)	10	10	15/20
Sierra Leone (b)	10	10	15/20
Sweden (b)	10	10	15/20
United Kingdom	10	10	15/20
Nontreaty countries	10	10	15/20

(a) See Section A.
(b) These treaties were signed prior to the country's independence in March 1957, but Ghana considers them still to be in force.

GIBRALTAR

(Country Code 350)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@hassans.gi

GIBRALTAR **GMT +1**

Hassans*
International Law Firm
57/63 Line Wall Road
Gibraltar

79000
Fax: 71966

* Technical Assistance firm

Corporate Tax

James Levy	**79000**
Chris White	**79000**
Javier Chincotta	**79000**

A. At a Glance

Corporate Income Tax Rates	
Standard Rate (%)	35
Small Companies (%)	20 (a)
Exempt Companies (a)	
Resident Companies	£225
Nonresident Companies with a Branch in Gibraltar	£300
Other Nonresident Companies	£200
Qualifying Companies (%)	0 to 35 (a)(b)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	– (c)
Withholding Tax (%)	
Dividends (d)	
Taxpaying Companies	20/35 (e)
Exempt Companies	0
Qualifying Companies	– (f)
Interest	
Taxpaying Companies	30/35 (g)
Exempt Companies	0
Qualifying Companies	– (f)
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) See Section B.
(b) This rate is negotiated with the tax authorities. However, the status of a qualifying company is currently under suspension pending the results of a state-aid investigation by the European Union (EU).
(c) The corporate income tax rates listed above also apply to branches.
(d) Certain dividends are exempt from withholding tax (see Section B).
(e) The rate is the corporate income tax rate applicable to the company.
(f) The rate is the agreed qualifying income tax rate applicable to the company, but see footnote (b).
(g) The 35% rate applies to interest paid to companies; the 30% rate applies to interest paid to others.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident and nonresident companies are subject to tax on income accrued in, derived from, or received in Gibraltar. As a result, companies trading with Gibraltar rather than trading in Gibraltar are not subject to tax.

A company is resident in Gibraltar if its management and control is located there or if its management and control is exercised by persons who reside in Gibraltar. The place of incorporation is not relevant to the determination of company residence. English law is persuasive in Gibraltar and the usual test for management and control is the De Beers Consolidated Test. Under this test, management and control is deemed to be located where the company is actually run and where the strategic decisions are made. The location of the registered office and the shareholders is ignored.

An investment company is resident in Gibraltar if it is controlled by persons who are resident in Gibraltar.

The tax authorities have contended that resident companies are subject to tax on their worldwide income from whatever source on the grounds that the income arises in Gibraltar through the exercise of management and control in Gibraltar. The only relevant judicial precedents on this issue are from Hong Kong where the two cases reached the Privy Council and resulted in conflicting decisions. Tax professionals have contended that the only two types of foreign-source income that are taxable to resident companies are dividends and interest because these are the only two types of foreign-source income specifically mentioned in the statute as being taxable to resident companies. The issue has not yet been satisfactorily resolved.

Rates of Tax. The standard corporate income tax rate is 35%.

A small company rate of 20% applies to eligible companies with taxable profits of up to £35,000. If the profits of a small company are between £35,001 and £105,000, the tax payable is reduced by an amount calculated by deducting the amount of the taxable profits from £105,000 and multiplying the result by 3/40. To qualify for the small company rate, at least 80% of the turnover of the company must be derived directly or indirectly from sources other than dividends, interest or property income (for example, rents and royalties).

Exempt Companies. A resident or nonresident company that does not have a shareholder resident in Gibraltar may claim an exemption from Gibraltar tax if either of the following applies:
- It does not trade in Gibraltar; or
- Its income is earned from trading outside Gibraltar, except for income derived from trading in Gibraltar with other exempt companies.

Exempt companies pay annual fixed fees. Resident exempt companies pay a fee of £225. Nonresident exempt companies operating through a branch pay a fee of £300. Other nonresident exempt companies pay a fee £200.

Another advantage for exempt companies is that they pay stamp duty on only a limited number of transactions. For exempt companies, stamp duty is imposed only on instruments transferring Gibraltar real property or creating or increasing nominal share capital or loan capital.

Qualifying Companies. Qualifying companies are subject to similar trading and income restrictions as exempt companies, but they have a physical presence in Gibraltar and their management and control is located in Gibraltar. A rate of tax of between 0% and 35% is negotiated with the tax authorities. The negotiated rate is normally between 5% and 10%. The legislation governing qualifying companies is currently suspended, pending the results of an EU state-aid investigation. It is anticipated that qualifying companies will no longer be allowed.

Capital Gains. Capital gains are not taxed in Gibraltar, and no anti-avoidance legislation provides for the reclassification of capital gains as income.

Administration. The tax year ends on 30 June. In general, tax liability is calculated on a prior-year basis. The Commissioner of Income Tax treats accounts that are usually prepared with a year-end date other than 30 June as if they had a year-end date of 30 June.

No due date applies for the filing of returns. The Commissioner of Income Tax may request a return but cannot compel its production. However, the commissioner may make estimated assessments if a return is not received by 30 September immediately following the end of the relevant tax year.

Assessed tax is payable on 31 March in the year of assessment or 60 days after the issuance of the notice of assessment, whichever is later. A penalty of 10% of the tax assessed is imposed if the tax is not paid by the due date. Additional penalties of 10% are imposed at the end of every subsequent five-month period during which the tax remains unpaid. No interest or penalties apply to late filings or other acts that delay the issuance of an assessment.

Dividends. In general, companies resident in Gibraltar must withhold tax from dividends paid to all recipients. The applicable withholding tax rates are 20% for dividends paid by small companies and 35% for dividends paid by other companies. However, the following dividends are exempt from withholding tax:
- Dividends paid by exempt companies to nonresidents; and
- Dividends qualifying under the EU Parent-Subsidiary Directive.

Gibraltar is a member of the EU through the membership of the United Kingdom. Dividends paid to a company resident in an EU member state are exempt from withholding tax if the recipient holds a participation of at least 25% in the Gibraltar payer.

Resident and nonresident recipients of dividends from companies resident in Gibraltar must include the gross dividends in their assessable income on their annual tax returns, and they may claim a credit equal to the amount of tax withheld against their tax liability.

Dividends received from abroad by a Gibraltar resident are included in assessable income unless the EU Parent-Subsidiary Directive applies. Under the directive, a Gibraltar company receiving a dividend from a company resident in an EU-member state is exempt from tax on the dividend if it holds a participation of at least 25% in the payer.

In each tax year, a company must pay to the tax authorities only the excess of the tax withheld from dividends over the amount of tax paid on profits (mainstream tax). If the mainstream tax paid in one year exceeds the withholding tax due, the excess can be carried forward against the withholding tax due in a subsequent year.

Foreign Tax Relief. Unilateral tax relief is granted for profits that have already been taxed in the United Kingdom, the British Commonwealth and in other states of the European Economic Area (EEA). Gibraltar is a member of the EEA as a result of its membership in the EU.

Relief is limited to the lesser of the tax paid in the other jurisdiction and the tax payable in Gibraltar on the same income. For the purpose of this calculation, the foreign income is assumed to be included in the assessable income taxed at the highest rate.

No antiavoidance legislation applies to the grant of foreign tax relief. Any unused relief may not be carried forward.

C. Determination of Trading Income

General. The starting point for calculating assessable income is the income shown in the audited accounts of the company. Although the law does not require companies to prepare audited accounts for tax purposes, the Commissioner of Income Tax generally requires such accounts for companies subject to tax. The accounts must comply with the relevant EU directives and Gibraltar accounting standards, which are similar to those of the United Kingdom.

Under the tax law, expenses and other payments wholly and exclusively incurred in the production of income may be deducted in computing assessable income.

Bank or building society interest received by nonresident companies is exempt from tax.

Provisions. General provisions may be deducted. Specific provisions supported by appropriate evidence may also be deducted.

Bad and doubtful debts are deductible when they are established to be so.

Tax Depreciation. Depreciation may not be deducted for tax purposes, but wear-and-tear allowances are available with respect to plant and machinery.

Items purchased before 1 July 1999 are granted allowances at rates ranging from 10% to 25%, which are negotiated with the Commissioner of Income Tax.

Items, other than private motor vehicles purchased since 1 July 1999, qualify for a first-year allowance of up to £30,000. Any expenditure over £30,000 and excluded motor vehicles qualify for an allowance of 25% in the year of purchase and in the following three years.

An additional first-year allowance of up to £50,000 is available with respect to expenditure on computer hardware and software.

Relief for Losses. Losses may be carried forward indefinitely to offset profits in future years. Losses may not be carried back.

Loss carryforwards are forfeited if, within three years after the losses are incurred, a change in ownership of the company occurs and a major change in the nature or conduct of the trade occurs.

Groups of Companies. The tax law does not contain any specific measures regarding groups of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Excise tax; taxes are imposed at low rates on alcohol, fuel and tobacco	Various
Customs duty; imposed on imports	
Nonperishable goods (computer hardware and software are exempt)	12%
Clothes	6%

Nature of Tax	Rate
Alcohol and tobacco (imposed at low rates)	Various
Property taxes; imposed at general and salt water rates (drinking water is produced by distillation, but the water for the sewage system is drawn from the sea)	Various
Stamp duty; imposed on instruments transferring property; for exempt and qualifying companies (see Section B), the duty is imposed only on instruments transferring Gibraltar real property, the nominal share capital of the company or any increase in the share capital and the loan capital of the company; maximum rate	1.26%
Social security contributions; weekly contributions	
Adults	
Employer	£23.82
Employee	£18.87
Children	
Employer	£22.25
Employee	£17.29
Elderly (men over 65 and women over 60)	
Employer	£23.82
Employee	£10.33

E. Miscellaneous Matters

Foreign-Exchange Controls. Although Gibraltar issues local notes, the currency is the British pound (£). Gibraltar does not impose any foreign-exchange controls.

Debt-to-Equity Rules. Gibraltar does not impose any debt-to-equity rules.

Transfer Pricing. If a close connection exists between a resident party and a nonresident party and one is able to control the other and if the profits arising from a transaction between the parties are manipulated, the resident party is assessed as agent of the nonresident party on the amount of the manipulated profits.

Controlled Foreign Companies. Gibraltar law does not contain any controlled foreign company measures.

Antiavoidance Legislation. Gibraltar law contains a general antiavoidance measure, which allows the Commissioner of Income Tax to disregard a transaction that the commissioner deems to be fictitious or artificial and results in tax savings. Because this measure is so broadly worded, however, the tax authorities are not likely to be able to apply it successfully.

A specific measure classifies the providing of assets or loans or the granting of benefits to a shareholder as a dividend paid to the shareholder.

F. Tax Treaties

Gibraltar has not entered into any tax treaties.

GREECE

(Country Code 30)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@gr.ey.com

ATHENS **GMT +2**

Ernst & Young
11th Km Athinon – Lamias
14551 Metamorfossi Attikis
Greece

(210) 288-6000
Fax: (210) 288-6908

Corporate Tax

★ Themis Lianopoulos	**(210) 288-6364** **Mobile: (694) 431-5107**
Spyros Kaminaris	**(210) 288-6369** **Mobile: (697) 334-0973**
Mary Michalopoulou	**(210) 288-6367** **Mobile: (697) 334-0952**

Foreign Tax Desk

Christopher Kealy, *United States*	**(210) 288-6402** **Mobile: (697) 373-0933**

Human Capital

★ Themis Lianopoulos	**(210) 288-6364** **Mobile: (694) 431-5107**
Savvas Manetas	**(210) 288-6417** **Mobile: (697) 373-0921**
Dimitri Menexis	**(210) 288-6415**

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	0 (a)
Interest	
Bank Interest	15 (b)
Interest on Treasury Bills and Corporate Bonds	10 (c)
Repos and Reverse Repos	7
Other Interest	
Paid to Greek Legal Entities	20 (b)
Paid to Foreign Legal Entities	35 (d)
Royalties from Patents, Know-how, etc.	20
Services	20 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) Greek corporations pay dividends out of after-tax net profits. No further tax is payable on dividends by the corporation or its shareholders.
(b) This withholding tax is a prepayment of corporate income tax.
(c) This withholding tax is imposed on payments to residents only. Certain exceptions apply.

(d) This withholding tax applies to interest paid to foreign legal entities that do not have a permanent establishment in Greece. It is considered to be a final tax.
(e) This withholding tax applies to fees paid to foreign entities that do not have a permanent establishment in Greece for services rendered in Greece. It is a final tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Greek companies are taxed on their worldwide income. Foreign business enterprises are taxed only on income derived from a permanent establishment in Greece or on profits generated in Greece. A corporation (*anonymos eteria*, or AE; in certain countries, a corporation is referred to as a *société anonyme*, or SA) or limited liability company (*eteria periorismenis efthinis*, or EPE) is Greek if its corporate seat or effective management is located in Greece.

Rates of Corporate Income Tax. The standard corporate tax rate is 35%.

Corporations resulting from the merger of unlisted companies, as well as listed corporations absorbing other corporations, are taxed at the applicable corporate tax rate reduced by 10 percentage points for the accounting year following the completion of the merger and 5 percentage points for the subsequent accounting year, if the merger is completed by 31 December 2004 and if certain other conditions are met.

Capital Gains. Capital gains derived from disposals of fixed assets are treated as business income and are subject to income tax at the corporate tax rate. To calculate the capital gains derived from disposals of land and buildings, the sale price cannot be lower than the "objective value," which is computed based on predetermined coefficients used by the tax authorities.

Gains derived from transfers of business-related rights, such as leasing or subleasing rights or the right to a patent or a trademark, are taxed at a rate of 20%. The tax is a prepayment of the annual corporate income tax.

A 20% rate also applies to gains from the transfer of a business as a going concern and to gains from the transfer of a participation (interest) in a limited liability company or partnership. In both cases, the sale price cannot be lower than a minimum amount calculated according to a formula provided by the law. The tax is a prepayment of the annual corporate income tax.

A 5% "income" tax is imposed on the sales price of shares not listed on a recognized stock exchange that are sold by Greek shareholders, as well as on the sales price of Greek unlisted shares sold by foreigners. The minimum sales price is determined according to rules prescribed by the Ministry of Finance. All actual capital gains derived from such sales, whether distributed or capitalized, are subject to corporate tax with a credit for the 5% tax already paid.

Capital gains derived from sales of shares listed on a recognized stock exchange by enterprises maintaining a full set of double-entry accounting books (these enterprises include all Greek corporations and limited liability companies, foreign companies' branches and other large entities) are exempt from tax, provided the gains are transferred to a special reserve that may be used only for writing off future losses from sales or revaluations of securities. The amount of this special reserve is taxed if it is distributed or capitalized. Losses in excess of the special reserve may not be claimed as deductions from taxable income, but should be carried forward to be offset against future gains derived from sales of listed shares.

Transactions on the Athens Stock Exchange or on a foreign stock exchange are subject to transfer tax at the rate of 0.3% on the sales proceeds received for the shares.

Administration. Greek AEs and EPEs, and branches of foreign companies, must file an annual corporate tax return by the 10th day of the 5th month after the end of their accounting year. For companies with a year-end of 31 December, the filing deadline is 10 May.

In general, on filing their annual corporate tax return, legal entities must make an advance payment against the current year's income tax liability. Such advance payment is computed as 55% (60% for banks) of the income tax due for the year for which the return is filed. The final payment of tax is calculated by deducting advance payments of tax (including taxes withheld at source) and foreign taxes paid on income sourced abroad from the amount of tax computed on the return. The foreign tax credit cannot exceed the amount of Greek tax otherwise payable on the foreign-source income.

The total of the final payment of tax and the advance payment for the current year's income tax is payable in five equal installments. The first installment is paid at the time of filing the tax return. A 2.5% cash discount is allowed if the tax is paid in a lump sum.

Dividends. Dividends paid by Greek companies are not subject to tax at the shareholder level. Dividends received by Greek beneficiaries from foreign corporations are subject to corporate income tax. A 20% tax is withheld by intermediary banks from remittances to Greek recipients of dividends and is credited against the final corporate tax liability.

Foreign Tax Credit. Foreign-source income is usually taxable with a credit for foreign income taxes paid, up to the amount of Greek tax payable on the foreign-source income.

Law 2578/1998 implemented the European Union (EU) Parent-Subsidiary Directive (90/435/EEC) in Greece. Under the Parent-Subsidiary Directive, qualifying Greek parent companies may claim a tax credit equal to the amount of corporate tax paid by their subsidiaries located in other EU countries corresponding to the profits distributed to them. The credit cannot exceed the amount of Greek tax payable on the same income. Dividends covered by the measure described in the preceding sentence are not subject to the 20% tax that is otherwise withheld by intermediary banks from remittances to Greek parent companies.

C. Determination of Trading Income

General. Taxable income for all legal entities consists of annual gross income, less allowable deductions. In principle, expenses may be deducted only from gross income of the fiscal year in which they are incurred.

In general, all ordinary business expenses and specific items mentioned in the tax law may be deducted for tax purposes, including the following:

- Certain taxes paid, including stamp duty, real estate transfer tax and capital duty.
- Interest accrued, except interest and penalties on overdue payment of taxes.
- Preoperating expenses and expenses for acquiring real estate, which may be written off either in a lump sum or in equal installments over a period of five years.
- Repair and maintenance costs on leasehold property in the accounting year incurred.
- Financial lease payments with respect to real property, which are deductible to the extent they correspond to the value of the buildings leased. The portion of lease payments corresponding to the value of land is not deductible.
- Donations and sponsorships granted to the "Organization for the Preparation of the Athens Olympic Games of 2004."
- Technical assistance fees and royalties for patents, trademarks and similar items.

Branches of foreign companies may deduct an allocated portion of the operating cost of their head office. Such portion may not exceed 5% of the branch's general administrative expenses.

Companies may claim an additional deduction equal to 50% of scientific and technological research and development expenses incurred between 1 January 2002 and 31 December 2004. This deduction is allowed in addition to the normal deduction for the entire amount of such expenses.

Inventories. Stock is valued at the lower of cost or market value. Any cost method is acceptable, provided that it is maintained consistently. To change a cost method, an enterprise must follow a special procedure.

Provisions. Provisions for bad debts are deductible if the debts are considered noncollectible.

A provision for employees' termination indemnity is deductible to the extent it applies to employees expected to retire within the following year.

Depreciation. Depreciation is generally calculated using the straight-line method. For new production machinery and equipment acquired on or after 1 January 1998, depreciation may be calculated using the declining-balance method.

The tax law provides low and high depreciation rates for each category of assets, which may be selected at the option of the taxpayer. The following are the prescribed low and high straight-line rates of depreciation for certain assets.

Asset	Low Rate (%)	High Rate (%)
Buildings and construction	5	8
Office equipment	15	20
Motor vehicles	11	15

For the three accounting periods following the year in which a new company begins its operations, it may elect to either not depreciate all of its fixed assets or apply the statutory depreciation rates reduced by 50%.

Leasehold additions and improvements are depreciated over the lease term or the period prescribed by law, whichever is less.

Fixed assets valued up to €600 may be written off in the year acquired or placed in service.

Expenditure incurred to acquire computer hardware and software may be fully deducted in the year in which such items are placed in service.

Relief for Losses. Losses may be carried forward for a five-year period. Losses may not be carried back.

Groups of Companies. Each company forming part of a group must file a separate return. Losses of one group company may not be offset against the profits of another group company.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	
Standard rate	18
Reduced rate	8
Special rates	3/4/6/13
Stamp duty on private loan agreements	2.4/3.6
Capital duty	1
Annual property tax; imposed on the value of real property in excess of €243,600	0.7
Real estate transfer tax	11

E. Miscellaneous Matters

Foreign-Exchange Controls. Under Presidential Decrees 96/1993 and 104/1994, which implemented EU Directives 88/361 and 92/122, EU and non-EU investors may freely transfer dividends and profits resulting from their investments in Greece, as well as the sales and liquidation proceeds from such investments, and they may obtain permission to repatriate these items in any currency. For all transfers of foreign currency, an application must be made to the intermediate bank (the Greek bank intervening in the transfer). This application must include the following information:

- Details concerning the applicant and the recipient;
- The category of the transaction;
- The country of destination;
- The value of the transaction in local and foreign currency; and
- The tax registration number of the applicant if the value of the transaction exceeds €12,500.

Companies from EU and non-EU states borrowing foreign currency from abroad for use in Greece may freely transfer principal and interest on these loans.

Transfer Pricing. Under provisions in Greek law, if the transfer prices between related parties differ from the prices that would prevail in an arm's length transaction, the difference between the transfer prices and the prevailing market prices is treated as the profit of the company that had its revenues decreased or its expenses increased as a result of the transfer prices. It is not possible to reach transfer-pricing agreements in advance with the tax authorities.

F. Treaty Withholding Tax Rates

Dividends are not subject to withholding tax under Greek domestic law. Consequently, the following table provides treaty withholding tax rates for interest and royalties only.

	Interest %	Royalties %
Albania	5	5
Armenia (l)	10	5
Austria	0 (d)	0
Belgium	15	5
Bulgaria	10	10
Croatia	10	10
Cyprus	10	0 (e)
Czechoslovakia (i)	10	10
Denmark	8	5
Finland	10	10
France	10	5
Georgia (l)	8	5
Germany	10	0
Hungary	10	10 (g)
India	40	20
Israel	10	10
Italy	10	5 (g)
Korea	8	10
Luxembourg	8	7 (h)
Netherlands	10 (f)	7 (h)
Norway	10	10
Poland	10	10
Portugal (l)	15	10
Romania	10	7 (h)
South Africa (m)	8 (j)	7 (k)
Spain (l)	8	6
Sweden	10	5
Switzerland	10	5
United Kingdom	0 (a)	0 (a)
United States	0 (b)	0
Uzbekistan	10	8
Nontreaty countries (c)	15/20/35	10/20

(a) The 0% rate applies to the extent that the amount of interest or royalties does not exceed a fair and reasonable consideration. The domestic withholding tax rates apply to any excess amounts.
(b) The 0% rate applies if the recipient does not control directly or indirectly more than 50% of the voting power in the payer. However, the 0% rate does not apply to interest paid to U.S. recipients at an annual rate exceeding 9%.
(c) For details, see Section A.
(d) The rate is 10% if the recipient is a company that owns more than 50% of the payer. The refund system applies under this treaty.
(e) The rate is 5% for film royalties.
(f) The rate is 8% if the recipient is a bank or similar entity.
(g) The rate is 0% for copyright royalties for literary, artistic or scientific works, including films.
(h) The rate is 5% for copyright royalties for literary, artistic or scientific works, including films.
(i) Greece honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.
(j) The rate is 0% for interest paid to the South Africa Reserve Bank.
(k) The rate is 5% for royalties paid for literary, artistic or scientific works, including films.
(l) This treaty is effective from 1 January 2003.
(m) This treaty is effective from 1 January 2004.

GUAM

(Country Code 1)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@gu.ey.com

TAMUNING	GMT +10

Ernst & Young **(671) 649-3700**
Ernst & Young Building **Fax: (671) 649-3920**
Suite 201
231 Ypao Road
Tamuning
Guam 96913

Corporate Tax

Edmund E. Brobesong	**(671) 649-8469**
★ Lance K. Kamigaki	**(671) 649-4577**
Marlyn B. Oberiano	**(671) 649-5987**

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax (%) (a)	
Dividends	30 (b)
Interest	30 (b)(c)
Royalties from Patents, Know-how, etc.	30 (b)
Branch Profits Tax	30 (d)
Net Operating Losses (Years)	
Carryback	2
Carryforward	20

(a) The withholding tax rates may be reduced under tax treaties (see Section E).
(b) Imposed on payments to nonresidents.
(c) Interest on certain portfolio debt obligations issued after 18 July 1984 and bank deposit interest not effectively connected to a trade or business in Guam are exempt from withholding.
(d) The branch profits tax is imposed on the earnings of a foreign corporation attributable to its branch, reduced by earnings reinvested in the branch and increased by withdrawals of previously reinvested earnings.

B. Taxes on Corporate Income and Gains

The system of corporate income taxation in force in Guam, a territory of the United States, is a mirror image of the U.S. income tax system. The applicable law is the U.S. Internal Revenue Code, with "Guam" substituted for all references to the "United States." Therefore, for a description of the income taxation of corporations resident or doing business in Guam, refer to the sections on the United States and substitute "Guam" for each reference to the "United States."

Income taxes are paid to the government of Guam, which administers its tax system.

Under an agreement between the United States and Guam, Guam had the authority to separate its system of taxation from the U.S. Internal Revenue Code, effective 1 January 1991. Because a comprehensive Guam Tax Code has not yet been developed, this date has been extended, and the mirror system of taxation continues to apply to Guam until a new code goes into effect. A Guam Tax Code Commission has been formed and has begun work on the new law.

The government of Guam, through the Guam Economic Development Authority, is authorized by law to allow tax rebates to qualified investors. Qualifying Certificates (QCs) for tax incentives are granted based on the investment commitment as well as on the potential for creating new employment and expanding the base of the island's industry. These incentives are aimed primarily at manufacturers, insurance companies, trusts, commercial fishing companies, corporate headquarters, specialized medical facilities, high-technology companies, agricultural enterprises and tourism-development companies. In general, the tax rebates can amount to up to 75% of income tax paid for up to 20 years. Certain insurance companies may qualify for a 100% income tax rebate.

C. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Gross receipts tax, on sales of tangible personal property and services, excluding wholesale activities	6%
Use tax, on goods imported into and consumed in Guam (businesses are subject to either gross receipts tax or use tax, not both)	6%
Hotel occupancy tax	11%
Real property tax, on appraised value of	
Land	0.0875%
Improvements	0.35%
Liquid fuel taxes, imposed per gallon	
Aviation	4 cents
Diesel	14 cents
Other	15 cents
Alcoholic beverage excise tax	
Malted fermented beverages	7 cents per ounce
Distilled beverages	$18 per gallon
Vinous beverages	$4.95 per gallon
Tobacco excise tax	
Cigarettes	$5 per 100 cigarettes
Cigars	20 to 25 cents per cigar
Other tobacco products	$3.50 per pound
Documents tax, on conveyances and on mortgages of real property	0.1%
Social security contributions (U.S. system), imposed on	
Wages up to $87,900 (for 2004); paid by	
Employer	7.65%
Employee	7.65%

Nature of Tax	Rate
Wages in excess of $87,900 (for 2004); paid by	
Employer	1.45%
Employee	1.45%
Miscellaneous license fees	Various

D. Miscellaneous Matters

Foreign-Exchange Controls. Guam does not impose foreign-exchange controls.

Debt-to-Equity Rules. The U.S. thin-capitalization rules apply in Guam.

Transfer Pricing. The U.S. transfer-pricing rules apply in Guam.

E. Tax Treaties

The Guam Foreign Investment Equity Act was signed into law on 24 August 2002 and amends the Organic Act of Guam with respect to the application of the Guam territorial income tax laws. The Guam Foreign Investment Equity Act provides that the tax rate under Sections 871, 881, 884, 1441, 1442, 1443, 1445 and 1446 of the U.S. Internal Revenue Code of 1986, on any item of income from sources in Guam is the same as the rate that would apply with respect to such item were Guam treated as part of the United States for purposes of the treaty obligations of the United States. However, this provision does not apply to determine the tax rate on any item of income received from a Guam payer, if for any tax year, the tax on the Guam payer was rebated under Guam law (see Section B for a discussion of the QC rebates).

GUATEMALA

Please direct all inquiries regarding Guatemala to Rafael Sayagués of the Costa Rica office (telephone: [506] 204-9029; mobile: [1] (305) 310-8007; fax: [506] 204-7305; e-mail: rafael.sayagues@cr.ey.com).

A. At a Glance

Corporate Income Tax Rate (%)	31
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	31
Withholding Tax (%) (a)	
Dividends	0 (b)
Interest	10 (c)
Royalties from Patents, Know-how, etc.	31
Payments for Scientific, Technical and Financial Advice	31
Commissions	10
Fees	31
Net Operating Losses (Years)	
Carryback	0
Carryforward	1 (d)

(a) Applicable to nonresidents. Income subject to these withholding taxes is not included in taxable income.
(b) Withholding tax at a rate of 10% is imposed on dividends paid to nonresidents if the payer has not paid income tax in accordance with the law.

(c) For details regarding the withholding tax on interest, see Section B.
(d) New companies may carry forward losses incurred in the first five years of their existence for one year.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident and nonresident corporations are taxed only on Guatemalan-source income. Foreign income is not taxable. Interest received by residents from loans made abroad is considered to be Guatemalan-source income, regardless of whether the interest and principal are physically paid in or outside Guatemala.

Rates of Corporate Tax. The rate of corporate income tax is 31%.

Nonresident transport companies are taxed on gross income at a rate of 5%. This is a final tax.

Capital Gains. Capital gains are taxed at a rate of 10%. Capital losses may be carried forward for four years to offset capital gains.

Administration. The statutory fiscal year begins on 1 July and ends on 30 June. The tax authorities may authorize the adoption of the calendar year as the tax year. A company must file a tax return and make any payment due within 90 working days after the end of the tax year. Interest and penalty charges are imposed for late payments.

Dividends. Dividends received from resident companies are not taxable if the paying company is taxed in Guatemala. Dividends remitted to nonresidents are subject to a withholding tax of 10% unless the paying company has paid income tax in Guatemala in accordance with the law.

Interest. In general, a 10% final withholding tax is imposed on interest paid to nonresidents. However, the withholding tax is not imposed if the interest is paid on loans from first-rated financial institutions abroad and if the loan proceeds are exchanged through the Bank of Guatemala (central bank) or other banks in the national banking system.

A 10% final withholding tax is also imposed on interest paid or credited, including interest on saving accounts or investments, to residents who are not subject to the supervision of the Bank Superintendence of Guatemala.

Foreign Tax Relief. No relief is granted for foreign taxes paid.

C. Determination of Trading Income

General. Expenses that generate taxable income, including local taxes, other than income tax and value-added tax, are deductible. All expenses must be documented.

Special Deductions. Companies may deduct up to 5% of taxable income for the tax year for profits reinvested in plant, machinery and equipment. They may also deduct up to 5% of taxable income for the tax year for profits reinvested in the qualification and training of workers.

Inventories. Inventories are valued at the lower of cost or market value. Cattle may be priced at cost or sale price. No provisions for deterioration or obsolescence are permitted.

Provisions. Deductible provisions for bad debts of up to 3% of credit-sales balances are permitted. Reserves for severance compensation of up to 8.33% of payroll costs are also deductible.

Depreciation. Straight-line depreciation is permitted at the following maximum rates.

Asset	Rate (%)
Buildings	5
Plantations	15
Furniture, fixtures, ships and railroads	20
Machinery and equipment, vehicles and containers	20
Computer equipment and programs	33.33
Tools, porcelain, glassware and certain animals	25
Other items	10

The tax authorities may authorize other depreciation methods.

Oil and other natural resources are subject to depletion in accordance with the level of production and the remaining reserves.

Relief for Losses. New companies may carry forward losses incurred in the first five years of their existence for one year.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax	12%
Mercantile and farming companies tax	
On net assets (depreciation, amortization and debts are deductible)	3.5%
On gross income of prior period	2.25%
Levies on petroleum production and consumption; rate varies by type of fuel	US$0.06 to US$0.58 per gallon
Land tax, imposed annually on value of land; maximum rate, applicable to value in excess of Q 70,000	0.9%
Imports tax	0% to 20%
Social security tax, imposed on wages; paid by	
Employer	12.67%
Employee	4.83%

E. Miscellaneous Matters

Foreign-Exchange Controls. Guatemala does not impose any foreign-exchange controls. The exchange system is regulated through the banks.

Debt-to-Equity Rules. Guatemala does not impose any debt-to-equity requirements.

Antiavoidance Legislation. The tax law contains general measures to prevent tax fraud and similar conduct.

F. Tax Treaties

Guatemala has not concluded tax treaties with any other jurisdiction.

GUERNSEY, CHANNEL ISLANDS

(Country Code 44)

The e-mail addresses for the persons listed in the directory are in the following standard format:

first initial of first name (directly followed by) surname@uk.ey.com

For example, the e-mail address of Graham Parrott is the following:

gparrott@uk.ey.com

ST. PETER PORT **GMT**

Ernst & Young **(1481) 723-232**
New Street **Fax: (1481) 717-496, 713-901**
St. Peter Port
Guernsey GY1 4AF
Channel Islands

Corporate Tax

★ Graham Parrott	**(1481) 717-490**
Mark Colver	**(1481) 717-480**
John Knust	**(1481) 717-426**

A. At a Glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	20
Exempt Company Tax (Annual Fee)	£600
Withholding Tax (%)	
Dividends	0 (a)
Interest	20 (b)
Royalties	20
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1
Carryforward	Unlimited

(a) See Section B.
(b) Bank interest is not subject to withholding tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. A Guernsey resident company is subject to income tax on its worldwide income. A company not resident in Guernsey is subject to Guernsey income tax on its Guernsey-source income (other than bank interest), unless a double tax treaty is applicable. A company is resident in Guernsey if its shareholder control is in Guernsey or if it is registered in Guernsey.

Rate of Corporate Income Tax. The rate of corporate income tax is 20%. Also, see *Changes to Comply with European Union Measures* below.

Exempt Companies. Companies registered in Guernsey, but beneficially owned by persons not resident in Guernsey and not carrying on a business in Guernsey, may claim exemption from corporate income tax and withholding tax. Exempt companies pay a fixed annual fee of £600, regardless of their income. Companies registered in other jurisdictions may also be designated as exempt in Guernsey. Holding board meetings or performing administrative functions, such as invoicing, does not constitute carrying on a business. Also, see *Changes to Comply with European Union Measures* below.

International Companies. An International Company (IC) must be beneficially owned by nonresidents of Guernsey and must derive its trading income from outside Guernsey. Both Guernsey companies and companies incorporated in other jurisdictions may qualify as ICs. The income tax rate imposed on the profits of an IC is determined through negotiation with the Administrator of Income Tax. This rate is based on the business plan and the international circumstances of the company. The rate, which is fixed for five years, must be above 0% but not exceed 30%. Also, see *Changes to Comply with European Union Measures* below.

Banking and Insurance Companies Owned by Nonresidents of Guernsey. Guernsey's status as an offshore financial center is encouraged by specific legislation and tax concessions available to banking and insurance companies. Insurance companies and international bank lending companies are treated particularly favorably. The effective tax rate for such companies can be reduced to as low as 2%. Captive insurance companies may elect to be treated as ICs.

Collective Investment Schemes. Collective investment schemes, which are sometimes referred to as unit trusts or investment trusts, form a substantial sector of the finance industry on the island. These schemes are treated as exempt companies for tax purposes.

Protected Cell Companies. Protected cell companies (PCCs) consist of several cells and core capital. Each cell is liable only to its own creditors. A creditor of a particular cell has recourse to the assets of that cell and the core capital only. PCCs may be used for captive insurance companies, collective investment schemes or other approved enterprises. If the relevant criteria are met, PCCs may be taxed as resident companies, exempt companies or ICs, or under the legislation specifically applicable to insurance companies.

Other Companies Owned by Nonresidents of Guernsey. Nonresidents usually set up Guernsey companies as exempt companies or ICs, but if a resident company is required, it may be possible in certain circumstances to obtain a ruling from the tax office providing for a tax rate lower than the normal 20%.

Changes to Comply with European Union Requirements. In response to the proposed European Union (EU) Code of Conduct, Guernsey has given an undertaking that the exempt company and the International Company tax regimes will be abolished, effective from 1 January 2008. At the same time, a 0% rate of corporation tax will be introduced, which will apply to most entities in Guernsey. The undertaking provides that it will become effective only if the other EU and offshore jurisdictions also comply with the code.

Measures to comply with the EU Savings Directive will be effective from 1 January 2005.

Capital Gains. Capital gains are not taxable in Guernsey.

Administration. The Guernsey tax year corresponds to the calendar year with tax normally due in two equal installments on 30 June and 31 December of the tax year.

Dividends. When resident companies pay dividends, they may withhold a 20% tax, which represents the paying company's income tax. Consequently, the payment of a dividend generally does not cause double taxation. If the actual income tax liability for the year for a company paying dividends is less than the amount withheld, the excess is refunded to the company.

Foreign Tax Relief. Guernsey grants specific double taxation relief for income from its two treaty countries — Jersey and the United Kingdom — and grants unilateral relief otherwise. In general terms, Jersey or United Kingdom tax is relieved in full, and other taxes are relieved up to an effective maximum rate of 15%.

C. Determination of Trading Income

General. The assessment is based on accounting profits, subject to certain adjustments. To be deductible, expenses must be incurred wholly and exclusively for the purposes of the trade.

Nonresident companies are exempt from tax on Guernsey-source bank interest.

Tax Depreciation. Depreciation is not an allowable deduction, but capital allowances are available on the cost of plant and machinery. The rate is generally 20% a year on the declining balance. Buildings are generally depreciated under the declining-balance method at an annual rate of 1.25%.

Groups of Companies. Under Guernsey law, a trading loss incurred by a member of a 90%-owned group of companies may be offset against profits earned in the same tax year by another member of the group. All members of the group must be incorporated and resident in Guernsey.

D. Social Security Contributions

Social security contributions are payable on the salaries and wages of employees resident in Guernsey. For 2003, the maximum employer contribution is £1,844, and the maximum employee contribution is £1,690.

E. Miscellaneous Matters

Antiavoidance Legislation. The Administrator of Income Tax has broad powers to adjust a taxpayer's tax liability and assess income tax that, in the administrator's opinion, has been deliberately avoided by a transaction entered into by the taxpayer.

Exchange Controls. Guernsey does not impose any foreign-exchange controls.

Debt-to-Equity Ratios. Guernsey does not prescribe any debt-to-equity ratios.

Types of Companies. The Guernsey company law allows the incorporation of companies limited by shares, guarantee or shares and guarantee. A company limited by shares and guarantee may have both shareholders and guarantee members.

Migration of Companies. Guernsey law allows an overseas company to migrate into Guernsey and be registered as a Guernsey company. In addition, a Guernsey company may be removed from the Companies Register with the intention of becoming incorporated in another jurisdiction. In both cases, the law of the other jurisdiction must provide for the migration, the company must be solvent and certain other conditions must be met.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties %
Jersey	0	0 (c)	0 (c)
United Kingdom	0	0 (c)	0 (c)
Nontreaty countries	0	20	20

(a) See Section B.
(b) Guernsey bank interest paid to nonresidents is not subject to withholding tax.
(c) This exemption applies only if the interest or royalties comprise business profits to the recipient and if the recipient does not have a permanent establishment in Guernsey.

GUINEA

(Country Code 224)

CONAKRY **GMT +1**

FFA Ernst & Young
Immeuble de l' Archevêché
Corniche Sud
BP 1762
Conakry
Guinea

41-28-31, 41-21-82
Fax: 45-59-77

Corporate Tax

Patrice Camara — **41-28-31, 41-21-82**; **Mobile: 21-38-87**; **E-mail: patrice.camara2@gn.eylaw.com**

Amadou Billo Diallo — **41-28-31, 41-21-82**; **Mobile: 21-59-64**; **E-mail: billo.diallo@gn.eylaw.com**

Christian Mion — **41-28-31, 41-21-82**; **E-mail: christian.mion@gn.ey.com**

Françoise Montlouis — **41-28-31, 41-21-82**; **E-mail: francoise.montlouis@gn.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends and Directors' Fees	15
Interest	20
Royalties from Patents, Know-how, etc.	10 (c)
Payments for Services	10 (d)
Branch Remittance Tax	15 (e)

Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The minimum tax is 3% of turnover (unless exempt).
(b) The tax may be deferred if proceeds are reinvested (see Section B).
(c) Applicable to payments to nonresidents.
(d) Applicable to payments by residents to nonresidents for services, including professional services, performed in Guinea.
(e) See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Guinean companies are taxed on the territoriality principle. As a result, Guinean companies carrying on a trade or business outside Guinea are not taxed in Guinea on the related profits. Foreign companies with activities in Guinea are subject to Guinean corporate tax on Guinean-source profits only.

Tax Rates. The regular corporate income tax rate is 35%. The minimum tax payable is 3% of annual turnover, but not less than FG 3 million or more than FG 40 million.

Profits realized in Guinea by branches of foreign companies are deemed to be distributed and therefore are subject to a branch withholding tax of 15% on after-tax income.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies, depending on the nature of the project and the level of investment.

Capital Gains. Capital gains are taxed at the regular corporate rate. The tax, however, may be deferred if the proceeds are used to acquire new fixed assets in Guinea in the following three financial years.

Administration. The fiscal year is from 1 January to 31 December. Tax returns must be filed by 31 March of the year following the fiscal year.

Companies must pay the relevant minimum tax before 15 January of the year following the fiscal year. Two advance payments of corporate tax, each equal to 33 1/3% of the corporate tax for the previous year, are due on 15 June and 30 September of the fiscal year. Any balance due must be paid by 31 March of the following year.

Dividends. Dividends are subject to a 15% withholding tax, which may be credited by the recipient against corporate income tax.

Foreign Tax Relief. Foreign tax credits are not allowed. Income subject to foreign tax that is not exempt from Guinean tax under the territoriality principle is taxable net of the foreign tax.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the OHADA Uniform Act on Accounting Law.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office overhead in excess of 10% of turnover derived by a Guinean branch;
- Interest paid on loans from shareholders to the extent the rate exceeds the current rate of the Central Bank and all of the interest on shareholder loans if the capital of the company is not fully paid;
- Corporate income tax and tax on real estate; and
- Certain specific charges.

Inventories. Inventory is normally valued at the lower of cost or market value.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at maximum rates specified by the tax law.

Relief for Tax Losses. Losses may be carried forward for three years. Losses may not be carried back.

Groups of Companies. Fiscal integration of Guinean companies equivalent to a consolidated filing position is not available.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on sales of goods and services and on imports	
Standard rate	18
Business activity tax (*patente*), calculated based on the nature of the business activity and the rental value of the place of business	Various
Registration duties, on transfers of real property or businesses	2 to 14
Payroll taxes, paid by employers on salaries	6
Social security contributions, on an employee's annual gross salary, up to FG 400,000	
Employer	18
Employee	5

E. Foreign-Exchange Controls

Exchange-control regulations exist in Guinea for foreign financial transactions.

F. Tax Treaty

Guinea has signed a double tax treaty with France, but the treaty has not yet been ratified.

GUYANA

(Country Code 592)

GEORGETOWN **GMT -3**

Ram & McRae*
157 'C' Waterloo Street
P.O. Box 10148
Georgetown
Guyana

226-0322, 226-1072, 226-1301
Fax: 225-4221
E-mail: ramc@networksgy.com

* Technical Assistance firm

Corporate Tax
Christopher L. Ram **227-4891**
Mobile: 623-5820

A. At a Glance

Corporate Income Tax Rate (%)	35/45 (a)
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	35/45 (a)
Withholding Tax (%)	
Dividends	20 (b)
Interest	20 (c)
Royalties from Patents, Know-how, etc.	20 (b)
Rentals	20 (b)
Management Fees	20 (b)
Insurance Premiums	6/10 (d)
Discounts on Treasury Bills	20 (e)
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (f)

(a) The 35% rate applies to noncommercial companies; the 45% rate applies to commercial companies. For details concerning the minimum tax, see Section B.
(b) This withholding tax is a final tax that applies to payments to nonresident companies and individuals.
(c) This tax applies to bank interest and to interest on loans secured by bonds or similar instruments that is paid to resident and nonresident companies and individuals. It also applies to interest on debts, mortgages or other securities that is paid to nonresident companies and individuals. Withholding tax on interest is generally a final tax for nonbank recipients. Aged or incapacitated individuals are exempt from withholding tax on interest. Effective from 1 September 2003, interest earned by commercial banks on treasury bills or on loans secured by bonds and similar instruments is subject to corporation tax.
(d) This withholding tax applies to premiums paid to foreign companies for insurance, including reinsurance. The 6% rate applies to insurance premiums paid to foreign companies with a place of business in Guyana. The 10% rate applies to insurance premiums paid to foreign companies without a place of business in Guyana.
(e) This withholding tax applies to resident and nonresident companies.
(f) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. A company is considered resident in Guyana if its control and management are exercised in Guyana.

Nonresident companies carrying on a trade or business in Guyana are subject to tax on income derived from Guyana, regardless of where the income is received.

Rates of Corporate Tax. For the 2002 year of income, the rate of tax for commercial companies is 45%; for noncommercial companies, the rate is 35%. In general, a company is classified as a commercial company if it derives at least 75% of its gross income from trading in goods not manufactured by it or if it is engaged in telecommunications, banking or insurance other than long-term insurance.

No special tax rates apply to particular industries.

The minimum tax is 2% of turnover. It applies only to commercial companies other than insurance companies. Payments of minimum tax may be carried forward to offset corporation tax payable in future years, but they may not reduce tax payable in any year to less than 2% of turnover.

Tax Holidays. The Income Tax (In Aid of Industry) Act was amended by Fiscal Amendment (Enactment) Act No. 15 of 2003. Under the amendment, the Minister of Finance may grant exemption from corporation tax for income derived from certain new economic activities that demonstrably create new employment in specified regions. The following are the specified economic activities:
- Nontraditional agro-processing (excluding sugar refining, rice milling and chicken farming);
- Information and communications technology (excluding retail and distribution);
- Petroleum exploration, extraction or refining;
- Mineral exploration, extraction or refining; and
- Tourist hotels and eco-tourist hotels (eco-tourist hotels are hotels that are intended to attract persons interested in the natural environment and wildlife of Guyana and have facilities and operations designed to protect and preserve the natural environment and wildlife).

The following are the specified regions:
- Region 1: Barima-Waini;
- Region 8: Cuyuni-Mazaruni;
- Region 9: Upper Takatu-Upper Essequibo; and
- Region 10: Upper Demerara-Upper Berbice.

The minister may grant a tax holiday of up to five years for the first and last activities listed above. For the second, third and fourth activities, the maximum tax holiday is 10 years.

Capital Gains. Capital gains tax at a rate of 20% is imposed on the net chargeable gains derived from the disposal of capital assets. Gains derived from the disposal of capital assets within 12 months of their acquisition date are treated as ordinary income and are subject to corporate income tax at the normal 35% or 45% rates. Gains derived from the disposal of assets held for more than 25 years are exempt from tax.

Capital losses may be carried forward to offset capital gains for a period of 24 years.

Administration. The tax year is the calendar year. Tax is assessed during a tax year on income earned in the year of income, which is generally the calendar year preceding the tax year. The Commissioner of Internal Revenue may allow companies with an accounting year other than the calendar year to adopt their accounting year as their income year. For these companies, tax is assessed in a tax year on income earned in the income year ending in the previous tax year.

Advance tax payments are due on 15 March, 15 June, 15 September and 15 December of the calendar year prior to the tax year. Advance payments are normally based on the preceding year's tax liability. However, the Commissioner of Internal Revenue may require the company to calculate the payments based on estimated income for the current year.

Tax returns must be filed, and any balance of tax due paid, by 30 April of the tax year.

Dividends. Dividends paid by resident companies to other resident companies and to resident individuals are exempt from tax.

A final withholding tax of 20% is imposed on dividends paid to nonresident companies and individuals.

Resident companies and individuals must include dividends received from nonresident companies in taxable income.

Foreign Tax Relief. Foreign tax relief is available under double tax treaties with Canada and the United Kingdom (for withholding rates under these treaties, see Section F).

Guyana may grant unilateral relief for foreign taxes paid in countries with tax systems and legislation similar to those in Guyana. For British Commonwealth countries, the relief is 50% of the relief that would be available if the foreign country were a treaty country. For other countries, the relief is 25% of such available relief. The available relief is the lower of the tax rate in Guyana and the tax rate in the other country.

C. Determination of Taxable Income

General. Taxable income is the income reported in the company's financial statements, prepared in accordance with generally accepted accounting principles and subject to certain adjustments.

Profits derived on the disposal of capital assets are not included in taxable income (but see Section B for an exception to this rule).

Income derived from the export of specified products to countries that are not members of the Caribbean Community and Common Market (CARICOM) is subject to an export allowance (see *Export Allowance* below).

Expenses incurred wholly and exclusively in the production of income are deductible. Deductions for administrative, technical, professional or other managerial services fees paid to a nonresident company or branch may not exceed 1% of annual turnover.

Charitable donations are not deductible unless they are made under a deed of covenant.

Inventories. Inventories are valued at the lower of cost and net realizable value. Cost is generally determined using the average-cost method for accounting and tax purposes, but the first-in, first-out (FIFO) method is also acceptable.

Provisions. Provisions are deductible only if they relate to specific or known liabilities or to doubtful debts.

Tax Depreciation (Capital Allowances). The capital allowances granted in Guyana are described below.

Initial Allowances. Initial allowances are available for industrial buildings and structures at a rate of 10% and for plant and machinery, including mechanical equipment, at a rate of 40%. The initial allowances are granted in the year of purchase and reduce the depreciable value of assets.

Annual (Wear-and-Tear) Allowances. Buildings that house machinery are depreciated at a rate of 5%, using the straight-line method. Other assets may be depreciated using either the declining-balance or straight-line methods. The following are the depreciation rates, which apply under both methods.

Class of Asset	Rate (%)
Aircraft	33⅓
Boats	10
Buildings that house machinery	5
Furniture and fittings	10
Motor vehicles	20
Office equipment	
Electrical (including computers)	50
Other	15
Plant and machinery	20

Office buildings and structures used for trading are not entitled to any capital allowances.

Export Allowance. Companies may deduct an export allowance if they export nontraditional products to non-CARICOM countries. Nontraditional products include vegetables, furniture, fish and plants. Products that do not qualify for the allowance include bauxite, diamonds, gold, lumber, prawns, rice, rum and sugar.

The export allowance is computed by applying a specified percentage to export profits. The following are the deductible percentages of export profits.

Export Sales as a Percentage of Total Sales		Deductible Percentage of Export Profits
Exceeding %	Not Exceeding %	%
0	9.9	0
9.9	21	25
21	31	35
31	41	45
41	51	55
51	61	65
61	–	75

For the purpose of the export allowance, export sales and export profits include only those sales and profits derived from exports of products qualifying for the export allowance.

Relief for Losses. Companies may carry forward losses for an unlimited number of years, but the losses may not reduce the taxable income in any year by more than 50% or the tax payable to less than 2% of turnover. Loss carrybacks are not allowed.

Groups of Companies. There are no provisions in the law relating to group taxation. All companies are taxed separately.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Customs duties	10 to 75
General consumption tax, on the value added to goods and services; generally applies to products of manufacturing entities that are sold in Guyana and to almost all imports; exports are exempt	
Most goods and services	10/30
Other goods and services	5 to 50
Assets tax, on net assets; levied on worldwide assets of resident companies and on assets located in Guyana of nonresident companies; imposed on amounts	
Not exceeding G$1.5 million	Exempt
Exceeding G$1.5 million but not exceeding G$6.5 million	0.5
Exceeding G$6.5 million	0.75
Social security contributions (National Insurance Scheme), imposed on monthly earnings of up to G$84,188 and on weekly earnings of up to G$19,428; paid by	
Employer	7.2
Employee	4.8
Hotel accommodation tax	10

E. Miscellaneous Matters

Foreign-Exchange Controls. The Guyanese currency is the Guyanese dollar (G$).

Guyana does not impose foreign-exchange controls. Foreign exchange is freely traded at bank and nonbank *cambios* (places for the exchange of currency).

Debt-to-Equity Rules. There are no required debt-to-equity ratios, but foreign companies must obtain permission to borrow locally.

Controlled Foreign Companies. No specific controlled foreign companies rules apply.

Antiavoidance Legislation. A provision in the law allows the Commissioner of Internal Revenue to apply the unitary system of taxation. Under this system, for a company that is part of a group, income tax is calculated by applying to the group's worldwide profits a ratio of the company's turnover in Guyana to the group's worldwide turnover.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Canada	15	15	10
United Kingdom	15	15	10
Nontreaty countries	20	20	20

HONDURAS

(Country Code 504)

SAN PEDRO SULA **GMT -6**

Ernst & Young Honduras, S.A. de C.V.
Mail Address:
P.O. Box 2232
San Pedro Sula
Honduras

550-1111
Fax: 553-1172, 553-3723
553-6722

Street Address:
14 Avenida Circunvalación N.O.
San Pedro Sula
Honduras

Corporate Tax
Ramón E. Morales
550-1111, Ext. 103
Mobile: 991-5692
E-mail: ramon.morales@hn.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (b)	
Dividends	0
Interest	5
Royalties from Know-how and Technical Services	25
Leasing of Real Estate and Movable Property	30
Communications	5
Public Entertainment Shows	30
Air, Shipping and Land Transport	10
Mining Royalties	10
Salaries and Other Payments for Services	35
Fees and Commissions	35
Reinsurance	15
Videos and Films	10
Other	20
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (c)

(a) A temporary Social Contribution Tax, which applies from 2003 through 2005, is imposed at a rate of 5% on taxable income of companies exceeding L 1 million (US$53,306.30).

(b) The withholding taxes are imposed on payments to resident companies and individuals and to nonresident companies and individuals and are considered final taxes.
(c) Only companies engaged in agriculture, manufacturing, mining and tourism may carry forward losses.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Honduran resident companies are taxed on their worldwide income. Resident companies are those incorporated in Honduras. Nonresident companies are subject to income tax only on income derived from Honduran sources.

Corporate Income Tax Rates. Companies are subject to corporate income tax at a rate of 25%.

A temporary Social Contribution Tax, which applies from 2003 through 2005, is imposed at a rate of 5% on the taxable income of companies exceeding L 1 million (US$53,306.30).

Companies operating under a special regime are exempt from income tax, sales tax, customs duties and some municipal taxes. The following are the special regimes:
- Free Zone;
- Industrial Processing Zone (Zona Industrial de Procesamiento, or ZIP);
- Temporary Import Regime (Régimen de Importación Temporal, or RIT);
- Agroindustrial Export Zone (Zona Agro-Industrial de Exportación, or ZADE); and
- Free Tourist Zone (Zona Libre Turística, or ZOLT).

Capital Gains. Capital gains are subject to tax at a rate of 10%.

Administration. The statutory tax year runs from 1 January through 31 December. However, taxpayers may elect to use a different tax year by giving notice of such election to the tax authorities. Companies must file tax returns and pay their taxes within 120 days after the end of the tax year. Mandatory advance tax payments are payable each quarter based on the income tax paid for the preceding tax year.

Dividends. The withholding tax on dividends is eliminated, effective from 1 January 2004.

Foreign Tax Relief. Honduras does not provide any relief for foreign taxes paid.

C. Determination of Taxable Income

General. Net taxable income is computed in accordance with generally accepted accounting and commercial principles, subject to certain adjustments required by the tax law.

Inventories. Inventories are generally valued using the first-in, first-out (FIFO), last-in, first-out (LIFO) and weighted-average cost methods.

Provisions. Provisions for contingent liabilities, such as severance pay, are not deductible for tax purposes, but payments of such liabilities are considered to be deductible expenses.

Tax Depreciation. Depreciation may be computed using the straight-line method. Companies may obtain authorization from the tax authorities to use other depreciation methods. However, after a company selects a depreciation method, it must apply the method consistently thereafter. The following are the applicable straight-line method rates for some common assets.

Asset	Rate (%)
Buildings	2.5 to 10
Plant and machinery	10
Vehicles	10 to 33
Furniture and office equipment	10
Tools	25

Relief of Losses. Companies engaged in agriculture, manufacturing, mining and tourism may carry forward losses for three years. However, certain restrictions apply. Losses may not be carried back.

Groups of Companies. Honduras does not allow the filing of consolidated tax returns or provide any other relief for groups of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax	12
Customs duties	1 to 20
Payroll taxes, paid by employers; average rate	32
Municipal taxes	
Property tax; imposed on companies owning real estate	Various
Industry trade and service municipal tax; imposed monthly on income derived from the operations of companies; rates vary according to the annual production volume, income or sales	
Up to L 500,000	0.0003
From L 500,000 to L 10,000,000	0.0004
From L 10,000,000 to L 20,000,000	0.0003
From L 20,000,000 to L 30,000,000	0.0002
Over L 30,000,000	0.00015

E. Foreign-Exchange Controls

The Honduran currency is the lempira (L). On 2 October 2003, the exchange rate for the lempira was L 17.76 = US$1.

No restrictions are imposed on foreign-trade operations or foreign-currency transactions.

F. Tax Treaties

Honduras has not entered into any double tax treaties. It has entered into a tax information exchange agreement with the United States.

HONG KONG

(Country Code 852)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@hk.ey.com

HONG KONG **GMT +8**

(A)
Ernst & Young **2846-9888, 2526-5371**
17/F Hutchison House **Fax: 2877-0578 (Tax)**
10 Harcourt Road
Central
Hong Kong

(B)
Ernst & Young **2956-1188**
33/F, Tower 2 **Fax: 2956-0561 (Tax)**
The Gateway
25-27 Canton Road
Kowloon
Hong Kong

Corporate Tax

Agnes Chan *(A)*	**2846-9921** **Fax: 2118-4339**
Florence Chan *(A)*	**2849-9228** **Fax: 2118-4098**
Mabel Chan *(B)*	**2629-3086** **Fax: 2118-4011**
Owen Chan *(B)*	**2629-3388** **Fax: 2118-4088**
Joseph Fu *(A)*	**2846-9818** **Fax: 2118-4343**
Mike Grover *(A)*	**2846-9028** **Fax: 2157-6979**
Alexander Mak *(A)*	**2846-9816** **Fax: 2118-4348**
Loretta Shuen *(B)*	**2629-3778** **Fax: 2118-4007**

Human Capital

Winnie Chu *(B)*	**2629-3604** **Fax: 2118-4030**
Bill Paull *(B)*	**2629-3848** **Fax: 2157-6996**
Fergus Tong *(B)*	**2629-3657** **Fax: 2118-4148**

A. At a Glance

Corporate Income Tax Rate (%)	17.5
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	17.5
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties from Patents, Know-how, etc.	
Paid to Corporations	5.25/17.5*
Paid to Individuals	4.65/4.8/15.5/16*
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

* This is a final tax applicable to persons not carrying on business in Hong Kong. The general withholding tax rate is 5.25% for payments to corporations. For payments to individuals (including unincorporated businesses), the general withholding tax rate is 4.65% for the 2003-04 fiscal year and 4.8% for the 2004-05 fiscal year and future fiscal years. However, if a recipient of payments is an associate of the payer and if the intellectual property rights were previously owned by a Hong Kong taxpayer, a withholding tax rate of 17.5% applies to payments to corporations, and, for payments to individuals (including unincorporated businesses), a 15.5% rate applies for the 2003-04 fiscal year and a 16% rate applies for the 2004-05 fiscal year.

B. Taxes on Corporate Income and Gains

Profits Tax. Companies carrying on business in Hong Kong are subject to profits tax on profits arising in or derived from Hong Kong. However, a company not carrying on business in Hong Kong is not subject to profits tax, even on income from sources in Hong Kong. A Hong Kong business is not subject to profits tax on income sourced outside Hong Kong.

The basis of taxation in Hong Kong is territorial. The determination of the source of profits or income can be extremely complicated and often involves uncertainty. It requires case-by-case consideration. To obtain certainty concerning this and other tax issues, taxpayers may apply to the Inland Revenue for advance rulings on the tax implications of a transaction, subject to payment of certain fees and compliance with other regulations.

Rates of Profits Tax. For the fiscal year beginning 1 April 2003, the corporate rate of profits tax is 17.5%

Interest income and trading profits derived by corporations from qualifying debt instruments with a maturity period of between three to seven years are taxed at a rate of 8.75%, while those derived from instruments with a longer maturity period are exempt from tax. Professional reinsurance companies authorized in Hong Kong may elect to be taxed at 50% of the normal profits tax rate (that is, at a rate of 8.75%) on the income derived from the business of reinsurance of offshore risks. Authorized and certain bona fide widely held mutual fund corporations and unit trusts are exempt from tax.

When an accounting period does not coincide with a fiscal year, the profit for the accounting period is deemed to be the profit for the fiscal year in which the period ends. Special rules govern commencements and cessations of businesses and deal with accounting periods of shorter or longer duration than 12 months.

Capital Gains. Capital gains are not taxed, and capital losses are not deductible for profits tax purposes.

Administration. Companies generally make two payments of profits tax during a fiscal year. The first payment consists of 75% of the provisional tax for the current year plus 100% of the final payment for the preceding year. The second payment equals 25% of the provisional tax for the current year. The timing of payments is determined by assessment notices rather than by set dates, generally during November to April of the fiscal year.

Dividends. Dividends are exempt from tax in the hands of the recipient. Hong Kong has neither a withholding tax nor a credit system for dividends; all dividends are paid gross as declared.

Foreign Tax Relief. In certain circumstances, a deduction is allowed for foreign taxes paid. A foreign tax credit is available only under the tax arrangement between Hong Kong and Mainland China. For details concerning the arrangement and Hong Kong's tax treaties, see Section E.

C. Determination of Assessable Profits

General. The assessment is based on accounts prepared on generally accepted accounting principles, subject to certain statutory tax adjustments and provisions.

In general, interest income earned on deposits with financial institutions is exempt from profits tax. However, this exemption does not apply if the recipient of the interest is a financial institution or if the deposits are used as security for borrowings and the interest expense with respect to the borrowings is claimed as a tax deduction.

Expenses must be incurred in the production of chargeable profits. Certain specified expenses are not allowed, including domestic and private expenses, capital expenditures, the cost of improvements, sums recoverable under insurance and tax payments. The deductibility of interest is subject to restrictions (see Section D).

Inventories. Stock is normally valued at the lower of cost or net realizable value. Cost must be determined using the first-in, first-out (FIFO) method or an average cost, standard cost or adjusted selling price basis. The last-in, first-out (LIFO) method is not acceptable.

Capital Allowances

Industrial Buildings. An initial allowance of 20% is granted on new industrial buildings in the year the expenditure is incurred, and annual depreciation allowances are 4% of qualifying capital expenditure beginning in the year the building is first put into use. No initial allowance is granted on existing buildings, but annual depreciation allowances may be available. The definition of industrial building is broad, but it does not include commercial buildings such as hotels and office buildings.

Commercial Buildings. An annual allowance (4% of qualifying capital expenditure each year) is available on commercial buildings such as offices and hotels. Refurbishment costs for premises, other than those used as domestic dwellings, may be deducted in equal amounts over a period of five years.

Prescribed Plant and Machinery. Companies may immediately write off 100% of expenditure on manufacturing plant and machinery and on computer software and hardware.

Other Plant and Machinery, and Office Equipment. An initial allowance of 60% is granted for nonmanufacturing plant and machinery, and office equipment in the year of purchase. An annual allowance of 10%, 20% or 30% under the declining-balance method is available on the balance of the expenditure beginning in the year the asset is first used in the business. Consequently, the total allowances (initial and annual) in the first year can be 64%, 68% or 72%.

Motor Vehicles. An initial allowance of 60% is granted for motor vehicles in the year of purchase. An annual allowance of 30% under the pooling system (declining-balance method) is allowed on the balance of the expenditure beginning in the year the asset is first used in the business.

Recapture. Depreciation allowances are generally subject to recapture if the proceeds from the sale of a depreciable asset exceed its tax-depreciated value. The recapture rule also applies to prescribed plant and machinery (manufacturing plant and machinery and computer hardware and software) that were fully written off in the year of acquisition. Consequently, in the year of disposal, the sales proceeds from these assets generally are included in chargeable profits, up to the original costs of the assets. Allowances for commercial and industrial buildings may be recaptured, up to their original costs. Assets depreciated under the pooling system (declining-balance method) are allocated to one of three pools according to their depreciation rates, which are 10%, 20% or 30%. Proceeds from the sale of an asset in a pool (up to the cost of the asset) are deducted from the pool balance. If a negative balance results within the pool, a balancing charge is added to taxable profits.

Relief for Business Losses. A company's business losses may be used to offset any income of the company in the same year. Any business losses that are not so utilized are carried forward without time limit to offset future profits of the company, regardless of whether these profits are from the business or whether the same business is still carried on. No carryback is possible. Certain rules prevent trafficking in loss companies. In addition, specific rules govern the offset of normal business losses against concessionary trading receipts (that is, those taxed at concessionary rates instead of the full normal rates) and vice versa.

Groups of Companies. Consolidated filing is not permitted.

Hong Kong does not provide group relief for tax losses.

D. Miscellaneous Matters

Mergers and Reorganizations. When considering an acquisition in Hong Kong, a company must first decide whether to acquire the shares or the assets of the target company. Unlike some other jurisdictions, Hong Kong tax law does not allow a step-up in tax basis of the underlying assets if shares are acquired. The target company retains the same tax basis for its assets, regardless of the price paid for the shares.

Antiavoidance Legislation. Transactions that are artificial, fictitious or predominantly tax-driven may be disregarded under general antiavoidance tax measures. In addition, specific measures deny the carryforward of tax losses if the dominant reason for a change in shareholding of a corporation is the intention to use the tax losses. Other specific antiavoidance measures include those designed to counteract certain leverage and cross-border leasing, non-arm's length transactions between a Hong Kong resident company and its foreign affiliates and the use of personal service companies to disguise employer–employee relationships.

Foreign-Exchange Controls. Hong Kong imposes no foreign-exchange controls.

Interest Expense. In an attempt to combat avoidance, heavy restrictions have been placed on the deductibility of interest expense. In general, interest is deductible only if the recipient is taxable in Hong Kong or if it is paid to a bona fide financial institution in Hong Kong or overseas.

Reversion of Sovereignty to Mainland China. Since 1 July 1997, Hong Kong has been a Special Administrative Region of Mainland China under Article 31 of the constitution of Mainland China. However, as a Special Administrative Region, Hong Kong has a tax system that is based on common law and distinct from the system used in Mainland China.

In addition, on its own, Hong Kong, using the name "Hong Kong, China," may maintain and develop relations, and may conclude and implement agreements, with foreign states and regions and relevant international organizations in such fields as economics, trade, finance, shipping, communications, tourism, culture and sports.

E. Tax Treaties

Both the Hong Kong and Mainland China tax authorities take the view that the Mainland China's tax treaties with other countries do not cover Hong Kong.

On 11 February 1998, Hong Kong and Mainland China signed a Memorandum of Understanding on the Arrangement for Avoidance of Double Taxation (the Arrangement). Under the Arrangement, effective from 1 July 1998, income derived from international or cross-border aviation, shipping and land transport operations carried out by Hong Kong-resident enterprises in Mainland China is exempt from corporate income tax and business tax in Mainland China. Other Hong Kong-resident enterprises operating in Mainland China are also exempt from tax in Mainland China, unless their profits are attributable to a permanent establishment in Mainland China.

The Arrangement also provides that if income of a Hong Kong resident is subject to tax in both Mainland China and in Hong Kong, any tax paid in Mainland China on the income is allowed as a credit against the Hong Kong tax payable on the income. The amount of the tax credit may not exceed the amount of tax payable on that income computed in accordance with the tax laws of Hong Kong. For the purpose of the Arrangement, on application, the Hong Kong tax authorities may issue a certificate of residence for a person, a body of persons or a corporation.

The Arrangement also provides that if a Hong Kong resident deriving income on the PRC mainland is subject to tax in Hong Kong on such income, any tax paid in the PRC on the income is allowed as a credit against the Hong Kong tax payable on the income. The amount of the tax credit may not exceed the amount of tax payable on that income, computed in accordance with the tax laws of Hong Kong. For the purpose of the Arrangement, on application, the Hong Kong tax authorities may issue a certificate of residence for a person, a body of persons or a corporation.

The Arrangement does not cover withholding tax and capital gains income.

Hong Kong has entered into a limited tax treaty with the United States, which provides for the exemption of shipping income on a reciprocal basis. It has also entered into agreements covering international airline income with Belgium, Canada, Germany, Israel, Korea, Mauritius, the Netherlands, New Zealand and the United Kingdom. Under these agreements, the international transport income of Hong Kong airlines is exempt from tax in the other signatory countries.

Hong Kong has not entered into a full, conventional tax treaty with any country.

HUNGARY

(Country Code 36)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@hu.ey.com

Accent marks are omitted from e-mail addresses.

BUDAPEST **GMT +1**

Ernst & Young Tanácsadó Kft
Váci út 20
1132 Budapest
Hungary

(1) 451-8100
Fax: (1) 451-8199
(1) 451-8399 (Tax)

International Tax Services

★ Andrew L. Lapa	**(1) 451-8600** **Mobile: (30) 914-7531**
Botond Rencz	**(1) 451-8602** **Mobile: (30) 221-8459**
Dénes Szabó	**(1) 451-8209** **Mobile: (30) 919-5305**

Corporate Tax

Ildikó Hadas	**(1) 451-8228** **Mobile: (30) 952-7980**
★ Andrew L. Lapa	**(1) 451-8600** **Mobile: (30) 914-7531**

International Tax Services – Foreign Desk

Foppe Andriesse, *Netherlands*	**(1) 451-8263** **Mobile: (30) 919-3817**

Indirect Taxes

Róbert Heinczinger	**(1) 451-8262** **Mobile: (30) 919-3814**

A. At a Glance

Corporate Income Tax Rate (%)	18
Capital Gains Tax Rate (%)	18
Branch Tax Rate (%)	18 (a)
Withholding Tax (%) (b)	
Dividends	0/20/35 (c)
Interest	18 (d)(e)

Royalties	18 (d)
Branch Remittance Tax	20
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (f)

(a) Foreign companies are subject to special rules for the computation of the tax base (see Section B).
(b) These rates may be reduced by tax treaties.
(c) For details, see Section B.
(d) Final tax imposed on payments to foreign companies without a permanent establishment in Hungary. For details, see Section B.
(e) Interest paid by the state treasury or the national bank is not subject to withholding tax.
(f) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies incorporated in Hungary are subject to corporate tax on their worldwide profits. Foreign companies carrying out taxable activities in Hungary are subject to corporate tax on their net profits derived from Hungarian sources. Under the Law on Foreign Investment, foreign enterprises may carry out business activities in Hungary through a Hungarian subsidiary or a branch office only, with certain exceptions, such as for construction activities.

Rates of Corporate Income Tax. The standard rate of income tax for Hungarian and foreign companies is 18%.

Registered branch offices are taxed in almost the same manner as Hungarian corporations. Foreign companies are taxed on the higher of their taxable income determined as described below, or 12% of their expenses that can be justified for the purposes of their activity in Hungary. For foreign companies, taxable income equals Hungarian revenues less costs and expenses. However, if a foreign company operates through branches, taxable income for each branch must be calculated separately. The losses incurred by one Hungarian branch may not offset the income of another Hungarian branch. Administration and general overhead costs incurred either abroad or in Hungary are deductible, up to an amount calculated by applying to the costs the ratio of revenue derived from Hungarian operations to total revenue. If a permanent establishment acts as an agent, a deemed commission of at least 5% is treated as taxable income. An applicable tax treaty may override these rules.

For foreign companies without a permanent establishment in Hungary, interest (other than interest paid by the state treasury or the national bank), royalties and similar payments received from Hungarian sources are subject to a final withholding tax at a rate of 18%. Tax treaties, however, may provide that the income earned by foreign companies without a permanent establishment in Hungary is exempt from tax or taxed at a reduced rate in Hungary.

Tax Incentives. Companies were able to qualify for offshore status and obtain offshore licenses before 1 January 2003. Existing offshore companies can continue to operate and benefit from the Hungarian offshore regime until the end of 2005.Offshore companies pay income tax at a rate of 3% of their taxable income. They may benefit from Hungary's tax treaties. Dividends distributed by offshore companies are subject to dividend withholding tax (see *Dividends* below). A company qualifies as an offshore company if it satisfies the following criteria:

- It is a limited liability company or a joint stock company limited by shares and it is registered in Hungary;
- Its activities consist only of trade with foreign countries and the performance of certain services for foreign persons;
- It does not have any direct or indirect Hungarian owners;
- The majority of the members of the company's supervisory board, management and employees are Hungarian tax-resident individuals; and
- Neither the company nor its owners have investments in Hungarian companies or representative offices in Hungary.

Effective from 1 January 2003, a new tax incentive scheme is available for activities that are typically performed by offshore companies (for example, licensing and financing). Existing financing and licensing offshore companies may take advantage of the new benefits under this scheme (see below) and use certain other tax-planning techniques to continue their tax-favorable operations beyond 31 December 2005.

On obtaining the permission of the Hungarian government, companies may benefit from a new tax allowance that conforms with European Union (EU) law for up to five years if they make an investment of at least HUF 10 billion (approximately US$44,000) or an investment of HUF 3 billion (approximately US$13,000) in an underdeveloped region and if they satisfy one of the following additional conditions:

- The average number of employees increases by at least 500 (or 300 in an underdeveloped region);
- The annual wage costs are at least 1,500 times the minimum wage (for 2003, the minimum wage is HUF 50,000 [approximately US$220]) for the relevant year; or
- More than 50% of the liabilities to goods and trade creditors is owed to small or medium-sized enterprises.

The total amount of the tax allowance used over the five years cannot exceed a certain percentage of the investment value specified in the government permission.

Certain other investment incentives introduced before 31 December 2002 remain available until 2011.

At the time of writing, it was expected that, effective from 2004, new tax incentives will be introduced and existing incentive schemes will be made more favorable.

Capital Gains. Capital gains derived by Hungarian companies are included in taxable income and taxed at standard rates. Only 50% of capital gains derived from stock-exchange transactions is subject to tax.

Capital gains derived by foreign companies without a permanent establishment in Hungary are exempt from Hungarian tax.

Administration. In general, the calendar year is the tax year. However, foreign-owned companies that are members of groups consolidated for accounting purposes and branches of foreign companies may select a tax year corresponding to the tax year of the parent company. Companies selecting a tax year other than the calendar year must notify the tax authorities of the selection by 15 August before the beginning of the relevant tax year.

For companies with tax liability exceeding HUF 5 million (approximately US$22,000) in the preceding year, advance payments are assessed by the tax authorities in 12 equal installments during the tax year. Other companies make quarterly advance payments.

Companies must file their corporate income tax returns and pay any balance of tax due by the 150th day after the end of the tax year.

Extensions to file tax returns may not be obtained in advance of the due date. However, a company may obtain an extension after the due date if it files, with a completed late return, a letter requesting an extension to the date the return is filed. At their discretion, the tax authorities may accept the late return as being filed on time if the letter explains the reasons for the delay and establishes that the tax return is being filed within 15 days after the reason for the delay expires, and if the company pays any balance of tax due shown on the return.

If an extension for filing is granted, no late filing or payment penalties are imposed, and no interest is charged on the late payment. If an extension for filing is not granted, a penalty of up to HUF 200,000 (approximately US$880) can be imposed. In addition, interest is charged on the late payment of tax at a rate equal to twice the National Bank of Hungary prime discount rate (on 24 September 2003, the prime discount rate was 9.5%). Interest is charged beginning on the date the payment is due.

In addition to the interest described above, a taxpayer that files a late tax return in response to a request by the tax authorities is subject to a fine or penalty of up to 50% of the tax due.

Dividends. A 20% withholding tax is imposed on dividends paid to foreign companies unless the recipients invest the dividends directly in a Hungarian company. Dividends paid to Hungarian companies are not subject to withholding tax. Effective from the date when Hungary joins the EU, dividends paid to a company resident in an EU country will be exempt from tax if the recipient holds an interest of at least 25% in the Hungarian entity for at least two years.

A 20% withholding tax is imposed on dividends paid to individuals. For "excess dividends," this rate is increased to 35%. Excess dividends are defined as dividends paid in excess of 30% of a specified rate of return on equity, which is 30%. These rules are contained in the Hungarian personal income tax law.

Tax treaties may override Hungarian domestic law with respect to the withholding taxes on dividends paid to companies and individuals.

Foreign Tax Credit. Foreign taxes paid on foreign-source income may be credited against Hungarian tax.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared in accordance with Hungarian accounting standards. These standards are set forth in the law on accounting, which is largely modeled on European Union (EU) directives. Taxable income is determined by adjusting the profits shown in the annual financial statements by items described in the Corporate Income Tax Act. Some items are not subject to tax as income, such as dividends received (but see the controlled foreign corporation rules in Section E). Effective from 1 January 2003, taxpayers may reduce their corporate tax base by 50% of the following:

- The amount by which interest income received from related parties exceeds interest expenses paid to related parties;
- Capital gains derived from stock-exchange transactions (see Section B); and
- Royalty income.

The sum of the above reductions may not exceed 50% of the pre-tax profit of the company.

Some items are not deductible for tax purposes, such as impairment for doubtful accounts receivable and 50% of the amount by which interest expense paid to related parties exceeds the interest income received from related parties (the latter restriction applies in certain circumstances only).

Tax Depreciation. In general, depreciation is deductible in accordance with the Annexes to the Corporation Tax Law. The annexes specify the following straight-line depreciation rates.

Asset	Rate (%)
Buildings used in hotel or catering businesses	3
Commercial and industrial buildings	2 to 6
Motor vehicles	20
Plant and machinery	
General rate	14.5
Automation equipment, equipment for environmental protection, medical equipment and other specified items	33
Computers	50

Miscellaneous equipment valued at less than HUF 100,000 (approximately US$900) may be written off over two years.

Relief for Losses. Losses may be carried forward for five tax years. Losses incurred during the first four tax years of a company's existence may be carried forward indefinitely. When using loss carryforwards, the earliest losses must be used first.

Under certain conditions, a successor company may deduct losses incurred by the predecessor company.

Companies incurring losses in their fifth year of existence or in subsequent years may not carry forward these losses if their sales turnover is less than 50% of their expenses.

Groups of Companies. The Hungarian tax law does not allow the filing of consolidated tax returns by groups of companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added (sales) tax, on goods, services and imports	
Standard rates	12%/25%
Basic medicines and exports	0%
Social security contributions, on salaries; in general, expatriates do not participate (2003 rates); paid by	
Employer	29% plus HUF 3,450 per month
Employee	11.5%
(A second social security system [the second system] operates as a parallel system to the system described above [the first system]. The second system is based on pension funds managed by private fund managers. The compulsory contribution rates are the same in both systems. Individuals who are under age 42 and begin their first job between 30 June 1998 and 1 January 2002, or after 31 December 2002, must participate in both systems. Other individuals may choose between the two systems.)	
Unemployment solidarity fund, on gross salaries (2003 rates); paid by	
Employer	3%
Employee	1%
Excise duty, on various goods, including gasoline, alcohol, tobacco, beer, wine and champagne	Various
Consumption tax, on the sale and importation of automobiles, coffee and jewels	Various
Local taxes introduced by most municipal districts (maximum rates set by national law)	
Buildings	Either HUF 900 per square meter or 3% of the assessed value (assessed value is 50% of the market value)
Undeveloped property	Either HUF 200 per square meter or 3% of the assessed value (assessed value is 50% of the market value)
Number of employees	HUF 2,000 per locally based employee per year
Economic activity, on turnover or gross margin	2%

E. Miscellaneous Matters

Foreign-Exchange Controls. The Hungarian currency is the forint (HUF).

The Hungarian foreign-exchange rules were liberalized in June 2001. Under the liberalized rules, approval and reporting requirements no longer apply to various types of transactions, including the obtaining of loans from foreign companies. In addition, payments in foreign currency and business contracts in foreign currency are now allowed between Hungarian companies. However, reporting requirements may continue to apply to some transactions.

Companies doing business in Hungary must open a bank account at a Hungarian bank.

Payments in Hungarian or foreign currency may be freely made to parties outside Hungary. The forint is freely convertible.

Transfer Pricing. Under transfer-pricing rules, for contracts between related or associated companies, the tax authorities may adjust the tax base of the companies by the difference between the market price and contract price. The market price must be determined by one of the following methods:
- Comparable uncontrolled price method;
- Resale price method;
- Cost-plus method; or
- Any other appropriate method.

These methods reflect the 1995 Organization for Economic Cooperation and Development (OECD) guidelines. A government decree describes the requirements for the documentation of related-party transactions, which apply to contracts concluded after 1 September 2003.

Controlled Foreign Corporations. A controlled foreign corporation (CFC) is defined as a company that meets the following conditions:
- It is owned by a Hungarian taxpayer or a related party; and
- It is resident in a country where the effective tax rate is less than 12%, unless the company has a "real economic presence" (as defined) in the foreign country.

Dividends received from CFCs do not qualify for the participation exemption regime and, accordingly, are treated as taxable income to the Hungarian shareholders. Capital losses on investments in CFCs are not tax-deductible. Hungarian companies may not benefit from transfer-pricing adjustments regarding transactions with CFCs.

Debt-to-Equity Rules. A Hungarian company's taxable income is increased by the interest payable on the portion of loans (except bank loans), bonds, and certain bills of exchange exceeding three times the amount of the company's average net equity during the tax year.

Foreign Investment. No restrictions exist on the percentage of ownership foreigners may acquire in a Hungarian company, except for specific types of companies.

F. Treaty Withholding Tax Rates

Double tax treaties are in effect with the countries listed in the table below. Domestic withholding rates (see Section A) apply if lower than treaty rates.

	Dividends %	Interest %	Royalties %
Albania	5/10 (c)	0	5
Australia	15	10	10
Austria	10	0	0
Belgium	10	15	0
Brazil	15	10/15 (a)	15/25 (b)
Bulgaria	10	10	10
Canada	5/15 (q)	10	0/10/ (j)
China	10 (x)	10	10
Croatia	5/10 (c)	0	0
Cyprus	5/15 (c)	10	0
Czech Republic	5/15 (c)	0	10
Denmark	5/15 (c)	0	0
Egypt	15/20 (r)	15	15
Finland	5/15 (c)	0	0/5 (f)
France	5/15 (c)	0	0
Germany	5/15/25 (d)	0	0
Greece	10/45 (e)	10	0/10 (f)
India	15 (h)	15 (g)	20/40 (g)(i)
Indonesia	15	15	15
Ireland	5/15 (c)	0	0
Israel	5/15 (c)	0	0
Italy	10	0	0
Japan	10	10	0/10 (j)
Kazakhstan	5/15 (c)	10	10
Korea	5/10 (c)	0	0
Kuwait	0	0	10
Luxembourg	5/15 (c)	0	0
Macedonia (y)	5/15 (c)	0	0
Malaysia	0/10 (s)	15	15
Malta	5/15 (c)	10	10
Moldova	5/15 (c)	10	0
Mongolia	5/15 (c)	10	5
Morocco	12	10	10
Netherlands	5/15 (c)	0	0
Norway	10	0	0
Pakistan	15/20 (c)	15	15
Philippines	15/20 (c)	15	15 (v)
Poland	10	10	10
Portugal	10/15 (w)	10	10
Romania	5/15 (c)	15	10
Russian Federation	10	0	0
Singapore	5/10 (c)	5	5
Slovak Republic	5/15 (c)	0	10
South Africa	5/15 (c)	0	0
Spain	5/15 (c)	0	0
Sweden	5/15 (c)	0	0
Switzerland	10	10	0
Thailand	15/20 (k)	10/25 (l)	15
Tunisia	10/12 (c)	12	12

	Dividends %	Interest %	Royalties %
Turkey	10/15 (c)	10	10
Ukraine	5/15 (c)	10	5
United Kingdom	5/15 (c)	0	0
United States	5/15 (m)	0	0
Uruguay	15	15	10/15 (i)
Vietnam	10	10	10
Yugoslavia (Federal Republic of) (t)	5/15 (c)	10	10
Yugoslavia (former) (u)	10	0	10
Nontreaty countries	0/20/35 (n)	0/18 (o)	18 (p)

(a) The lower rate applies if the loan is provided by a bank for a minimum of eight years for industrial development purposes; otherwise, the higher rate applies.
(b) The higher rate applies to trademarks.
(c) The lower rate applies if the receiving company owns directly (or indirectly for Kazakhstan) at least 25% (Ireland and Israel, 10%; Romania, 40%) of the payer. Partnerships are excluded under the treaties with Finland, France, Luxembourg, Macedonia, the Netherlands, Sweden and Turkey.
(d) The 5% rate applies if the receiving company owns at least 25% of the payer. The 15% rate applies in other cases except for distributions to silent partners, to which the 25% rate applies.
(e) The lower rate applies if the company making the distribution is a resident of Hungary; the higher rate applies if the company is a resident of Greece.
(f) The lower rate applies to royalties paid for certain copyrights; the higher rate applies to royalties paid for the use of, or right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
(g) The withholding tax applies only to instruments (loan, debt or royalty contracts) entered into after 7 January 1987.
(h) The withholding tax applies only if the Indian shareholder owns at least 10% of the Hungarian company and if the dividends relate to shares issued after 7 January 1987.
(i) The lower rate applies to fees for technical services.
(j) The 0% rate applies to royalties on cultural works. Under the Canada treaty, the 0% rate does not apply to royalties relating to motion pictures, videotapes and similar items.
(k) The rates apply if the receiving company, other than a partnership, owns more than 25% of the payer. The lower rate applies if the payer has an industrial activity. The higher rate applies in other situations.
(l) The lower rate applies if the receiving company is a financial institution, including an insurance company; otherwise, the higher rate applies.
(m) The lower rate applies if the receiving company owns directly or indirectly at least 10% of the voting shares of the payer.
(n) See Section B.
(o) The 0% rate applies to interest paid by the state treasury and the national bank. The 18% rate applies to other interest paid to foreign companies without a permanent establishment in Hungary.
(p) This withholding tax is imposed on specified payments to foreign companies without a permanent establishment in Hungary (see Section B).
(q) The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 25% of the voting power of the payer of the dividends. For dividends paid from Canada, a 10% rate applies instead of the 5% rate. The 15% rate applies to other dividends.
(r) For payments from Hungary, the lower rate applies if the receiving company owns at least 25% of the payer; otherwise, the higher rate applies. For payments from Egypt, the rate of 20% applies if the recipient is an individual resident in Hungary; otherwise, a 15% rate applies.
(s) For payments from Hungary, the 10% rate applies; for payments from Malaysia, the 0% rate applies.
(t) This is the treaty with the Federal Republic of Yugoslavia (comprising Montenegro and Serbia), which is effective from 1 January 2003.

(u) This is the treaty with the former Yugoslavia. The treaty applies to Bosnia-Herzegovina and Slovenia until Hungary enters into new tax treaties with these countries. Hungary has entered into tax treaties with Croatia, Macedonia and the Federal Republic of Yugoslavia (comprising Montenegro and Serbia). The withholding tax rates under these treaties are listed in the table above. Hungary is negotiating tax treaties with Bosnia-Herzegovina and Slovenia.
(v) This rate may be reduced to a lower rate that is granted to another country.
(w) The lower rate applies if, at the time of the distribution, the beneficial owner of the dividends has owned directly at least 25% of the distributing company for an uninterrupted period of at least two years.
(x) A 20% tax-sparing credit is granted.
(y) This treaty is effective from 14 March 2002.

Hungary is negotiating tax treaties with Bosnia-Herzegovina, Estonia, Latvia, Lithuania, Mexico, Paraguay and Slovenia.

ICELAND

(Country Code 354)

REYKJAVIK **GMT**

Ernst & Young hf.
Armula 6
108 Reykjavik
Iceland

595-2500
Fax: 595-2501
E-mail: ey@ey.is

Corporate Tax

★ Jon Orn Gudmundsson — **595-2570**, **Mobile: 861-8987**, **E-mail: jon.orn.gudmundsson@is.ey.com**

Dofri Petursson — **595-2552**, **Mobile: 661-3000**, **E-mail: dofri.petursson@is.ey.com**

Thorsteinn Haraldsson — **595-2595**, **Mobile: 698-9993**, **E-mail: thorsteinn.haraldsson@is.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	18 (a)
Capital Gains Tax Rate (%)	18 (b)
Branch Tax Rate (%)	18
Withholding Tax (%)	
Dividends (c)	
Companies	15
Individuals	10
Interest	0 (d)
Royalties from Patents, Know-how, etc.	0 (e)
Payments Under Leases and Rent	0 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

(a) A 5% rate applies to International Trading Companies (see Section B), and a 26% rate applies to partnerships.
(b) Capital gains are taxed as ordinary income. Capital gains may be offset by extraordinary depreciation (for details, see Section B).
(c) These are final withholding taxes imposed on nonresidents, which may be reduced by tax treaties.

(d) A 10% withholding tax is imposed on interest paid to nonresidents unless, on application, the local tax director grants an exemption from withholding tax. Alternatively, the withholding tax may be refunded.

(e) Royalties, payments under leases and payments of rent are not subject to withholding tax. The net payments (gross payments less expenses) are normally included in ordinary income and taxed at the general corporate income tax rate, unless a tax treaty provides a reduced rate.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are taxed on their worldwide income. Resident corporations are those incorporated, registered, domiciled or effectively managed in Iceland. Nonresident companies are taxed only on their income earned in Iceland.

Rate of Corporate Tax. The rate of corporate income tax is 18%. The rate for taxable partnerships is 26%. International Trading Companies (see *International Trading Companies* below) are subject to tax at a reduced rate of 5%.

International Trading Companies. Effective from 1 January 1999, resident public and private companies that meet certain requirements may qualify as International Trading Companies (ITCs) in Iceland. ITCs are subject to corporate income tax at a reduced rate of 5%.

Dividends received from ITCs are fully taxable. This is contrary to the general regime under which dividends received by resident companies from other resident companies are fully deductible for the recipient. ITCs are exempt from the net worth taxes and from stamp duties. They can register for value-added tax (see Section D).

Capital Gains. Capital gains result from profits derived from sales of assets. These gains are included in ordinary income and taxed at the normal income tax rates.

Capital gains may be offset by extraordinary depreciation on other fixed assets or on fixed assets acquired within two years of the sale. If the fixed assets are not acquired within two years of the sale, the gain is included in income, and a 10% penalty is imposed.

Administration. The tax year is generally the calendar year.

Due dates for filing income tax returns vary, depending on the type of entity. The filing date for limited companies and partnerships, which is 31 May, is usually extended. Monthly advance tax payments are due on the first day of each month except for January and June. Each advance payment equals 10.5% of the previous year's tax. The tax due is determined when the annual assessment is issued. Companies generally must pay the unpaid balance in three equal monthly payments.

Advance Rulings. Both resident and nonresident companies may request advance rulings on most corporate income tax consequences of future transactions. Rulings are issued only on matters of substantial importance.

Dividends. Dividends earned by domestic companies are considered ordinary income. However, dividends received from domestic companies and from foreign companies that are taxed in a similar manner to Icelandic companies are fully deductible.

Withholding tax is imposed on dividends paid to nonresidents. The rates are 15% for companies and 10% for individuals. Tax treaties may reduce or eliminate the dividend withholding tax. However, no withholding tax is imposed on distributions by taxable partnerships.

Foreign Tax Relief. Relief for double taxation may be obtained unilaterally under Icelandic domestic law or under a tax treaty. Unilateral relief may be granted though a tax credit against Icelandic income tax at the discretion of the local tax director. Foreign income and capital taxes may be deducted as expenses from income.

C. Determination of Trading Income

General. The computation of taxable income is based on net income in the financial statements prepared according to generally accepted accounting principles.

In general, expenses incurred to generate and maintain business income are deductible. Companies may deduct dividends received during the year (see Section B).

Inventories. Inventories are valued at the lower of cost or market value. Cost must be determined using the first-in, first-out (FIFO) method.

Tax Depreciation. Depreciation must be calculated using the straight-line method. Fixed assets cannot be depreciated below 10% of cost. The following are some of the applicable depreciation rates.

Assets	Rate (%)
Buildings	
Office and retail	1 to 3
Industrial plants	3 to 6
Drilling holes and transmission lines	7.5 to 10
Ships, aircraft, cars carrying fewer than nine persons (except taxis)	10 to 20
Automobiles and other transport vehicles	20 to 35
Industrial machinery and equipment	10 to 30
Office equipment	20 to 35
Machinery and equipment for building and construction	20 to 35
Other movable property	20 to 35

The amortization period for goodwill ranges from 5 to 10 years. The amortization period for copyrights, patents, trademarks, designs, models, know-how or similar rights ranges from five to seven years.

Relief for Losses. Losses may be carried forward for 10 years. Losses may not be carried back.

Groups of Companies. Resident companies may elect group consolidation if one company owns at least 90% of the shares in another company or if at least 90% of the shares in a company are owned by companies that are members of the same tax-consolidated group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on most goods sold in Iceland and most services rendered in Iceland	
Standard rate	24.5
Lower rate for hotels, books and publications, food products, heating of houses and road tolls	14
Tax on industrial activities; levied on operating revenue	0.08
Net worth tax, on net assets	0.6
Social security contributions, paid by the employer on gross payroll	5.73

E. Foreign-Exchange Controls

Nonresidents may directly invest in most industries in Iceland, but they must notify the central bank of such investments. The fishing industry is the principal industry in which investments by nonresidents are limited. Nonresidents may not own a majority in such companies. Proceeds from sales of investments and profits may be remitted freely.

F. Treaty Withholding Tax Rates

	Dividends A (a) %	Dividends B %	Interest %	Royalties %
Belgium	5	15	10	0
Canada	5	15	10	0/10 (b)
China	5 (c)	10	10	10
Czech Republic	5 (c)	15	0	10
Denmark (d)	0	15	0	0
Estonia	5 (c)	15	10	5/10 (e)
Faroe Islands (d)	0	15	0	0
Finland (d)	0	15	0	0
France	5	15	0	0
Germany	5 (c)	15	0	0
Greenland	5 (c)	15	0	0
Latvia	5 (c)	15	10	5/10 (e)
Lithuania	5 (c)	15	10	5/10 (e)
Luxembourg	5 (c)	15	0	0
Netherlands	0	15	0	0
Norway (d)	0	15	0	0
Poland	5 (c)	15	0	10
Portugal	10 (c)	15	10	10
Russian Federation	5 (c)	15	0	0
Slovak Republic	5 (c)	10	0	10
Spain	5 (c)	15	5	5
Sweden (d)	0	15	0	0
Switzerland	5 (c)	15	0	0
United Kingdom	5	15	0	0
United States	5	15	0	0
Vietnam	10 (c)	15	0	0
Nontreaty countries	15	10/15 (f)	0 (g)	0 (h)

A Qualifying companies.
B Individuals and other companies.
(a) Unless indicated otherwise, the rate applies to corporate shareholders with ownership of at least 10%.

(b) The 0% rate applies to copyrights (except for films and similar items), computer software, patents and know-how. The 10% rate applies to other royalties.
(c) The rate applies to corporate shareholders with ownership of at least 25%.
(d) These are the rates under the Nordic Convention.
(e) The lower rate applies to equipment leasing.
(f) The 10% rate applies to individuals.
(g) A 10% withholding tax is imposed on interest paid to nonresidents unless, on application, the local tax director grants an exemption from withholding tax. Alternatively, the withholding tax may be refunded.
(h) Royalties paid to nonresidents are not subject to a withholding tax. The net royalties (gross royalties less expenses) are normally included in ordinary income and taxed at the general corporate income tax rate unless a tax treaty provides a reduced rate.

Iceland has signed a tax treaty with Italy, but the treaty is not yet effective.

INDIA

(Country Code 91)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@in.ey.com

BANGALORE **GMT +5½**

Ernst & Young Pvt. Ltd.
S.R. Batliboi & Co.
S.R. Batliboi & Associates
Divyasree Chambers
'A' Wing, 2nd Floor Langford Road
Bangalore 560 025
Karnataka
India

(80) 5114-6600
Fax: (80) 5114-6677

International Tax

★ Srinivasa Rao	**(80) 5118-6016** **Mobile: 98-450-04866**
Rajendra Nayak	**(80) 5118-6161** **Mobile: 98-450-79015**

Corporate Tax

Vivek Mishra	**(80) 5118-6018** **Mobile: 98-440-12797**
Abhishek Goenka	**(80) 5118-6127** **Mobile: 98-440-54719**

Human Capital

★ Arvind Mishra	**(80) 5118-6172** **Mobile: 98-454-20500**
Jyotrimoy Bose	**(80) 5118-6152** **Mobile: 98-450-55105**
Rajesh S, *Global Mobility*	**(80) 5118-6159** **Mobile: 98-451-82726**

CHENNAI (formerly Madras) **GMT +5½**

Ernst & Young Pvt. Ltd.
S.R. Batliboi & Co.
S.R. Batliboi & Associates
TPL House, 2nd Floor
No. 3 Cenotaph Road
Teynampet
Chennai 600 018
India

(44) 2431-1440
Fax: (44) 2431-1450

Corporate Tax

V. Ranganathan	**(44) 719-4550** **Mobile: 98-410-12763**
Bharat Varadachari	**(44) 719-4515** **Mobile: 98-410-01788**

HYDERABAD — GMT +5½

Ernst & Young Pvt. Ltd. **S.R. Batliboi & Co.** **S.R. Batliboi & Associates** **205, 2nd Floor** **Ashoka Bhoopal Chambers** **Sardar Patel Road** **Secunderabad 500 003** **Andhra Pradesh** **India**	**(40) 2789-8850** **Fax: (40) 2789-8851**

Corporate Tax

V. Ranganathan *(resident in Chennai)*	**(44) 719-4550** **Mobile: 98-410-12763**

KOLKATA (formerly Calcutta) — GMT +5½

Ernst & Young Pvt. Ltd. **S.R. Batliboi & Co.** **S.R. Batliboi & Associates** **22, Camac Street** **Block "C", 3rd Floor** **Kolkata 700 016** **India**	**(33) 2281-1224 to 1229** **Fax: (33) 2281-7750**

Corporate Tax

Rajendra Pansari	**(33) 2281-1224** **Mobile: 98-311-65756**
Gaurav Taneja *(resident in New Delhi)*	**(11) 2610-9003** **Mobile: 98-111-60005**

MUMBAI (formerly Bombay) — GMT +5½

Ernst & Young Pvt. Ltd. **S.R. Batliboi & Co.** **S.R. Batliboi & Associates** **18th Floor, Express Towers** **Nariman Point** **Mumbai 400 021** **India**	**(22) 5665-5000** **(22) 2282-5000** **Fax: (22) 2282-6000**

National Tax Director

★ Mukesh Butani **New Delhi:**	**(22) 5665-5401** **(11) 2616-0037** **Mobile: 98-111-32000**

International Tax

Hitesh Sharma, *Health Sciences*	**(22) 5665-5475** **Mobile: 98-201-31320**

Corporate Tax

Bobby Parikh, *CEO, Global Financial Services*	**(22) 5665-5500** **Mobile: 98-202-98500**
Rajesh Dhume	**(22) 5665-5530** **Mobile: 98-200-44711**
Jairaj Purandare	**(22) 5665-5400** **Mobile: 98-200-28282**
Hiresh Wadhwani, *Global Financial Services*	**(22) 5665-5515** **Mobile: 98-201-23818**

Rajesh Kadakia, *Tax Knowledge and Solutions*	**(22) 5665-5540** **Mobile: 98-201-30030**
Frank D'Souza, *TCE — Entertainment*	**(22) 5665-5510** **Mobile: 98-201-41907**
Ravi Mahajan, *ECU – Utilities*	**(22) 5665-5445** **Mobile: 98-204-10440**
Rajeshree Sabnavis	**(22) 5665-5455** **Mobile: 98-201-52275**
Sameer Gupta	**(22) 5665-5520** **Mobile: 98-201-55059**
Pranav Sayta	**(22) 5665-5480** **Mobile: 98-203-45976**
Nityanath Ghanekar	**(22) 5665-5402** **Mobile: 98-200-52277**

Indirect Tax

Ajay Mehra	**(22) 5665-5460** **Mobile: 98-202-87373**
Sachin Menon	**(22) 5665-5550** **Mobile: 98-202-89197**
Heetesh Veera	**(22) 5665-5420** **Mobile: 98-200-09948**

Human Capital

Ronald D'Souza	**(22) 5665-5525** **Mobile: 98-202-89173**
Dimple Ghosh	**(22) 5665-5425** **Mobile: 98-200-57273**
Sanjay Grover, *Global Mobility*	**(22) 5665-5450** **Mobile: 98-201-54845**
Biren Anand	**(22) 5665-5502** **Mobile: 98-204-93481**

Transaction Tax – Mergers and Acquisitions

Ajay Mehra	**(22) 5665-5460** **Mobile: 98-202-87373**
Girish Vanvari	**(22) 5665-5607** **Mobile: 98-202-12746**

NEW DELHI — GMT +5½

Ernst & Young Pvt. Ltd. — **(11) 5154-000**
S.R. Batliboi & Co. — **Fax: (11) 5169-000**
S.R. Batliboi & Associates
2nd Floor, The Capital Court
LSC Phase III
Olof Palme Marg
Munirka
New Delhi 110 067
India

National Tax Director

★ Mukesh Butani	**(11) 2616-0037** **Mumbai: (22) 5665-5401** **Mobile: 98-111-32000**

International Tax

★ Mukesh Butani	**(11) 2616-0037** **Mumbai: (22) 5665-5401** **Mobile: 98-111-32000**
Vijay Iyer	**(11) 2670-6171** **Mobile: 98-104-95203**

Corporate Tax

Ganesh Raj	**(11) 2616-0038** **Mobile: 98-107-05058**
Gaurav Taneja, *TCE — Communications*	**(11) 2610-9003** **Mobile: 98-111-60005**
Kapilesh Manglik	**(11) 2610-9005** **Mobile: 98-100-31230**

Gokul Chaudhri, *ECU – Oil and Gas*	**(11) 5152-6136** **Mobile: 98-113-24742**
Vishal Malhotra	**(11) 5152-6140** **Mobile: 98-111-57993**
Ajit Krishnan	**(11) 5152-6127** **Mobile: 98-110-32628**

Indirect Tax

★ Rajeev Dimri	**(11) 2610-9004** **Mobile: 98-110-60585**
Sunil Kumar	**(11) 5152-6130** **Mobile: 98-110-61212**
Harishanker Subramaniam	**(11) 5152-6125** **Mobile: 98-114-08856**

Human Capital

★ Amitabh Singh, *Global Mobility*	**(11) 2616-0039** **Mobile: 98-100-18043**
Divya Baweja, *Global Mobility*	**(11) 5152-6184** **Mobile: 98-110-10677**
N S Rajan	**(11) 5152-6182** **Mobile: 98-101-10525**
Mohinish Sinha	**(11) 5152-6548** **Mobile: 98-115-90121**
V Iyer	**(11) 5152-6181** **Mobile: 98-106-08607**
Rabindra Nath	**(11) 5152-6548** **Mobile: 98-112-26121**

Transaction Tax – Mergers and Acquisitions

★ Mukesh Butani	**(11) 2616-0037** **Mumbai: (22) 5665-5401** **Mobile: 98-111-32000**
Rohit Berry	**(11) 5152-6123** **Mobile: 98-111-54142**

PUNE **GMT +5½**

Ernst & Young Pvt. Ltd.
S.R. Batliboi & Co.
S.R. Batliboi & Associates
1st Floor, The Metropole
Near Inox Complex
Bund Garden Road
Pune 411 001
Maharashtra
India

(20) 401-6000, 403-6000
Fax: (20) 401-5900

Corporate Tax

Ajay Mehra *(resident in Mumbai)*	**(22) 5665-5460** **Mobile: 98-202-87373**
Chetan Prabhu	**(20) 402-5962** **Mobile: 98-231-16420**

A. At a Glance

Resident Corporation Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	20 (a)(b)
Branch Tax Rate (%)	40 (a)(c)
Withholding Tax (%) (a)	
Dividends	0
Interest	
Paid to Resident Companies	20
Paid to Foreign Companies	20 (d)
Royalties from Patents, Know-how, etc.	20 (e)
Technical Services Fees	20 (e)
Branch Remittance Tax	0

Net Operating Losses (Years)	
Carryback	0
Carryforward	8 (f)

(a) For the income year ending 31 March 2004, the rates listed above for corporate income tax, including capital gains tax and branch tax, and the withholding taxes are increased by a surcharge equal to 2.5% of such taxes.
(b) See Section B.
(c) For exceptions to this basic rate, see Section B.
(d) This rate applies only to interest from foreign-currency loans. Other interest is subject to tax at a rate of 41% (including the 2.5% surcharge).
(e) This rate applies to royalties paid to foreign companies in accordance with agreements entered into after 31 May 1997. For payments to foreign companies under agreements entered into before that date, the rate is 30.75% (including the 2.5% surcharge). However, if the royalty agreement is not approved by the central government or is not in accordance with the industrial policy, the royalties are taxed on a gross basis at a rate of 41% (including the 2.5% surcharge). In addition, if a nonresident with a permanent establishment or fixed place of business in India enters into a royalty or technical service fees agreement after 31 March 2003 and if the royalties or fees paid under the agreement relate to such permanent establishment or fixed place, the payments are taxed on a net income basis at a rate of 41% (including the 2.5% surcharge).
(f) Unabsorbed depreciation relating to the income year ending 31 March 2002 and future years may be carried forward indefinitely to offset taxable profits in subsequent years.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. An Indian resident corporation is subject to tax on its worldwide income, unless it is otherwise exempt. A company not resident in India is subject to Indian tax on Indian-source income only. Depending on the circumstances, certain income may be deemed to be Indian-source income. Corporations incorporated in India are resident in India for tax purposes, as are companies incorporated outside India if the control and management of their affairs are situated wholly in India.

Rates of Corporate Tax. For the income year ending 31 March 2004, resident corporations are subject to tax at a rate of 35%. In addition, a 2.5% surcharge is imposed on the income tax of such corporations. Long-term capital gains are taxed at special rates (see *Capital Gains* below).

For nonresident corporations, the basic rate of tax is 41% (including the 2.5% surcharge), but a 20.5% (including the 2.5% surcharge) tax rate applies to gross amounts of the following: taxable interest from foreign-currency loans; and royalties and fees for technical services paid in accordance with agreements entered into after 31 May 1997 (for payments in accordance with agreements entered into before that date, the rate is 30.75% [including the 2.5% surcharge]), provided the royalty agreement is approved by the central government or is in accordance with the industrial policy. If a nonresident with a permanent establishment or fixed place of business in India enters into a royalty or technical service fees agreement after 31 March 2003 and if the royalties or fees paid under the agreement relate to such permanent establishment or fixed place, the payments are taxed on a net income basis at a rate of 41% (including the 2.5% surcharge).

For foreign institutional investors that satisfy certain conditions, gross interest is subject to tax at a rate of 20.5% (including the 2.5% surcharge), long-term capital gains on listed securities are taxed at 10.25% (including the 2.5% surcharge), and short-term capital gains are taxed at 35.875% (including the 2.5% surcharge).

In computing capital gains on shares or securities acquired with foreign currency, the cost of acquisition and the consideration for transfer are converted to foreign exchange at specified exchange rates. Any gain is converted back to Indian rupees at the prevailing exchange rate and is subject to tax. Accordingly, this gain is not affected by any depreciation or appreciation of the Indian rupee vis-a-vis the currency in which the shares or securities were acquired.

Subject to conditions set by the central government, special tax rates apply to specified offshore financial funds investing foreign currency in units of the Unit Trust of India (UTI) or in units of mutual funds registered with the Securities and Exchange Board of India (SEBI), established by a public sector bank or a public financial institution or authorized by the Reserve Bank of India. Offshore funds are subject to tax at a rate of 10% on income earned on such units and on long-term capital gains derived from transfers of the units.

Dividends and long-term capital gains derived by a venture capital company or a venture capital fund established to raise funds for investment in a venture capital undertaking are exempt from tax, subject to certain conditions.

Subject to prescribed conditions, income from the units of the following is subject to a special tax rate of 10.25% (including the 2.5% surcharge) for the year ending 31 March 2004 only: an open-ended equity-oriented fund of the UTI; or a mutual fund registered with the SEBI, established by a public sector bank or by a public financial institution, or authorized by the Reserve Bank of India.

Tax Incentives. Subject to prescribed conditions, the following tax exemptions and deductions are available to corporations with respect to business carried on in India:

- A 10-year tax holiday equal to 100% of the taxable profits is available to undertakings or enterprises engaged in the following: developing, maintaining or operating infrastructure facilities (roads, toll roads, bridges, rail systems, highway projects, including housing or other activities that are integral parts of the highway projects, water supply projects, water treatment systems, irrigation projects, sanitation and sewerage systems, solid waste management systems, ports, airports, inland waterways or inland ports), if the undertaking begins to maintain or operate the infrastructure facility on or after 1 April 1995; providing basic or cellular telecommunication services, including radio paging, domestic satellite services, and network of trunking, broadband network and internet services, if the undertaking begins to provide such services during the period of 1 April 1995 through 31 March 2004 (for the providing of telecommunication services, a deduction of 100% is available for first 5 years and 30% for the subsequent 5 years); developing, maintaining or operating industrial parks or special-economic zones during the period of 1 April 1997 through 31 March 2006; power generation during the period of 1 April 1993 through 31 March 2006; and power transmission or distribution by laying a network of new transmission or distribution lines during the period of 1 April 1999 through 31 March 2006. In select cases, the company may choose any 10 consecutive years within the first 15 years (10 out of 20 years in certain circumstances) for the period of tax holiday.

- A 7-year tax holiday equal to 100% of taxable profits for an undertaking that begins commercial production of mineral oil or refining of mineral oil.
- A 5-year tax holiday equal to 50% of profits and gains derived from the business of building, owning and operating multiplex theaters/convention centers if such structures are constructed during the period of 1 April 2002 through 31 March 2005 and, in the case of multiplex theaters, if no such structure is located within the municipal jurisdiction of the cities of Chennai, Delhi, Kolkatta or Mumbai.
- A 10-year tax holiday equal to 100% of taxable profits for companies carrying on scientific research and development that are registered in India and approved by the prescribed authority between the period of 1 April 2000 through 31 March 2004.
- A deduction of 100% of taxable profits for undertakings developing and constructing approved housing projects begun after 1 October 1998 and approved before 31 March 2005, subject to certain conditions.
- A 10-year tax holiday equal to 100% of taxable profits for the first 5 years and 30% of taxable profits for the following 5 years for an undertaking establishing and operating a cold chain facility for agricultural produce, if the undertaking begins to operate such facility during the period of 1 April 1999 through 31 March 2004.
- A 10-year tax holiday equal to 100% of taxable profits for the first 5 years and 30% of taxable profits for the next 5 years from the integrated business of handling, storing and transporting food grains for new undertakings that begin to operate on or after 1 April 2001.
- A tax deduction equal to 100% of profits derived from exports of articles, things or computer software by the following types of undertakings: projects located in free-trade zones (FTZs); technology parks for hardware and software (HTPs/STPs) or special-economic zones (SEZs); and 100% export-oriented undertakings (EOUs). The deduction is calculated by applying to taxable income the ratio of export turnover to total turnover. The deduction is available up to the 2008-09 income year. However, undertakings established in SEZs on or after 1 April 2002 are entitled to a deduction of 100% for the first 5 years and 50% for the following 2 years. For the following 3 years, the availability of the deduction is contingent on the allocation of the profits to a specified reserve and the use of such amounts in the prescribed manner. The deduction is capped at 50% of the profits allocated to the reserve. The above deductions are also available to companies engaged in cutting and polishing of precious and semiprecious stones.
- A tax deduction equal to 100% of profits derived from an undertaking that begins the manufacturing or production of specified goods in Sikkim and Northeastern states. This deduction is also available if an undertaking manufacturing the specified goods, undertakes a substantial expansion that involves an increase in investment in plant and machinery by at least 50% of the book value of plant and machinery (computed before any depreciation).

- A 10-year tax holiday equal to 100% of taxable profits for the first 5 years and 30% of taxable profits for the following 5 years for an undertaking that begins the manufacturing or production of specified goods in Himachal Pradesh and Uttaranchal. This deduction is also available if an undertaking manufacturing the specified goods undertakes a substantial expansion that involves an increase in investment in plant and machinery by at least 50% of the book value of plant and machinery (computed before any depreciation).
- A 5-year tax holiday equal to 100% of the profits and gains from the business of collecting and processing or treating of biodegradable waste for the following purposes: generating power; producing bio-fertilizers, bio-pesticides or other biological agents; producing bio-gas; or making pallets or briquettes for fuel or organic manure. The tax holiday begins in the year of the commencement of the business.

Subject to the satisfaction of specified conditions, the following significant tax deductions are available to resident corporations only for the 2003-04 income year only:

- A tax deduction of 30% from income that is earned in convertible foreign currency from exports of goods and merchandise and computed in the prescribed manner;
- A tax deduction of 30% from profits that are earned in convertible foreign currency and are derived from the export of software, including film, television and music software, and customized electronic data or film, and from on-site development of computer software outside India;
- A tax deduction of 10% from profits derived from the execution of foreign projects that are earned in convertible foreign exchange;
- A tax deduction of 10% from earnings in convertible foreign exchange that are brought into India as consideration for the use outside India of patents, inventions, designs or registered trademarks;
- A tax deduction of 10% from profits derived from the execution of housing projects that are aided by the World Bank and awarded on the basis of a global tender; and
- A tax deduction of 15% from earnings in convertible foreign exchange derived by hotel or tour operators from services provided to foreign tourists if approved by the prescribed authority, plus the amount, not exceeding 15% of the profits from services provided to foreign tourists, set aside from the balance of the earnings that is used for specified purposes.

Minimum Alternative Tax. The minimum alternative tax (MAT) applies to a company if the tax payable by a company on its total income, as computed under the Income Tax Act, is less than 7.5% of its book profit. If the MAT applies, the tax on total income for the relevant year is deemed to equal 7.6875% (including the 2.5% surcharge) of the company's book profit. In computing book profit for MAT purposes, certain positive and negative adjustments must be made to net profit as shown in the books of account.

The net profit is increased by the following items:

- Amount of income tax paid or payable and the provision for such tax;
- Amount carried to any reserves;
- Amount allocated to provisions for liabilities other than ascertained liabilities;
- Amount allocated to provision for losses of subsidiary companies;
- Amount of dividend paid or proposed; and
- Amount of expenditure related to exempt income.

The net profit is decreased by the following items:
- Amount withdrawn from any reserves or provisions if such amount is credited in the profit-and-loss statement.
- Amount of losses carried forward (excluding depreciation) or unabsorbed depreciation, whichever is less, according to the books of account.
- Profits derived from the export of computer software, film software and certain other items eligible for deduction under the Income Tax Act.
- Profits of "sick" industrial companies. These are companies that have accumulated losses equal to or exceeding their net worth at the end of a financial year and are declared to be sick by the Board for Industrial and Financial Reconstruction.
- Profits derived from exports of goods and merchandise eligible for deduction under the Income Tax Act.
- Income that is exempt from tax.

MAT paid by corporations for income years ending on or after 31 March 2001 cannot be carried forward and set off against income tax payable in subsequent years under the normal provisions of the Income Tax Act. However, MAT paid for prior years (that is, for income years ending on or before 31 March 2000) may be carried forward and offset against income tax payable under the normal provisions of Income Tax Act. The maximum amount that can be set off against regular income tax is equal to the difference between the tax payable on the total income as computed under the Income Tax Act and the tax that would have been payable under the MAT provisions for that year.

A report from a chartered accountant certifying the amount of book profits must be filed together with the corporate tax return.

Capital Gains

Long-Term Capital Gains. In general, capital gains on long-term capital assets are taxed at 20%. Long-term capital assets include the following assets held for more than one year:
- Shares;
- Securities listed on the recognized stock exchange in India;
- Units of the UTI; and
- Units of specified mutual funds.

For long-term capital gains derived from transfers of listed securities, or units of the UTI or mutual funds, tax is calculated at a rate of 10%, excluding the surcharge, without indexation, or at a rate of 20%, excluding the surcharge, with indexation.

Long-term capital assets also include other assets held for more than three years. For assets that were acquired on or before 1 April 1981, the market value on that date may be substituted for cost in calculating gains. For residents, such value is adjusted for inflation (indexation). In calculating gains, residents may also adjust for inflation the cost of assets acquired after 1 April 1981. However, no inflation adjustment is allowed for bonds and debentures. For the purpose of calculating capital gains, the acquisition cost of bonus shares is deemed to be zero. Nonresident corporations compute capital gains on shares and debentures in the currency used to purchase such assets, and consequently they are protected from taxation on fluctuations in the value of the Indian rupee.

Long-term capital gains derived from the transfer of eligible equity shares (as defined in the Income Tax Act) purchased between 1 March 2003 and 1 March 2004 are exempt from income tax. Capital gains derived from the transfer of units of the UTI after 31 March 2002 are also exempt from income tax.

Short-Term Capital Gains. Capital gains on short-term capital assets are taxed at the normal corporate income tax rates.

Slump Sales, Demergers and Amalgamations. Special rules apply to "slump sales," "demergers" and "amalgamations" (for a description of amalgamations, see Section C).

A "slump sale" is the transfer of an undertaking for a lump-sum consideration without assigning values to the individual assets and liabilities. The profits derived from such sales are taxed as long-term capital gains if the transferred undertaking has been held for more than 36 months.

Capital gains equal the difference between lump-sum consideration and the net worth of the undertaking. For purposes of computing capital gains, the net worth of the undertaking equals the difference between the value of the total assets (the sum of the tax-depreciated value of assets that are depreciable for income tax purposes and the book value of other assets) of the undertaking or division and the book value of liabilities of such undertaking or division.

With respect to companies, a "demerger" is the transfer of an undertaking by one company (demerged company) to another company (resulting company) pursuant to a scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956, provided that certain conditions are satisfied. Subject to certain conditions, transfers of capital assets in a demerger are not considered to be transfers subject to capital gains tax.

Like demergers, if certain conditions are satisfied, transfers of capital assets in amalgamations are not considered to be transfers subject to capital gains tax.

Capital Gains on Depreciable Assets. To compute capital gains on sales of assets on which depreciation has been allowed, the sales proceeds of the assets are deducted from the declining-balance value of the classes of assets (including additions during the year) of which the assets form a part. If the sales proceeds exceed the declining-balance value, the excess is treated as short-term capital gain. Otherwise, no capital gain results from sales of such assets even if the sales proceeds for a particular asset are greater than the cost of the asset.

Administration. The Indian fiscal year ends on 31 March. All companies must file tax returns by 31 October. Tax is payable in advance on 15 June, 15 September, 15 December and 15 March. Any balance of tax due must be paid on or before the date of filing the return. The carryforward of losses is not allowed if a return is filed late.

Withholding Taxes. Resident companies are subject to the following withholding taxes.

Type of Payment	Rate (%)*
Dividends	0
Interest	20
Commissions from sales of lottery tickets	10
Other specified commissions	5
Payments to contractors (other than under advertising contracts)	2
Payments to subcontractors	1
Rent	20
Income from lotteries and horseraces	30
Professional fees	5
Income from units of the UTI and mutual funds	10
Other income	20

* For the income year ending 31 March 2004, a 2.5% surcharge is imposed on the above withholding taxes.

Nonresident companies are subject to the following withholding taxes.

Type of Payment	Rate (%)(a)
Dividends	0
Interest on foreign-currency loans	20
Royalties and technical service fees	20 (b)
Rent	20
Income from units of mutual funds	0
Other income	40

(a) For the income year ending 31 March 2004, a 2.5% surcharge is imposed on the above withholding taxes.
(b) See footnote (e) to Section A.

Dividends. Dividends paid by resident companies are exempt from tax in the hands of the recipients. However, resident companies must pay a dividend distribution tax at a rate of 12.8125% (including a 2.5% surcharge) on dividends declared, distributed or paid by them.

Foreign Tax Relief. Foreign tax relief for the avoidance of double taxation is governed by tax treaties with several countries. If no such agreements exist, resident corporations may claim a foreign tax credit for the foreign tax paid. The amount of the credit is the lower of the Indian tax payable on the income that is taxed twice and the foreign tax paid.

C. Determination of Trading Income

General. Business-related expenses are deductible; capital expenditures (other than on scientific research) and personal expenses may not be deducted. The deductibility of head office expenses for nonresident companies is limited.

Income derived from operations with respect to mineral oil, and certain other income derived by nonresidents are taxed on a deemed-profit basis.

Inventories. In determining trading income, inventories may, at the taxpayer's option, be valued either at cost or the lower of cost or replacement value. The last-in, first-out (LIFO) method is not accepted.

Provisions. Provisions for taxes (other than income tax and wealth tax, which are not deductible expenses) and duties, bonuses, leave salary and interest on loans from financial institutions and scheduled banks are not deductible on an accrual basis unless payments are made before filing the income tax return. If such payments are not made before filing the income tax return, a deduction is allowed only in the year of actual payment. General provisions for doubtful trading debts are not deductible until the bad debt is written off in the accounts, but some relief is available for banks and financial institutions with respect to nonperforming assets.

Depreciation Allowances. Depreciation is calculated using the declining-balance method and is allowed on classes of assets. Depreciation rates vary according to the class of assets. The following are the general rates.

Asset	Rate (%)
Plant and machinery	25*
Buses and lorries used in a rental business	40
Cars other than those used in the business of running them on hire	20
Other vehicles	25
Buildings	10
Furniture and fittings	15

* Subject to prescribed conditions, for a new industrial undertaking or a substantial expansion by an existing industrial undertaking, accelerated depreciation equal to 15% of the actual cost is allowed with respect to plant and machinery (other than ships or aircrafts) acquired or installed after 31 March 2002.

Depreciation is also allowed on intangibles, such as know-how, patents, copyrights, trademarks, licenses, franchises or other similar commercial rights. These items are depreciated using the declining-balance method at a rate of 25%.

Special rates apply to certain assets, such as 60% for computers and computer software, and 100% for air or water pollution-control equipment and energy-saving devices. Additions to assets that are used for less than 180 days in the year in which they are acquired and placed in service qualify for depreciation in that year at one-half of the normal rates. On the sale or scrapping of an asset within a class of assets, the declining-balance value of the class of assets is reduced by the sales proceeds (for details concerning the capital gains taxation of such a sale, see Section B).

Companies engaged in power generation or in power generation and distribution may elect to use the straight-line method of depreciation at specified rates.

Relief for Losses. Business losses, excluding losses resulting from unabsorbed depreciation of business assets (but see below), may be carried forward to be set off against taxable income derived in the following eight years, provided the income tax return for the year of loss is filed on time. For closely held corporations, a 51% continuity of ownership test must also be satisfied.

Unabsorbed depreciation relating to income years ending on or after 31 March 2002, may be carried forward indefinitely to be set off against taxable income of subsequent years.

Losses under the heading “Capital Gains” (that is, resulting from transfers of capital assets) may not be set off against other income, but may be carried forward for eight years to be set off against capital gains. Long-term capital losses may offset long-term capital gains only.

Amalgamations and Demergers. Special rules apply to “amalgamations” and “demergers” (for a description of “demergers,” see Section B). With respect to companies, an “amalgamation” is the merger of one or more companies with another company or the merger of two or more companies to form one company (the company or companies that merge are referred to as the “amalgamating company or companies” and the company with which they merge, or which is formed as a result of the merger, is known as the “amalgamated company”) that meet certain specified conditions.

An amalgamated company may claim the benefit of business loss carryforwards and unabsorbed depreciation of the amalgamating companies if the following conditions are satisfied:
- Shareholders holding at least 75% of the shares of the amalgamating company become shareholders of the amalgamated company;
- The amalgamating company owns an industrial undertaking, ship or hotel;
- The amalgamating company has been engaged in business for at least three years and either incurred the accumulated business loss or accumulated the unabsorbed depreciation during such period;
- As of the date of amalgamation, the amalgamating company has continuously held at least three-fourths of the book value of the fixed assets that it held two years before the date of the amalgamation;
- At least 75% of the book value of fixed assets acquired from the amalgamating company are held by the amalgamated company for a period of five years;
- The amalgamated company continues the business of the amalgamating company for at least five years after the date of amalgamation; and
- Other specified conditions to ensure that the amalgamation is for genuine business purposes.

Groups of Companies. The income tax law does not provide for the consolidation of income or common assessment of groups of companies. Each company, including a wholly owned subsidiary, is assessed separately.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Central value-added tax (CENVAT), on goods manufactured in India; levied by the central government	8/16/32
Customs duty, on goods imported into India; levied by the central government	Various
Sales tax; generally imposed on sales of goods; levied either by the central government (central sales tax) on interstate sales or the state government (state sales tax) on intrastate sales	Various
Luxury tax; levied by certain states on notified items (items officially prescribed by the relevant authority)	Various
Works contract tax; on goods for which title is transferred during execution of work contracts (for example, contracts for the construction, fabrication or installation of plant and machinery)	Various
Lease tax on contracts involving transfer of rights to use goods	Various
Octroi/entry tax; levied by certain municipalities and states on the entry of goods into municipal jurisdiction or state for use, consumption or sale	Various
Research and development cess (levy); imposed on payments made for the import of technology	5
Net assets tax, on specified assets (such as precious metals, urban land and buildings not used in the business and motor cars), net of debt secured by the assets; tax is imposed on the taxable value in excess of Rs. 1.5 million	1
Stamp duties, levied by each state on specified documents and transactions, including property transfers	Various
Social security contributions, paid by the employer for medical insurance plans for certain categories of employees and for minimum retirement benefit plans	Various
Service tax, on certain services, such as specified banking and other financial services, insurance, scientific or technical consultancy, port services and services performed by consulting engineers and management consultants	8

E. Miscellaneous Matters

Foreign-Exchange Controls. All transactions with nonresidents are subject to foreign-exchange controls contained in the Foreign Exchange Management Act. The rupee is fully convertible for trade and current account purposes. Except for certain specified restrictions, foreign currency may be freely purchased for trade and current account purposes. In general, such purchases must be made at the market rate. Capital account transactions are not permitted unless they are specifically allowed and the prescribed conditions are satisfied. Transactions that are specifically allowed include the following: all remittances abroad that require prior approval arrangements, such as joint venture and technical collaboration agreements; and the remittance of interest, dividends, service fees, royalties, repayment of overseas loans and so forth. Repatriation of capital is also freely permitted for investment approved on a repatriable basis. However, for sales of Indian assets, other than sales between two nonresidents, the terms of sale require the approval of the exchange-control authorities, and certain other conditions must be satisfied.

Transfer Pricing. The Income Tax Act includes detailed transfer-pricing regulations. Under these regulations, income and expenses, including interest payments, with respect to international transactions between two or more associated enterprises (including permanent establishments) must be determined using arm's length prices. The transfer-pricing regulations also apply to cost-sharing arrangements.

The transfer-pricing regulations contains definitions of various terms, including "associated enterprise," "arm's length price," "enterprise," "international transaction" and "permanent establishment." It specifies methods for determining the arm's length price, which are in line with the guidelines of the Organization for Economic Cooperation and Development (OECD). The following are the specified methods:

- Comparable uncontrolled price method;
- Resale price method;
- Cost-plus method;
- Profit split method;
- Transactional net margin method; and
- Any other method prescribed by the Central Board of Direct Taxes (CBDT).

The CBDT has issued the regulations for applying these methods to determine the arm's length price.

The transfer-pricing regulations require each person entering into an international transaction to maintain prescribed documents and information regarding a transaction. Each person entering into an international transaction must arrange for an accountant to prepare a report and furnish it to the Tax Officer by the due date for filing the corporate tax return.

A tax officer may make an adjustment with respect to an international transaction, if the officer determines that any of the following conditions exist:

- Under the methods listed above, the price is not at arm's length;
- The prescribed documents and information have not been maintained;
- The information or data on the basis of which the price was determined is not reliable; or
- Any information or documents requested by the tax officer have not been furnished.

Stringent penalties are imposed for noncompliance with the procedural requirements and for understatement of profits.

Debt-to-Equity Rules. India does not currently impose mandatory capitalization rules. However, banks and financial corporations must comply with capital adequacy norms.

F. Treaty Withholding Tax Rates

For treaty countries, the rates reflect the lower of the treaty rate and the rate under domestic tax laws on outbound payments.

	Dividends (k) %	Interest %	Approved Royalties (i) %
Australia	0	15	15 (g)
Austria	0	10	10
Bangladesh	0	10 (b)	10
Belarus	0	10 (b)	15
Belgium	0	15 (b)	20 (c)
Brazil	0	15 (b)	15 (h)
Bulgaria	0	15 (b)	20 (e)
Canada	0	15 (b)	15 (g)
China	0	10 (b)	10
Cyprus	0	10 (b)	15
Czech Republic	0	10 (b)	10
Denmark	0	15 (b)	20
Egypt (l)	0	20 (a)(j)	20 (f)(j)
Finland	0	10 (b)	15 (g)
France	0	10 (b)	10
Germany	0	10 (b)	10
Greece	0	20 (a)(j)	20 (f)(j)
Hungary	0	15 (b)(d)	20 (f)(j)
Indonesia	0	10 (b)	15
Ireland	0	10 (b)	10
Israel	0	10 (b)	10
Italy	0	15 (b)	20
Japan	0	15 (b)	20
Jordan	0	10 (b)	20
Kazakhstan	0	10 (b)	10
Kenya	0	15 (b)	20
Korea	0	15 (b)	15
Kyrgyzstan	0	10 (b)	15
Libya	0	20 (a)(j)	20 (f)(j)
Malaysia	0	20 (a)(j)	20 (f)(j)
Malta	0	10 (b)	15
Mauritius	0	20 (a)(b)(j)	15
Mongolia	0	15 (b)	15
Morocco	0	10 (b)	10
Namibia	0	10 (b)	10
Nepal	0	15 (b)	15
Netherlands	0	10 (b)	10 (c)
New Zealand	0	10 (b)	10
Norway	0	15 (b)(d)	20 (c)
Oman	0	10 (b)	15
Philippines	0	15 (b)	15
Poland	0	15 (b)	20 (f)(j)
Portugal	0	10 (b)	10
Qatar	0	10 (b)	10
Romania	0	15 (b)	20 (f)(j)
Russian Federation	0	10 (b)	10
Singapore	0	15 (b)	15 (g)
South Africa	0	10 (b)	10
Spain	0	15 (b)	20 (c)(g)
Sri Lanka	0	10 (b)	10

	Dividends (k) %	Interest %	Approved Royalties (i) %
Sweden	0	10 (b)	10
Switzerland	0	10 (b)	10
Syria	0	7.5 (b)	10
Tanzania	0	12.5 (b)	20
Thailand	0	20 (a)(b)(j)	15
Trinidad and Tobago	0	10 (b)	10
Turkey	0	15 (b)	15
Turkmenistan	0	10 (b)	10
Ukraine	0	10 (b)	10
United Arab Emirates	0	12.5 (b)	10
United Kingdom	0	15 (b)	15 (g)
United States	0	15 (b)	15 (g)
Uzbekistan	0	15 (b)	15
Vietnam	0	10 (b)	10
Zambia	0	10 (b)	10
Nontreaty countries	0	20 (a)(j)	20 (f)(j)

(a) This rate applies to interest on monies borrowed, or debt incurred, in foreign currency. Other interest is taxed at a rate of 40% (plus a surcharge of 2.5%).

(b) A reduced rate of 0% to 10% applies generally to banks and, in a few cases, to financial institutions, local authorities, political subdivisions and the government.

(c) The rate may be reduced under a most-favored nation clause.

(d) This rate applies to interest on loans or debts created after the new treaty or supplementary protocol enters into force.

(e) A 15% rate applies to royalties related to copyrights of literary, artistic or scientific works.

(f) This rate applies to royalties paid to foreign corporations under agreements that are approved by the government of India or are in accordance with the industrial policy and that are entered into after 31 May 1997. However, if the royalty agreement is not approved by the central government or is not in accordance with the industrial policy, the royalties are taxed on a gross basis at a rate of 40% (plus a surcharge of 2.5%). Royalties received in accordance with an agreement made after 31 March 2003 in connection with a permanent establishment or fixed place of business in India are taxed on a net basis at a rate of 40% (plus a 2.5% surcharge).

(g) A 10% rate applies to royalties relating to the use of industrial, commercial or scientific equipment.

(h) A 20% rate applies to royalties paid for the use of trademarks.

(i) Most of India's tax treaties also provide withholding tax rates for technical services fees. In most cases, the rates applicable to royalties also apply to technical services fees.

(j) The 20% rate is increased by a surcharge of 2.5% for the year ending 31 March 2004.

(k) Under Indian domestic law, dividends declared or paid by Indian companies are exempt from tax in the hands of the recipients. However, Indian companies must pay dividend distribution tax at a rate of 12.5% (plus a surcharge of 2.5%) on dividends declared, distributed or paid by them.

(l) The official name of Egypt is the United Arab Republic.

INDONESIA

(Country Code 62)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@id.ey.com

JAKARTA **GMT +7**

Prasetio, Sarwoko & Sandjaja Consult
Mail Address:
P.O. Box 1973
Jakarta 10019
Indonesia

(21) 5289-5000
Fax: (21) 5289-5200
(International Tax)

Street Address:
Jakarta Stock Exchange Building
14th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta Selatan 12190
Indonesia

Corporate Tax

Robert Darmadi	**(21) 5289-5004**
Saiful Haq Manan	**(21) 5289-5678**

Human Capital

Kevin Pickering	**(21) 5289-5032**

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	– (b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	15/20 (c)
Interest	15/20 (c)
Royalties from Patents, Know-how, etc.	15/20 (c)
Rent	
Land or Buildings	10 (d)
Land Transportation Vehicles	3 (e)
Other	6 (e)
Fees for Services	
Payments to Residents	
Payments for Goods and Services Financed by the Government or Local Government Budget	1.5
Construction Contracting Services	2 (f)
Construction Planning and Supervision	4 (f)
Drilling and Support Services for Mining and Gas	6
Technical and Management Services	6 (g)
Legal, Tax, Consulting, Appraisal and Actuarial	7.5
Payments to Nonresidents	20 (f)
Branch Profits Tax	20 (h)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 to 10 (i)

(a) This is the maximum progressive rate (see Section B).
(b) See Section B for details concerning the taxation of capital gains.
(c) A final withholding tax at a rate of 20% is imposed on payments to nonresidents. Tax treaties may reduce the tax rate. Certain dividends are exempt. A 15% withholding tax is imposed on interest paid by nonfinancial institutions to residents. Interest paid by financial institutions on bank deposits of residents is subject to a final withholding tax of 20%.
(d) This is a final withholding tax imposed on gross rent from land or buildings.
(e) This tax is considered a prepayment of income tax.
(f) This tax is considered a prepayment of income tax, but it may be a final tax in limited circumstances.

(g) This tax is considered a prepayment of income tax. Services subject to this tax include architecture, interior design, landscape design, accounting and bookkeeping, timber cutting, installation, repair and maintenance, contract manufacturing, recruitment, intermediary, nonpublic telecommunication, and information technology, including internet and film dubbing and mixing.
(h) This is a final tax imposed on the after-tax taxable income of a permanent establishment. The rate may be reduced under double tax treaties. The tax applies regardless of whether the income is remitted. The payment of this tax may be avoided if the profits are reinvested in Indonesia.
(i) Losses incurred by certain businesses or incurred in certain areas may be carried forward for up to 8 or 10 years.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies incorporated or domiciled in Indonesia are subject to income tax on worldwide income, but a credit is available for income taxed overseas (see *Foreign Tax Relief* below). A company is domiciled in Indonesia if it is managed, controlled or has its head office in Indonesia. Branches of foreign companies are taxed only on those profits derived from activities carried on in Indonesia. However, income accruing from an Indonesian branch to a foreign parent is taxed as income of the branch if the business is of a similar nature to the business of the branch. This follows the "force of attraction" principle.

Rates of Corporate Tax. The following rates of tax apply to Indonesian companies and foreign companies operating in Indonesia through a permanent establishment.

Taxable Income Exceeding Rp.	Not Exceeding Rp.	Tax on Lower Amount Rp.	Rate on Excess %
0	50,000,000	0	10
50,000,000	100,000,000	5,000,000	15
100,000,000	–	7,500,000	30

The after-tax taxable income of a permanent establishment is subject to a final tax at the rate of 20%. The tax applies regardless of whether the income is remitted. The payment of this tax may be avoided if the income is reinvested in Indonesia. The rate of the tax may be reduced under double tax treaties.

Tax incentives will be granted to newly established resident companies investing in certain types of businesses or regions. A government regulation will specify the types of industries and regions qualifying for the incentives. The tax incentives consist of the following:

- Accelerated depreciation and amortization;
- Tax-loss carryforward period of 10 years;
- A reduced dividend withholding tax rate of 10% unless the rate provided in a relevant tax treaty is lower; and
- An investment allowance of 5% per year for a period of six years.

Special tax rates apply to the companies described below.

Petroleum. Petroleum companies are subject to tax at a flat rate ranging from 30% to 45%, depending on when their contracts were signed and approved. In addition, foreign petroleum companies are subject to a 20% withholding tax, which may be reduced by certain tax treaties, on their after-tax taxable income.

Mining. General mining companies are taxed at rates ranging from 30% to 45%, depending on the generation of their contracts with the Indonesian government. Certain contracts provide for escalating rates over the life of the project. The most recent mining contracts provide for taxation on the basis of current tax rates with no tax rate escalation provisions. Dividend withholding tax may be imposed at rates of 20% or 10% depending on the generation of the contract. These rates may be subject to reduction under certain tax treaties.

Geothermal. Geothermal companies are subject to income tax at a rate of 34%.

Construction Companies. In limited circumstances, construction companies are subject to a final tax at a rate of 2% of gross turnover.

Construction Design or Supervision. In limited circumstances, companies engaged in construction design or supervision, are subject to tax at a rate of 4% of their gross turnover.

Foreign Drilling Companies. Foreign drilling companies are subject to corporate income tax at a rate of 4.5% of their gross drilling income, as well as to a branch profit tax of 20% on their after-tax profit, which may be reduced by certain tax treaties.

Nonresident International Shipping Companies and Airlines. Nonresident international shipping companies and airlines are subject to tax at a rate of 2.64% of gross turnover.

Capital Gains. A 0.1% final withholding tax is imposed on proceeds of sales of publicly listed shares through the Indonesian stock exchange. An additional tax at a rate of 0.5% of the share value is levied on sales of founder shares associated with a public offering. Founder shareholders must pay the 0.5% tax within one month after the shares are listed. Founder shareholders that do not pay the tax by the due date are subject to income tax on the gains at the ordinary income tax rates.

Other capital gains derived by residents are included in taxable income and are subject to tax at the normal progressive income tax rates. Other capital gains derived by nonresidents are subject to tax at a rate of 20%. The law provides that the 20% tax is imposed on an amount of deemed income. The Minister of Finance established the deemed income for sales of unlisted shares, effective from 24 August 1999. The deemed income is equal to 25% of the gross sale proceeds, resulting in an effective tax rate of 5% of the gross sale proceeds. This rule applies to residents of nontreaty countries and to residents of treaty countries if the applicable treaty allows Indonesia to tax the income.

Transferors of the right to use land or buildings must make advance payments of tax equal to 5% of the value transferred. The transferee must pay a transfer duty of 5%, which may be reduced to 2.5% for transfers in business mergers approved by the Director of Tax.

Administration. A company must file an annual tax return within three months after the end of its fiscal year.

Tax must be paid in advance by monthly installments, which are due on the 15th day of the month. For companies with financial years ending on 31 December, any balance of tax due must be paid by 25 March of the following year. Companies must pay any balance of tax due before filing the annual tax return.

Dividends. Dividends paid to Indonesian resident taxpayers are subject to withholding tax at the rate of 15%. This tax is an advance payment of the recipient's Indonesian tax liability. Dividends received by resident limited liability companies and certain other entities are exempt from tax if they meet the following conditions: the dividends are paid out of retained earnings; the company receiving the dividends holds at least 25% of the shares of the payer of the dividends; and the company receiving the dividends derives active business income in addition to dividends. Dividends remitted overseas are subject to a final 20% withholding tax, unless an applicable tax treaty provides a lower rate.

Foreign Tax Relief. A credit is allowed for tax paid or due overseas on income accruing to an Indonesian company. The credit may not exceed the total tax due on that income based on an Indonesian tax calculation.

C. Determination of Trading Income

General. Income is broadly defined. It includes, but is not limited to, business profits, gains from sales of transfers of assets, interest, dividends, royalties and rental and other income with respect to the use of property.

Certain income is not taxable. Interest earned by resident companies on time deposits, certificates of deposit and savings accounts is subject to a 20% withholding tax, representing a final tax on such income. A final 20% (or lower rate provided in a double tax treaty) withholding tax is imposed on interest earned by non-residents.

Taxpayers are generally able to deduct from gross income all expenses to the extent that they are incurred in earning taxable income. Nondeductible expenses include the following: income tax; other expenses incurred for the private needs of shareholders, associates or members; gifts, donations and support (support includes a subsidy, aid, gift or award given to an employee or related parties); and the formation of or additions to reserves and provisions. Foreign business losses are not deductible.

Foreign-exchange gains and losses are treated as taxable income and deductible expenses.

Inventories. For tax purposes, inventories must be valued at cost using either the first-in, first-out (FIFO) or average cost method. The last-in, first-out (LIFO) method is not allowed.

Provisions. Provisions are generally not deductible for tax purposes. Bad debts may be deducted if they have been deducted as corporate losses in commercial financial reports and if a list of the names of the debtors and totals of the bad debts has been delivered to a public court or to the state receivership and auctions agency, and to the Director General of Taxation, and the list must be published. Specific rules apply for the creation of provisions and reserves by banks, insurance companies and certain nonbank financial institutions, such as leasing companies that lease assets under finance leases.

Depreciation and Amortization Allowances. Depreciation is calculated on the useful life of an asset by applying the straight-line method or double-declining-balance method. In general, depreciation is deducted beginning with the month the expenditure is incurred. However, for assets that are not ready for use, depreciation is deducted beginning in the month the assets are first ready for use. Buildings are depreciated using the straight-line method. The following table sets forth the useful lives and depreciation rates for depreciable assets.

Class of Asset	Useful Life (Years)	Depreciation Method: Straight-Line (%)	Depreciation Method: Double-Declining-Balance (%)
Buildings			
Permanent	20	5	–
Nonpermanent	10	10	–
Other assets			
Class 1	4	25	50
Class 2	8	12.5	25
Class 3	16	6.25	12.5
Class 4	20	5	10

Intangible assets with more than one year of benefit, including leases of tangible property, are amortized according to their useful lives using the same percentages applicable to fixed assets. Special depreciation and amortization rules apply to assets used in certain businesses or in certain areas.

Relief for Losses. Losses may not be carried back. They may generally be carried forward for five years. Losses incurred by certain businesses or incurred in certain areas may be carried forward for up to 8 or 10 years.

Groups of Companies. The losses of one company may not be used to reduce the profits of an affiliate.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on delivery of taxable goods, on imports of goods and on services (including services furnished by foreign taxpayers outside Indonesia if the services have a benefit in Indonesia), unless specifically exempt; standard rate	10
Sales tax on luxury goods, imposed in addition to the VAT on the delivery of luxury goods manufactured in or imported into Indonesia; rate depends on the nature of the goods	10 to 75
Transfer duty on land and buildings	5

E. Miscellaneous Matters

Foreign-Exchange Controls. There are no exchange controls affecting the repayment of loans and the remittance of dividends, interest and royalties. Foreign loans should be reported to the Central Bank of Indonesia to ensure enforceability and repatriation in case of any future exchange controls.

Certain foreign loans are regulated by the Team for Commercial Foreign Loans. Specified loans are not subject to regulation by the team, including loans from the Consultative Group on Indonesia (CGI), commercial loans used for business purposes and foreign commercial loans to private enterprise for projects unrelated to the government and state-owned enterprises.

Debt-to-Equity Rules. Under the tax law, the Minister of Finance may determine an acceptable debt-to-equity ratio. However, the minister has not yet announced such a ratio. If there is a special relationship between two taxpayers that might provide tax advantages, the Director General of Taxation has the authority to determine income and deductions and to reclassify loans as equity.

Related-party loans may be treated as equity investments, with the interest expense disallowed for tax purposes.

Transfer Pricing. The Indonesian Tax Authority uses advance pricing agreements (APAs) to regulate transactions between related parties. Broadly, an APA represents an advance agreement between a company and the Director General of Taxation regarding the determination of the acceptable pricing for a transaction between related parties. An APA provides the sales price for manufactured goods, the amount of royalties and other information. An APA may be entered into with the Director General of Taxation (unilateral) or between the Director General of Taxation and the foreign tax authority (bilateral).

F. Treaty Withholding Tax Rates

	Dividends (%)		Interest (c)	Royalties
	A	B	%	%
Australia	15	15	0/10	10/15 (d)
Austria	15	10	0/10	10
Belgium	15	10	0/10	10
Brunei	15	15	15	15
Bulgaria	15	15	0/10	10
Canada	15	10	0/10	10
Czech Republic	15	10	0/12.5	12.5
Denmark	20	10	0/10	15
Egypt	15	15	0/15	15
Finland	15	10	0/10	10/15 (d)
France	15	10	0/10/15	10/15 (d)
Germany	15	10	0/10	10/15 (b)(d)
Hungary	15	15	0/15	15
India	15	10	0/10	15
Italy	15	10	0/10	10/15 (d)
Japan	15	10	0/10	10
Jordan	10	10	0/10	10
Korea	15	10	0/10	15
Kuwait	10	10	0/5	20
Luxembourg	15	10	0/10	12.5 (b)
Malaysia	15	15	0/15	15
Mauritius	10	5	0/10	10
Mongolia	10	10	0/10	10
Netherlands (a)	15	10	0/10	10
New Zealand	15	15	0/10	15
Norway	15	15	0/10	10/15 (d)
Pakistan	15	10	0/15	15 (b)
Philippines	20	15	0/10/15	15
Poland	15	10	0/10	15
Romania	15	12.5	12.5	12.5/15 (d)
Russian Federation	15	15	0/15	15
Seychelles	10	10	0/10	10
Singapore	15	10	0/10	15
Slovak Republic	10	10	0/10	15

	Dividends (%) A	Dividends (%) B	Interest (c) %	Royalties %
South Africa	15	10	0/10	10
Spain	15	10	0/10	10
Sri Lanka	15	15	0/15	15
Sudan	10	10	0/15	10
Sweden	15	10	0/10	10/15 (d)
Switzerland	15	10	10	12.5 (b)
Syria	10	10	10	15/20 (d)
Taiwan	10	10	0/10	10
Thailand	15	15	0/15	10/15 (d)
Tunisia	12	12	0/12	15
Turkey	10	10	0/10	10
Ukraine	15	10	0/10	10
United Arab Emirates	10	10	0/5	5
United Kingdom	15	10	0/10	10/15 (d)
United States	15	10	0/10	10
Uzbekistan	10	10	0/10	10
Venezuela	15	10	0/10	20 (b)
Vietnam	15	15	0/15	15
Nontreaty countries	20	20	20	20

A Rate applicable to portfolio investments.
B Rate applicable to substantial holdings.
(a) A new treaty with the Netherlands has been signed, but it has not yet been ratified by Indonesia. The withholding rates under the existing treaty with the Netherlands are listed in the table.
(b) Technical services are subject to the following reduced rates of withholding tax: Germany, 7.5%; Luxembourg, 10%; Pakistan, 15%; Switzerland, 5%; and Venezuela, 10%.
(c) If there are two rates other than 0%, the higher rate applies to interest paid to companies in certain specified industries or to interest on certain bonds. The 0% rate applies to interest on government bonds.
(d) The rates vary according to the rights or information licensed.

In addition to the above treaties, Indonesia has entered into agreements for the reciprocal exemption of taxes and duties on air transport with Bangladesh, Croatia, Laos, Morocco, Saudi Arabia and South Africa.

Indonesia has negotiated a tax treaty with Algeria, but this treaty has not yet been ratified.

IRAN

(Country Code 98)

TEHRAN **GMT +3½**

Tadvin Co.*
1279/1 Vali-e-Asr Avenue
Tehran 15178
Iran
(21) 878-2096
Fax: (21) 888-6150

* Technical Assistance firm

Corporate Tax
Mahmoud Zoroofchi
(21) 877-0310
Mobile: 911-211-7022
E-mail: mahmoud_zoroofchi@eyir.com

LONDON, ENGLAND **GMT**

Tadvin Co. (U.K. Liaison Office)*
6th Floor
94-96 Wigmore Street
London W1U 3RF
England

[44] (20) 7222-3000
Fax: [44] (20) 7439-3100
E-mail: tcey@tadcoservices.com

* Technical Assistance firm

Corporate Tax
Parviz Hakim-Rad **[44] (20) 7222-3000**

New regulations and bylaws are being introduced with respect to the new Direct Taxation Act and the laws governing foreign investments. Because of these developments, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Profits Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	5 (b)
Branch Tax Rate (%)	25 (b)
Withholding Tax (%)	
Dividends	0
Interest (c)	
Paid to Iranian and Foreign Companies	20
Paid to Resident and Nonresident Individuals	9.6 to 28
Royalties from Patents, Know-how, etc.	5/7.5 (d)
Payments Under Contracts	
Payments to Iranian Companies and Resident Individuals	5 (e)
Payments to Iranian Contractors Under Sub-contracts with Foreign Main Contractors	2.5 (e)
Payments to Foreign Companies	3/5 (f)
Payments to Nonresident Individuals	5
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) The rate is 22.5% for companies quoted on the Tehran Stock Exchange. A 5% rate applies to income derived from outbound international transport.
(b) See Section B.
(c) The interest withholding tax is a final tax. Interest paid on bank deposits with Iranian banks is exempt from tax.
(d) This is a final withholding tax applicable to payments to foreign companies.
(e) This withholding tax is considered an advance payment of tax.
(f) This withholding tax is imposed on payments under all types of contracts, such as engineering, procurement, construction, installation, technical assistance and project management. The 3% tax is a final tax for payments under contracts signed before 21 March 2003. For payments under contracts signed on or after that date, withholding tax is imposed at a rate of 5% and is considered an advance payment of tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Iranian corporations are taxed on their worldwide income. Branches of foreign companies and nonresident companies are taxed on income earned in Iran.

Resident companies are companies and other entities established under the Iranian Commercial Code, as well as registered branches and representative offices of foreign companies.

Rates of Corporate Tax. The standard corporation tax rate is 25% of profits. The rate is 22.5% for companies quoted in the Tehran Stock Exchange. Tax is levied on the corporations themselves, and not on the shareholders. All companies are treated the same, regardless of the level of Iranian ownership.

Branches of foreign companies are taxed on a deemed profit basis for contracts signed before 21 March 2003. Taxable profits are assumed to be 12% of annual cash receipts of the branches. The deemed profit is taxed at the corporation tax rate of 25%. For contracts signed on or after 21 March 2003, branches of foreign companies are taxed on profits in a similar manner to Iranian corporations. Also, see Section E for information regarding contract social security.

A final withholding tax at a rate of 5% is imposed on gross receipts derived from outbound international transport.

Rental income is taxed at the progressive personal income tax rates of 15% to 35%, after allowing a deduction of 25% of the rent as an expense allowance. The exempt band of income under the personal income tax also applies.

Tax Incentives. Iran offers several major tax incentives.

Newly established industrial and mining units are exempt from corporation tax on 80% of their income for four years. For companies operating in deprived areas, the percentage is increased to 100%, and the tax-exemption period is increased to 10 years.

Other major tax exemptions include the following:
- 100% of income derived from exports of non-oil products;
- 50% of amounts allocated to reserves for expansion or renovation of existing plants;
- 50% of income derived from local and international tourism; and
- 100% of income derived from agriculture, horticulture, fish farming, dairy farming, and similar activities.

Capital Gains. Gains derived from outright transfers of real property are taxed at a rate of 5% of the "rateable value" of the property, which is the value of the property indicated on regional value tables. Tax is not imposed on the actual gains.

Because of the deemed basis described above for the taxation of capital gains on real property, no capital losses arising from transfers of real property may be claimed. In addition, ordinary losses may not offset capital gains.

Capital gains tax on securities traded in the Tehran Stock Exchange is imposed at a rate of 0.5% of the sales value.

Administration. Companies may select any tax year. Branches of foreign companies use the same fiscal year as their head office, which is normally the Gregorian calendar year. Iranian companies usually use the Iranian calendar year, which runs from 21 March through 20 March of the following year.

All business entities, including branches of foreign companies, must file a tax declaration with the Tax Assessment Office within four months after the end of their tax year. Any tax due on the declared results is payable at the time of filing the declaration.

Various penalties may be imposed for noncompliance with the tax filing requirements. These penalties are based on the amount of tax that is finally assessed.

Dividends. Withholding tax is not imposed on dividends. Resident companies and individuals receiving dividends can claim as a credit in their annual tax return the corporation tax paid on the profits out of which the dividends are paid. Nonresident companies and individuals can claim such credit under double tax treaties.

Companies include dividends received from foreign companies in taxable income.

Foreign Tax Relief. Iran grants relief for foreign taxes paid with respect to income that has been taxed abroad. However, Iran does not grant a credit for indirect taxes paid.

C. Determination of Trading Income

General. Taxable income is determined by reference to annual financial statements prepared from the statutory books of the company.

In addition to the tax exemptions described in the discussion of tax incentives in Section B, 100% of interest income received on deposits with Iranian banks is exempt from tax.

In general, interest is deductible only if the company pays it directly to a bank in Iran. The tax office may disallow expenses that it regards as excessive.

Inventories. Inventory is normally valued at the lower of cost and net realizable value, using a first-in, first-out (FIFO) or average basis.

Provisions. Provisions are not accepted for tax purposes, other than those relating to staff termination indemnities.

Tax Depreciation. Depreciation is calculated using either the straight-line method or the declining-balance method. The government has published an extensive schedule of tax depreciation rates.

Relief for Losses. Losses may be carried forward for an unlimited number of years to offset future profits. Losses may not be carried back.

Groups of Companies. Iranian law does not include any measures for the taxation of groups of companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax; levied on products that are considered final (that is, not intermediate)	3
Customs duties; imposed on virtually all goods imported into Iran; duty applied to the CIF (Cost, Insurance, Freight) value	
Customs duty proper	4
Commercial benefits tax	0 to 116

Nature of Tax	Rate (%)
Stamp duty; imposed on the nominal value of capital on first registration and on subsequent increases in share capital; for branches of foreign companies, a ceiling of IRR 600,000 applies to the amount of the registration stamp duty	0.2
Social security contributions; on annual salaries and allowances up to IRR 48 million	
Employers	23
Employees	7
(See Section E for information regarding contract social security.)	

E. Miscellaneous Matters

Foreign-Exchange Controls. The Iranian unit of currency is the rial (IRR). In general usage within Iran, the unit of money usually referred to is the toman, which equals IRR 10.

Effective from 21 March 2002, the government abandoned the two-tier exchange rate system and introduced a single rate, which now approaches the free market rate (the current exchange rate is IRR 8,400 = US$1).

Remittances of profits are guaranteed if they arise from investments made in accordance with the foreign-investment law.

Branches of foreign companies in Iran may remit only the foreign-exchange portion of their Iranian contracts, in accordance with the terms and conditions stipulated in their contracts. In practice, such amounts are paid abroad through letters of credit opened by the owner of the contract. Any rial receipts and any surplus held by a foreign branch in rials are not freely convertible.

Transfer Pricing. The Iranian tax authorities have not established any transfer-pricing rules.

Antiavoidance Legislation. Iranian law does not contain any detailed antiavoidance measures, but the tax office uses its discretion to deal with antiavoidance issues.

Contract Social Security. Under social security regulations, contract work performed in Iran is subject to arbitrary social security (contract social security). The contract social security charge is 7.78% of the contract value if the contract includes local supplies or if the work involved is primarily mechanical. Otherwise, the rate is 16.67%. Owners of the contracts must retain 5% of each invoice and the entire amount of the last invoice. They must release the amount retained on the submission of a social security clearance certificate by the contractor. This certificate may be obtained by paying the applicable arbitrary charge after deducting payroll social security contributions paid by the contractor during the performance of the contract. Work done outside Iran is exempt from contract social security.

F. Treaty Withholding Tax Rates

Iran has signed double tax treaties with several countries. Withholding tax rates under these treaties are listed in the table below.

	Dividends %	Interest (b) %	Royalties %
Armenia	10/15 (a)	10	5
Austria	5/10 (a)	5	5
Belarus	10/15 (a)	5	5
Bosnia-Herzegovina	10	– (c)	– (c)
China	10	10	10
France	15/20 (a)	15	10
Georgia	5/10 (a)	10	5
Germany	15/20 (a)	15	10
Kazakhstan	5/15 (a)	10	10
Lebanon	5	– (c)	– (c)
Pakistan	5	– (c)	– (c)
Qatar	5/7.5 (a)	– (c)	– (c)
Romania	10	10	10
Russian Federation	5/10 (a)	7.5	5
South Africa	10	5	10
Sri Lanka	10	– (c)	– (c)
Syria	7	– (c)	– (c)
Turkmenistan	10	– (c)	– (c)
Ukraine	10	– (c)	– (c)
Nontreaty countries	0	– (d)	5/7.5 (d)

(a) The lower rate applies if the recipient of the dividends owns directly a shareholding of 25% (20% for Kazakhstan) in the payer of the dividends. The higher rate applies to other dividends.
(b) The rate is 0% for interest paid to the government of the other contracting state.
(c) The treaty does not provide a maximum withholding tax rate. As a result, the domestic withholding tax rate applies.
(d) See Section A.

IRELAND, REPUBLIC OF

(Country Code 353)

The e-mail addresses for the persons listed below who are resident in Ireland are in the following standard format:

firstname.surname@ie.ey.com

Punctuation marks within a name are ignored. For example, the e-mail address for Eamonn O'Doherty is the following:

eamonn.odoherty@ie.ey.com

The e-mail address for the person not resident in Ireland is listed below the respective person's name.

DUBLIN **GMT**

Ernst & Young **(1) 475-0555**
Ernst & Young Building **Fax: (1) 475-0599**
Harcourt Centre
Harcourt Street
Dublin 2
Republic of Ireland

Corporate Tax

Joe Bollard, *Technology* **(1) 479-2102**
Dermot Clarke, *Technology* **(1) 479-2105**
Declan Gavin **[1] (212) 773-8744**
(resident in New York) **E-mail: declan.gavin@ey.com**

PJ Henehan, *Financial Services*	**(1) 479-2111**
★ Eamonn O'Doherty, *Industrial and Commercial*	**(1) 479-2121**
Declan O'Neill, *Industrial and Commercial*	**(1) 479-2123**
Donal O'Sullivan, *Financial Services*	**(1) 479-2125**
David Smyth, *Financial Services*	**(1) 479-2131**

Human Capital

◆ Jim Ryan	**(1) 479-2129**

Private Client Services

◆ Fred Kerr	**(1) 479-2115**

Indirect Taxes

Breen Cassidy	**(1) 479-2104**
◆ Jim Somers	**(1) 479-2132**

Foreign Desks

David M. Allgaier, *United States*	**(1) 479-2157** **Mobile: (87) 264-3778**

CORK GMT

Ernst & Young — **(21) 427-7116**
Stapleton House — **Fax: (21) 427-2465**
89 South Mall — **(21) 427-7317 (Tax)**
Cork
Republic of Ireland

Corporate Tax

Kevin Kenny	**(21) 427-7116**

Human Capital

Sheila Dowling	**(21) 427-7116**

GALWAY GMT

Ernst & Young — **(91) 530-600**
Dockgate — **Fax: (91) 565-242**
Dock Road
Galway
Republic of Ireland

Corporate Tax

Jerry O'Leary	**(91) 530-650**

LIMERICK GMT

Ernst & Young — **(61) 319-988**
Barrington House — **Fax: (61) 319-865**
Barrington Street
Limerick
Republic of Ireland

Corporate Tax

John Heffernan	**(61) 317-784**

WATERFORD GMT

Ernst & Young — **(51) 872-094**
Annaville House — **Fax: (51) 872-392**
Newtown
Waterford
Republic of Ireland

Corporate Tax

Paul Fleming	**(51) 872-094**

A. At a Glance

Corporate Income Tax Rate (%)	12.5 (a)
Capital Gains Tax Rate (%)	20 (b)
Branch Tax Rate (%)	12.5 (a)
Withholding Tax (%)	
Dividends	20 (c)(d)
Interest	20 (d)(e)
Royalties	20 (d)(f)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1
Carryforward	Unlimited

(a) This rate applies to trading income. A 25% rate applies to certain income and to certain activities. Profits from the sale of goods manufactured in Ireland and from certain other activities are taxed at an effective rate of 10%. For details concerning these rates, see Section B.
(b) A 40% rate applies to disposals of certain life insurance policies.
(c) This withholding tax is imposed on dividends distributed subject to exceptions (see Section B).
(d) Applicable to both residents and nonresidents.
(e) Bank interest paid to nonresidents is exempt from withholding tax. Irish resident companies and pension funds are exempt from withholding tax on interest derived from bank accounts, subject to certain conditions.
(f) Under Irish domestic law, withholding tax on royalties applies only to patent royalties and to other payments regarded as "annual payments" under Irish law.

B. Taxes on Corporate Income and Gains

Corporation Tax. A company resident in Ireland is subject to corporation tax on its worldwide profits (income plus capital gains). A company resides where its real business is carried on, that is, where the central management and control of the company is exercised. In addition, a company incorporated in Ireland is treated as resident for tax purposes in Ireland unless either of the following applies:

- The company or a related company (50% common ownership of ordinary share capital) carries on a trade in Ireland and either of the following conditions is satisfied: the company is controlled by persons (companies or individuals) resident in a European Union (EU) member country or in a country with which Ireland has entered into a tax treaty (treaty country), provided these persons are not controlled by persons that are not resident in such countries; or the principal class of shares in the company or a related company is substantially and regularly traded on one or more recognized stock exchanges in an EU or treaty country.
- The company is regarded under a tax treaty as being resident in a treaty country and not resident in Ireland.

Significant reporting requirements apply to Irish-incorporated companies that remain nonresident.

A company not resident in Ireland is also subject to corporation tax if it carries on a trade in Ireland through a branch or agency. The liability applies to trading profits of the branch or agency, other income from property or rights used by the branch or agency, and chargeable gains on the disposal of Irish assets used or held for the purposes of the branch or agency.

A company resident in a country with which Ireland has entered into a tax treaty is subject to tax only on profits generated by a permanent establishment as described in the relevant treaty. This normally requires a fixed place of business or dependent agent in Ireland. Companies that are resident in nontreaty countries and do not trade in Ireland through a branch or agency are subject to income tax on income arising in Ireland and to capital gains tax (CGT) on the disposal of certain specified Irish assets (see *Chargeable Capital Gains* below).

Rates of Corporation Tax. The standard rate of corporation tax on trading income is 12.5%.

A 25% rate applies to the following: certain nontrading income, such as Irish rental and investment income; foreign income unless the income is part of an Irish trade; and income from "working minerals" (broadly defined), petroleum activities and dealing or developing land other than construction operations (for the taxation of construction operations, see *Land Transactions* below). The effective rate of 10% for certain activities (see next paragraph) continues to apply.

A reduction in the tax rate is available on income from the sale of goods manufactured in Ireland and from some service activities, giving an effective rate of 10%. This relief continues until 31 December 2010. The 10% rate also applies until 31 December 2005 to approved service operations in the Shannon Airport Development Zone and to approved international financial activities carried on in the International Financial Services Centre (IFSC) in Dublin. Activities carried on in the IFSC include international banking, insurance, fund management, brokerage and dealer operations, treasury management, financial advice and back office operations.

On 22 July 1998, Ireland reached an agreement with the EU Commission on the phasing in of a 12.5% rate of corporation tax for trading activities. Effective from 1 January 2003, the 12.5% rate replaces the 10% rate available to companies that carry on certain manufacturing activities and to companies based in the Shannon Airport Development Zone or Dublin's IFSC.

The following are other principal aspects of the agreement with the EU Commission:

- Existing operations that are eligible for the 10% rate will continue to benefit from this rate until 31 December 2010 in the case of manufacturing activities and certain internationally traded services and until 31 December 2005 in the case of IFSC and Shannon Zone operations.
- Projects established on or after 23 July 1998 that were eligible for the 10% rate until 31 December 2002 are now subject to a 12.5% rate, effective from 1 January 2003.
- Certain specified projects on a "pipeline" list agreed to by the EU Commission that were approved by the Industrial Development Agency (IDA) Ireland (the IDA approves grants to certain foreign-owned companies engaging in manufacturing activities in Ireland) or the IFSC before 31 July 1998 may benefit from the 10% rate until December 2010 or 31 December 2005, as appropriate.

- The deadline for the approval of new projects in the IFSC or the Shannon Zone was brought forward from 31 December 2000 to 31 December 1999. Projects established in the IFSC or the Shannon Zone after that date are subject to the standard rate of corporation tax applicable at the relevant time.

Land Transactions. Several different tax rates apply to land transactions. Profits or gains derived from disposals of residential land are taxed at a rate of 20%. This rate is derived by reducing by 1/5 the normal rate on profits derived from residential land, which is 25% (see above). Most construction operations are subject to corporation tax at the standard rate.

Shipping Companies. Effective from 28 March 2003, a new tax regime applies to shipping companies that undertake qualifying shipping activities, including carriage of cargo and passengers, marine-related activities, leasing of qualifying ships and related activities. These companies may elect to be subject to a special tonnage tax regime instead of the normal corporation tax regime.

Under the tonnage tax regime, profits are calculated on the basis of a specified profit per day according to the tonnage of the relevant ship. The following are the amounts of the daily profit attributed to each qualifying ship:
- For each 100 tons up to 1,000 tons: €1.00;
- For each 100 tons between 1,000 and 10,000 tons: €0.75;
- For each 100 tons between 10,000 and 25,000 tons: €0.50; and
- For each 100 tons above 25,000 tons: €0.25.

The profits attributed to each qualifying ship for the accounting period will be determined by multiplying the daily profit as determined above by the number of days in the accounting period, or, if the ship was operated by the company as a qualifying ship for only part of the period, by the number of days in that part of the accounting period.

The standard corporation tax rate for trading income (12.5%) applies to the amount of profits determined under the rules described above.

Life Insurance Companies. For business written before 1 January 2001, policyholders are subject to income tax at the standard rate (now 20%) on the investment income and gains attributable to the policyholders. Resident individuals do not pay any further tax. Companies are subject to Irish CGT arising on the disposal of a life insurance policy and receive a credit for income tax at the standard rate deemed to have been deducted by the life insurance company. For business written after 1 January 2001, a tax-free build up of investment return over the term of the policy (gross roll-up) is allowed. However, for Irish residents, an exit tax is imposed on gains resulting from certain "chargeable events" (as defined). The exit tax is withheld at the standard rate of income tax plus 3% on the difference between proceeds on redemption, maturity or assignment, and the premiums or subscription amounts paid. Pension policies continue to benefit from gross roll-up.

Shareholder profits of domestic life insurance companies are taxed at the standard rate of corporation tax regardless of whether they relate to business written before or after 1 January 2001. Shareholder profits of IFSC companies are taxed at an effective rate of

10%. Effective from 1 January 2001, existing IFSC companies may seek business from Irish residents. The shareholder profits from this new Irish business is also taxed at the standard rate of corporation tax.

The 2002 Finance Act introduced a 20% surcharge on personal portfolio life insurance policies in addition to the normal exit tax. The surcharge retroactively applies to domestic and foreign policies that were not cashed in before 26 September 2001.

Companies investing in Irish policies are generally liable for an exit charge, as described above. However, corporate holders of certain foreign policies are subject to self-assessment tax at a rate of 25% on profits from investments in the policies. These foreign policies are policies issued by an insurance company or a branch of such a company carrying on business in a member state of the EU (other than Ireland), in a state in the European Economic Area (EEA) or in a country in the Organization for Economic Cooperation and Development (OECD) with which Ireland has entered into a tax treaty. Profits from investments in such policies accruing to Irish residents that are not companies are subject to tax at the standard rate of income tax (now 20%) plus 3%. The above rates depend on the filing of a self-assessment disclosure with the Irish authorities. Profits on investments in foreign policies, other than those mentioned above, are subject to tax at a rate of 40%. No exit charge is imposed on foreign policies. If a company investing in a life insurance policy is a close company, additional surcharges may apply.

For investment undertakings (gross roll-up funds), distributions made annually or at more frequent intervals are subject to an exit tax at the standard rate of income tax (currently 20%). Other distributions made are subject to an exit tax at the standard rate of income tax plus an additional levy of 3%. This exit tax applies to the cancellation, redemption or assignment of shares and is imposed on the difference between the amount payable to the shareholder and the amount invested by the shareholder. A pro rata calculation applies for partial disposal, redemption, cancellation, repurchase or assignment of shares unless the company has elected to apply a first-in, first-out basis of identification for such disposals. Investment in undertakings for collective investment (net funds) are subject to tax at the standard rate of income tax at the level of the fund on an annual basis with no further tax imposed on the unit holder with respect to distributions. Investments in IFSC funds are now covered by the investment undertakings rules described above. Nonresidents are exempt from the exit tax in investment undertakings described above if they provide the relevant declarations.

No annual tax is imposed on income and gains arising from an investment undertaking, but the fund deducts tax from payments made to certain unit holders in the fund. The tax deducted by the fund represents the final Irish tax liability for unit holders who are individuals. A company that has suffered withholding tax on payments from a fund, other than on redemption, treats the total amounts received as a net annual payment, which is grossed up accordingly and taxed, with credit given for the tax withheld by the fund.

Chargeable Capital Gains. Chargeable capital gains, other than the gains described in the next paragraph, are subject to corporation tax at a rate of 20%. In computing a gain, relief is given for the effects of inflation by applying an index factor. Under the 2003 Finance Act, effective from 1 January 2003, indexation relief applies only for the period of ownership of an asset up to 31 December 2002. Indexation relief does not apply to capital gains derived by life business funds. A deemed disposal system applies to the assets of such funds.

A 40% rate applies to gains on nonqualifying foreign life insurance policies arising on the death of the insured.

In calculating the liability for CGT on the disposal of development land or unquoted shares deriving their value from such land, certain restrictions apply. The adjustment for inflation is applied only to that portion of the purchase price reflecting the current use value of the land at the date of purchase (see first paragraph of this section for changes to indexation relief). The balance of the purchase price, without an adjustment for inflation, is still allowed as a deduction. Gains on development land may be reduced only by losses on development land. However, losses on development land may be set off against gains on disposals of other assets.

A nonresident company is subject to CGT on its chargeable capital gains from the following assets located in Ireland:
- Land and buildings;
- Minerals and mineral rights;
- Exploration or exploitation rights in the continental shelf;
- Unquoted shares deriving the majority of their value from such assets; and
- Assets used in a business carried on in Ireland through a branch or agency.

Exit Charge. A company that ceases to be tax resident in Ireland is deemed to have disposed of all of its assets at that time and to have immediately reacquired the assets at market value. The company is subject to CGT on any gains resulting from such deemed disposal. The tax is calculated in accordance with the normal rules under the Capital Gains Tax Act.

The exit charge does not apply if 90% of the exiting company's share capital is held by foreign companies resident in a jurisdiction with which Ireland has concluded a double tax treaty, or persons who are directly or indirectly controlled by such foreign companies.

An exemption applies to a company that ceases to be tax resident in Ireland but continues to carry on a trade in Ireland through a branch or an agency. In such circumstances, the assets used for the purposes of the branch or agency are not subject to the exit charge.

A company may postpone the charge in certain circumstances. In addition, an unpaid exit charge may be recovered from other group companies or controlling directors.

Administration. The corporation tax liability is determined by self-assessment. A company must estimate its own liability and pay at least 90% of the liability by the 21st day (previously the 28th day; see below) of the 6th month following its accounting year-end. However, a new preliminary tax system is being phased in over a five-year period. During this transition period, companies must pay two installments of preliminary tax. A percentage of the corporation tax liability must be paid 31 days before the end of the accounting period as indicated in the table below.

The first installment is payable 31 days before the end of the accounting period, and the second installment (to bring the total preliminary tax up to at least 90% of the final liability) is payable six months after the end of the accounting period.

For companies with accounting periods ending on or after 2 July 2003, if the due date of the first installment falls after the 21st day of the month (previously the 28th day), the 21st day becomes the due date.

For all companies with accounting periods ending on or after 1 January 2003, the due date for the payment of the second installment of preliminary corporation tax is six months following the end of the accounting period, unless this date falls after the 21st day of the month (previously the 28th day). In such circumstances, the payment is due on the 21st day of the month.

The new preliminary corporation tax system is being phased in as indicated in the following table.

Year in Which Accounting Period Ends	Percentage of Corporation Tax Due 31 Days Before End of Accounting Period
2002	18%
2003	36%
2004	54%
2005	72%
2006	90%

Small companies may either follow the above payment schedule or pay their first installment based on a percentage of their tax liability for the preceding year. The following are the percentages.

Year in Which Accounting Period Ends	Percentage of Corporation Tax Due 31 Days Before End of Accounting Period
2002	20%
2003	40%
2004	60%
2005	80%
2006 and future years	100%

Small companies must pay a second installment within six months (see discussion above regarding outlining the changes regarding the 21st day of the month) after the end of the accounting period. The aggregate of the two installments must equal or exceed 90% of the small companies' final corporation tax liability for the year.

If, during the transitional period, the first installment is less than the required percentage because chargeable gains arise from disposals made later in the accounting period (that is, the last six weeks), a topping-up payment may be made within one month after the end of the accounting period. If the aggregate of the first installment, top-up payment and second installments total at least 90% of the final liability, no interest charges are imposed for periods ending between 1 January 2002 and 31 December 2005.

For accounting periods that ended on or before 31 December 2002, any balance of tax due must be paid within one month of the date of issuance of the assessment by the revenue authorities, which occurs shortly after the return is filed. The 2003 Finance Act provides that for accounting periods ending on or after 1 January 2003, any balance of corporation tax due is payable by the due date for the filing of the corporation tax return (Form CT1). This is normally nine months after a company's accounting year-end.

In conjunction with the move to bring forward the payment dates for preliminary corporation tax, when the nine-month period ends on or after the 21st day of a month, the 21st of that month becomes the due date for filing the Form CT1 and the payment of any balance of corporation tax.

Because the balance of tax for accounting periods ending on or after 1 January 2003 must be paid at the same time as the filing of the corporation tax return, companies must now file corporation tax returns with the Office of the Collector General rather than with the local Inspector of Taxes office that deals with the company's affairs.

If a company does not comply with the above filing obligation, it is subject to one of the following surcharges: 5% of the tax, up to a maximum penalty of €12,695, if the filing is not more than two months late; or 10% of the tax, up to a maximum penalty of €63,485, in all other cases. In addition, the company suffers the reduction of certain tax reliefs, which consist of the set off of certain losses against current-year profits and the surrender of losses among a group of companies. The following are the applicable reductions: a 25% reduction, up to a maximum of €31,740, if the filing is not more than two months late; or a 50% reduction, up to a maximum of €158,715, in all other cases.

A limited number of cases are selected for later in-depth revenue examination, and the assessment can be increased if the return is inaccurate.

A company must file a CGT return reporting disposals of development land and related unquoted shares and pay CGT on such disposals. The 2003 Finance Act introduced new payment dates for gains realized on or after 1 January 2003. CGT may be due twice a year, depending on the date of realization of the chargeable gains. For chargeable gains arising during the period of 1 January to 30 September, CGT must be paid by 31 October that same year. CGT on gains arising in the period of 1 October to 31 December are due on or before 31 January of the following year.

Dividends

Dividend Withholding Tax. Dividend withholding tax (DWT) is imposed on distributions made by Irish companies at a rate of 20%.

The law provides for many exemptions from DWT. Dividends paid to the following recipients are not subject to DWT:
- Companies resident in Ireland;
- Approved pension schemes;
- Qualifying employee share ownership trusts;
- Collective-investment undertakings;
- Charities;

- Certain sports bodies promoting athletic or amateur games; and
- Trustees of Approved Minimum Retirement Funds (funds held by qualifying fund managers on behalf of the individuals entitled to the assets).

Additional exemptions are provided for nonresidents. Distributions are exempt from DWT if they are made to the following:

- Nonresident companies, which are under the direct or indirect control of persons (companies or individuals) who are resident in an EU member country or in a country with which Ireland has entered into a tax treaty (treaty country), provided that these persons are not under the control of persons not resident in such countries.
- Nonresident companies, or 75% parent companies of nonresident companies, the principal class of shares of which is substantially and regularly traded on a recognized stock exchange;
- Companies not controlled by Irish residents that are resident in an EU member country or a treaty country;
- Noncorporate persons who are resident in an EU member country or a treaty country and are neither resident nor ordinarily resident in Ireland; and
- Certain qualifying intermediaries and authorized withholding agents.

Detailed certification procedures apply to most of the exemptions from DWT described above.

DWT does not apply to dividends covered by the EU Parent-Subsidiary directive. Antiavoidance provisions prevent the use of EU holding companies to avoid DWT. If a majority of an EU parent company's voting rights are controlled directly or indirectly by persons not resident in an EU or tax treaty country, DWT applies unless it can be established that the parent company exists for bona fide commercial reasons and does not form part of a tax avoidance scheme. DWT may also be recovered under a double tax treaty.

DWT may be claimed as a credit against the recipient's income tax liability. Recipients not subject to income tax may obtain a refund of DWT. Effective from 6 April 2000, distributions paid out of certain types of exempt income, such as exempt stallion fees, woodland income or patent income, are not subject to DWT.

Companies must file a return within 14 days after the end of the calendar month of the distribution. The return is required regardless of whether DWT applies to the distributions. Any DWT due must be paid over to the Collector General when the return is filed.

Other. A company resident in Ireland can exclude from its taxable income distributions received from Irish resident companies. Irish resident shareholders, other than companies, are subject to income tax on the distribution received.

Foreign Tax Relief. Under tax treaty provisions, direct foreign tax on income and gains of an Irish resident company may be credited against the Irish tax levied on the same profits. However, foreign tax relief cannot exceed the Irish corporation tax attributable to the same profits.

For the purposes of calculating the credit under tax treaties, the income derived from each country is generally treated as a separate stream. Consequently, foreign tax may generally be credited only against the Irish corporation tax on the income that suffered the foreign tax. The only exception to the separate-stream rule applies to interest received by certain nonbanking financial enterprises qualifying for the reduced 10% corporation tax rate from 25%-or-greater associated companies. (In general, nonbanking financial enterprises are companies operating in the IFSC that are not credit institutions; credit institutions are defined as enterprises engaged in the receipt of deposits or other repayable funds from the public and the granting of credit on their own account.) If any additional credit is available as a result of this exception, the additional credit is limited to 35% of the Irish corporation tax that would otherwise have been payable on that interest income.

If no treaty exists, a deduction for foreign tax paid is allowed against such income and gains. However, companies that derive income from the following activities are also entitled to a 9/10 unilateral foreign tax credit against the corporation tax payable with respect to such income:

- Sales of computer software;
- Computer services (which are defined as data processing services, software development services, and technical or consultancy services relating to either of the first two types of services); and
- Services provided in the Shannon Airport Development Zone or from the IFSC that qualify for the 10% rate of tax.

The 2002 Finance Act introduced a measure that provides for unilateral credit relief for foreign tax paid by a company on interest income that is included in the trading income of the company for Irish corporation tax purposes. The relief is available only if the company cannot claim relief under a double tax treaty for the foreign tax and if the tax has not been repaid to the company. The unilateral relief is equal to the lesser of the Irish corporation tax attributable to the relevant interest or the foreign tax attributable to the relevant interest.

Ireland has enacted EU Directive 90/435/EEC into law. Under the directive, a company resident in Ireland for tax purposes (and not tax-resident in a non-EU state under a tax treaty), which is not exempt from taxation in Ireland and receives distributions from a company resident in another EU state, may credit the underlying foreign tax on the profits out of which the distributions are paid against Irish tax on the distributions if the Irish company owns at least 25% of the share capital of the payer. The ownership condition may be varied by a tax treaty to require at least 25% ownership for a period of two years or at least 25% of the voting rights.

Unilateral credit relief may be available for Irish resident companies, or Irish branches of companies resident in the EU or in EEA states with which Ireland has entered into a tax treaty, receiving dividends from foreign subsidiaries. Under the measures, such a company receiving a dividend from a 25% subsidiary that is resident in a country with which Ireland does not have a double tax treaty is entitled to reduce the Irish tax on the dividend by any direct or withholding tax imposed on the dividend in that country and by an appropriate portion of the foreign tax imposed on the income underlying the dividend. For this purpose, a 25% subsidiary relationship exists if the parent company owns directly or indirectly 25% of the voting rights. Unilateral credit relief may be claimed even if a double tax treaty applies. This is useful if the relief provided under a tax treaty is not as beneficial as unilateral tax relief.

A parent company receiving a dividend from its 25% subsidiary (whether resident in a tax treaty country or not) that itself has subsidiaries is entitled to reduce the Irish tax by an appropriate amount of tax (direct or withholding) and by the underlying tax borne by that subsidiary and its subsidiaries, and so on down through the chain of companies. This relief is subject to the following conditions: the payer of the dividend must be a 25% subsidiary of the recipient of the dividend; and the distributing company must be connected with the ultimate parent company. A company is connected if 10% of its voting rights is held directly or indirectly by the ultimate parent company.

C. Determination of Trading Income

General. The calculation of trading income is based on the company's accounts prepared in accordance with generally accepted accounting principles, subject to certain adjustments and provisions.

Patent royalties from patents created in Ireland are exempt from tax if certain conditions are satisfied. If derived from Irish sources, income derived from commercial woodlands, stallion fees and greyhound service fees is also exempt from tax. These exemptions apply only to Irish resident companies.

Expenses must be incurred wholly and exclusively for the purposes of the trade and be of a revenue (as distinct from capital) nature. However, entertainment expenses are totally disallowed, unless they are incurred for employees only. The deductibility of motor leasing expenses is restricted. However, the restriction on motor vehicle operating expenses is eliminated for accounting periods ending on or after 1 January 2002.

Revenue expenditure incurred in the three years before the beginning of trading is generally deductible.

Depreciation of assets is not deductible. Instead, the tax code provides for a system of capital allowances (see *Tax Depreciation (Capital Allowances)* below).

Interest Payments. Certain types of interest paid in an accounting period may be classified as a distribution and, consequently, are not treated as an allowable deduction. The 2003 Finance Act introduced a measure providing that interest paid by an Irish resident company to an EU resident company on or after 6 February 2003 is allowed as a trading deduction and is not treated as a distribution, subject to certain conditions and exceptions. For interest paid to 75%-nonresident affiliated companies in certain countries that entered into a tax treaty with Ireland before the introduction of the Irish corporation tax in 1976, by concession, the revenue authorities allow companies to continue to treat such interest as deductible interest rather than as a nondeductible distribution. Companies carrying on approved international financial services activities in the IFSC or Shannon Airport Development Zone may elect to have interest reclassified as a deductible expense if it is not excessive.

Banks may deduct interest payments made to nonresident group companies in calculating trading income (that is, the payments are not reclassified as distributions).

Companies may pay interest gross to banks and other financial service companies that make loans in the ordinary course of business. The company receiving the interest must notify the company making the payment that it is entitled to receive it gross and also notify the tax authorities of this entitlement.

The 2003 Finance Act introduced complex provisions concerning the tax deductibility of interest payments. These amendments may have adverse consequences, including a denial of a tax deduction for interest in certain circumstances or a deferral of the timing of a deduction for interest expense.

Charges on income, such as certain interest expenses and patent royalties, are not deductible in the computation of taxable trading income, but may be deducted when paid as a charge from total profits (that is, income and capital gains). A tax deduction for interest as a charge is available if the funds borrowed are used for the following purposes:
- Trade or business purposes;
- Acquisition of rental property;
- Acquisition of shares in a rental or trading company, or a company whose business principally consists of holding shares in trading or rental companies; or
- Certain other purposes specified in the law.

Deductions of interest as a charge have always been subject to certain conditions and antiavoidance measures. The 2003 Finance Act expands the scope of the antiavoidance measures. These changes have added complexities to the implementation and maintenance of structures designed to qualify for this interest relief.

Under the new measures, interest relief is restricted if the borrower receives, or is deemed to have received, a "recovery of capital." A "recovery of capital" may arise in various situations, including, among others, the following:
- The borrower sells or is repaid any part of the share capital of the company in which it invests (or a connected company);
- The borrower receives repayment of a loan from the company in which it has invested (or a connected company); and
- The borrower receives consideration for assigning a debt due from the company in which it has invested (or a connected company).

Under the 2003 Finance Act, recoveries of capital now also include certain transactions by the borrower within the two-year period before the date of the granting of the loan.

The 2003 Finance Act contains several exceptions designed to facilitate bona fide transactions that would otherwise fall afoul of the antiavoidance provisions. These transactions include the following:
- The reinvestment of the funds for trade purposes;
- The acquisition of rental property; and
- The use of the funds for other purposes specified in the law.

The new rules apply to any actual or deemed recovery of capital occurring on or after 6 February 2003.

Under another measure in the 2003 Finance Act, a tax deduction for interest accrued on a liability between connected persons (including companies and individuals) may be deferred until such time when the interest is actually paid. This is a significant departure from the previous tax treatment of such interest and may adversely affect the tax liability of certain taxpayers.

One of the core principles in Irish tax legislation is that taxpayers are taxed on their profits as prepared under generally accepted accounting principles (GAAP). The accounting rules provide that expenses accruing in an accounting period are included in the profit-and-loss account for that period. This section introduces a general exception to this rule for interest.

Under prior law, a borrower could accrue an interest charge on a loan and claim a corresponding tax deduction, while the lender might not be subject to tax until the interest was actually paid. As a result of the amendments introduced by the 2003 Finance Act, connected parties may no longer benefit from such arrangements. The new measure applies if all of the following circumstances exist:

- The interest is payable directly or indirectly to a connected person;
- The interest would, apart from the new measure, be allowable in computing the trading income of a trade carried on by the payer; and
- The interest is not trading income in the hands of the recipient, as determined under Irish principles.

Detailed rules provide for the apportionment of interest between allowable and nonallowable elements. The amendments apply to accounting periods ending on or after 6 February 2003.

Foreign-Exchange Gains and Losses. Realized and unrealized foreign-exchange gains and losses relating to monies held or payable by a company for the purpose of its business, or to hedging contracts with respect to such items, are included in the taxable income of a company to the extent the gains and losses have been properly recorded in the company's accounts. If a company acquires a shareholding in a 25% subsidiary in a foreign currency and that acquisition is funded by a liability (borrowings, share capital or a capital contribution) in the same foreign currency, the company can elect to match the foreign currency gain or loss on the asset (the shares in the 25% subsidiary) with the foreign currency gain or loss on the liability. As a result, the company is taxable only on the real economic gain or loss on the asset and not on currency movements against which it is economically hedged. A company must make the matching election within three weeks of the making of the investment. These new matching rules are effective for accounting periods ending on or after 6 February 2003.

Inventories. Stock is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis or some approximation of FIFO; the last-in, first-out (LIFO) basis is not acceptable.

Provisions. General provisions and reserves are not allowable deductions. Some specific provisions and reserves, including reserves for specific bad debts, may be allowed.

Tax Depreciation (Capital Allowances)

Plant and Machinery. Capital expenditure on plant and machinery and motor vehicles in use at the end of an accounting period is written off at an annual straight-line rate of 12.5%, effective from 4 December 2002 (previously, 20% from 1 January 2002 through 3 December 2002).

The maximum qualifying expenditure for capital allowances on motor vehicles is €22,000, effective from 1 January 2002 (the previous amount was €21,586).

For plant and machinery purchased before 1 January 2001, the annual allowance was normally calculated at a rate of 15% under the straight-line method for the first six years, with the remaining 10% deducted in the seventh year. Capital allowances on cars were calculated at a rate of 20% under the declining-balance method. Under a simplification measure introduced by the 2002 Finance Act, companies may elect to treat expenditure incurred before 1 January 2001 as part of a pool, and allowances on the assets in the pool may be claimed on a straight-line basis at an annual rate of 20% for five years. The election of pooling may ease administration, but may produce a less favorable tax result, because the allowances are claimed over a longer period.

An immediate 100% write-off is allowed for capital expenditure on oil and gas exploration, development and abandonment, incurred under a license issued by the Minister for Energy.

Immovable Property. The basic annual rate is 4% for industrial buildings. The 2003 Finance Act changed the capital allowances regime for hotels. Capital expenditure incurred on hotels on or after 4 December 2002 is written off over 25 years (previously 7 years). Certain transitional measures apply if a binding contract is in place and if the expenditure is incurred before 31 December 2004.

Urban Renewal Schemes. Under existing urban renewal schemes, capital allowances apply to qualifying expenditure incurred in the period of 1 July 1999 through 31 December 2004. Unlike previous urban renewal schemes, specific reliefs are not available on a blanket basis, but are targeted at specific projects in the relevant areas. Ministerial orders designate which reliefs apply to what areas, taking into account the integrated area plans produced by the relevant local authorities. The reliefs include accelerated capital allowances of up to 50% for commercial and industrial buildings. The 2003 Finance Act includes measures to facilitate the termination of the urban renewal schemes, effective from 31 December 2004.

Capital allowances on commercial premises under many urban renewal schemes are restricted to premises used for retailing or the supply of local goods and services. Commercial premises used for offices, mail-order businesses or financial services businesses do not qualify under the revised rules.

Telecommunication Infrastructure. The 2000 Finance Act introduced a capital allowance for capital expenditure incurred on the purchase of rights to use advanced telecommunication infrastructure. These intangible rights typically extend from 10 to 25 years. They are usually purchased with an upfront lump-sum payment. Under the 2000 Finance Act, the expenditure incurred by a company on such rights may be written off over the life of the agreement relating to the use of the rights, with a minimum period of seven years. The allowance became effective on 28 March 2003. The allowance generally applies to expenditure incurred on or after 1 April 2000. However, the allowance does not apply to expenditure incurred on or after 6 February 2003 with respect to licenses issued on or after that date by the Commission for Communications Regulations under the Wireless Telegraphy Acts 1926 to 1988 or the Postal and Telecommunications Services Act 1983.

Childcare Facilities. A 100% capital allowance is available for childcare facilities.

Other. Capital allowances are also available on expenditure incurred for scientific research, patent rights, dredging, multilevel garages in urban renewal areas outside Cork and Dublin, mining development, ships, agricultural buildings, private nursing homes, third-level education buildings, park and ride facilities, and petroleum exploration, development and production. Capital allowances are also available for expenditure incurred on private hospitals and sports injury clinics, effective from 15 May 2002.

On the disposal of plant and machinery, a balancing charge or allowance applies, depending on the amount received on disposal compared with the written-down value of the asset. Balancing charges are not imposed with respect to plant and machinery if the proceeds from the disposal are less than €2,000.

Relief for Losses. Under ring-fencing rules for losses introduced in the 2001 Finance Act, trading losses and charges incurred by a company in an accounting period in a trading activity that is not subject to the 25% corporation tax rate can only be offset against profits of that accounting period or the preceding accounting period to the extent that the profits consist of trading income not subject to such rate. Before 1 January 2003, manufacturing losses and charges could not be offset against nonmanufacturing trading income. However, manufacturing losses and charges arising on or after that date can be offset against such income. Any unused trading losses may be carried forward to offset future trading income derived from the same trade, regardless of the nature of the trading losses.

The 2002 Finance Act introduced changes regarding the use of losses and charges. It provides that relief is available through a reduction of corporation tax on a value basis. For example, in 2003, when the standard corporation tax rate on trading income was 12.5%, 12.5% of the trading loss may be offset against the corporation tax liability of a company with respect to profits from all sources. The 2003 Finance Act provides that value-based loss claims may be made only after all other loss claims have been exhausted. This measure applies to claims made on or after 6 February 2003. The full amount of the trading loss that is so utilized is regarded as being used up for purposes of calculating losses that may be carried forward. In effect, a company needs trading losses equal to twice the amount of its passive income to eliminate its tax liability on such income. Manufacturing losses are also usable on a value basis. The changes to the loss relief rules apply retroactively to accounting periods ending on or after 6 March 2001.

Groups of Companies. Certain tax reliefs are available to a group of companies that meet the following requirements:

- The group companies have a minimum share relationship of 75%;
- The parent company is entitled to 75% of distributable profits; and
- The parent company is entitled to 75% of assets available for distribution on a winding up.

Such companies may transfer surplus losses and excess charges on income. Surplus losses of companies owned by a consortium may also be transferred (for further details concerning consortiums, see Section B).

Group and consortium relief are available if all of the companies in the group or consortium are resident in the EU or in an EEA member country with which Ireland has entered into a tax treaty (EEA tax treaty country). Norway, Iceland and Liechtenstein are the only non-EU members of the EEA, and Norway is the only non-EU member of the EEA with which Ireland has entered into a tax treaty. Ireland is negotiating a tax treaty with Iceland. Loss relief is restricted to losses incurred in a business carried on by a company subject to Irish corporation tax.

In a 75% group, assets may be transferred without generating a chargeable gain. An asset retains its tax value while it is held within the group. The tax value is generally based on original cost; for assets acquired before 6 April 1974, the tax value is computed with reference to the market value on that date. If an asset is transferred to a company that leaves the group within 10 years after the transaction, the asset is deemed to be disposed of at the time the company leaves the group.

A nonresident company that is resident in the EU or in an EEA tax treaty country may be taken into account in determining whether a group exists for chargeable gains purposes. An Irish branch of an EU-resident company or a company resident in an EEA tax treaty country that is a member of a group may transfer assets to another member of a group on a tax-neutral basis. Any gain arising on the transfer is not taxable until the asset is sold outside the group. To qualify for such relief, the following conditions must be satisfied:

- Each of the companies in the group must be resident in Ireland, in another EU country or in an EEA tax treaty country;
- Any companies not resident in Ireland must be carrying on a trade in Ireland through a branch; and
- The transferred asset must be a chargeable asset for CGT purposes in Ireland.

Dividends paid between Irish resident companies are not subject to DWT (see Section B) if the appropriate declarations are made. However, effective for distributions made on or after 6 April 2001, a 51% subsidiary resident in Ireland may pay dividends free of DWT without the parent company making a formal declaration to the subsidiary that it is an Irish resident company. Withholding tax is not imposed on interest and royalty payments between members of a 51% group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods or services, other than an exempt supply made in or deemed to be made in Ireland, and on imports from other than EU member states at the point of entry	
Standard rate	21
Other rates	0/4.3/13.5
Capital duty, on the issue of or increase in a limited company's share capital; based on the higher of the actual or nominal value of the shares issued	1
Stamp duty, on certain documents (maximum rate)	9
Pay-related social insurance (PRSI) and income levies (for the period ending 31 December 2003), on employees' salaries; paid by	
Employers	
For employees earning a weekly salary of more than €355; on each employee's salary without limit	10.75
For employees earning a weekly salary of €355 or less	8.5
Employees	
On annual salary up to €40,420 (The PRSI component of this rate is 4%. In calculating the salary subject to PRSI, an individual may deduct an allowance of €127 per week, up to a maximum of €6,604 per year. The allowance is deductible on a noncumulative basis. Consequently, if an employee earns less than the allowance in one week, he or she may not carry forward the surplus allowance to the following weeks.)	6
On annual salary in excess of €40,420	2

E. Miscellaneous Matters

Foreign-Exchange Controls. Foreign-exchange controls are not imposed, except in very limited circumstances at the discretion of the Minister for Finance. For example, the minister may impose foreign-exchange controls to comply with EU law or a United Nations resolution.

Debt-to-Equity Ratios. No thin-capitalization rules exist, but interest payments to 75%-nonresident affiliated companies may be treated as distributions of profit and consequently are not deductible (for details regarding this rule, see Section C).

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties (c) %
Australia	0	10	10
Austria	0	0	0
Belgium	0	15	0
Bulgaria (j)	0	0/5 (e)	10
Canada (l)	0	20	20 (d)
China	0	0/10 (e)	6/10 (j)
Croatia (m)	0	0	0
Cyprus	0	0	0
Czech Republic	0	0	10
Denmark	0	0	0
Estonia	0	0/10 (e)	5/10 (f)
Finland	0	0	0
France	0	0	0
Germany	0	0	0
Hungary	0	0	0
India	0	0/10 (e)	10 (k)
Israel	0	10	10
Italy	0	10	0
Japan	0	10	10
Korea	0	0	0
Latvia	0	10	5/10 (f)
Lithuania	0	10	5/10 (f)
Luxembourg	0	0	0
Malaysia	0	10	8
Mexico	0	0/5/10 (g)	10
Netherlands	0	0	0
New Zealand	0	10	10
Norway	0	0	0
Pakistan	0	0	0
Poland	0	10	10
Portugal	0	15	10
Romania	0	0/3 (i)	0/3 (h)
Russian Federation	0	0	0
Slovak Republic	0	0	0/10 (h)
Slovenia	0	0/5 (e)	5
South Africa	0	0	0
Spain	0	0	5/8/10
Sweden	0	0	0
Switzerland	0	0	0
United Kingdom	0	0	0
United States	0	0	0
Zambia	0	0	0
Nontreaty countries	20 (n)	20	20

(a) Withholding tax at a rate of 20% applies to dividends distributed on or after 6 April 2001. The table assumes that the recipient of the dividends is not a company controlled by Irish residents (that is, the domestic measure providing that DWT is not imposed on payments to residents of treaty countries applies). If domestic law allows the imposition of DWT, a refund of the DWT may be obtained under the terms of an applicable tax treaty.

(b) Interest is exempt from withholding tax if it is paid by a company or collective-investment undertaking in the ordinary course of its business to a company resident in an EU member country or a country with which Ireland has entered into a tax treaty. A reporting requirement exists. Greece is the only EU country with which Ireland has not entered into a tax treaty. Consequently, interest payments described above that are made to Greek companies are normally not subject to withholding tax.

(c) Under Irish domestic law, withholding tax on royalties applies only to patent royalties and to other payments regarded as "annual payments" under Irish law.

(d) Copyright royalties and similar payments for any literary, dramatic, musical or artistic work (except motion pictures, films, videotapes and similar items) are exempt unless the recipient has a permanent establishment in Ireland and the income is derived there.

(e) The 0% rate applies in certain circumstances, such as if the interest is paid by, or received from, a central bank or local authority.

(f) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.

(g) The 0% rate applies in certain circumstances, such as if the interest is paid by or received from a central bank or local authority or if it is received by an exempt approved pension fund. The 5% rate applies if the beneficial owner of the interest is a bank. The 10% rate applies to other interest.

(h) A 0% rate applies to royalties for the use of copyrights of literary, artistic or scientific works, including motion pictures, film recordings on tape, other media used for radio or television broadcasting or other means of reproduction or transmission.

(i) The 0% rate applies to interest paid to banks or financial institutions, interest paid on loans with a term of more than two years and interest paid in certain other circumstances.

(j) The withholding tax rate for royalties is 10%, but only 60% of royalties for the use of, or right to use, industrial, commercial or scientific equipment is taxable.

(k) This rate also applies to technical services fees.

(l) On 8 October 2003, Ireland signed a new tax treaty with Canada, but this treaty has not yet been ratified. On ratification, the new treaty will replace the existing treaty between the countries. The new treaty is not expected to be ratified until 2004 and, accordingly, is not likely to be effective until 1 January 2005. The withholding tax rates under the existing treaty are shown in the table above. Under the new treaty, the normal withholding tax rate for interest will be 10%, but a 0% rate will apply in certain circumstances. The new treaty provides for a normal withholding tax rate of 10% for royalties. However, the following royalties will be exempt unless the recipient has a permanent establishment in Ireland and the income is derived there: copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or artistic works (but not including royalties paid for motion picture films or for works on film or videotape or other means of reproduction for use in connection with television broadcasting); and royalties for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experience (but not including any such royalties in connection with rental or franchise agreements).

(m) The treaty with Croatia is effective from 1 January 2004 for corporation tax, income tax and capital gains tax.

(n) Irish domestic law may provide for an exemption from DWT under certain circumstances (see Section B).

ISLE OF MAN

(Country Code 44)

Copies of all e-mails should be sent to the following address:
pduffy@im.ey.com

DOUGLAS **GMT**

Ernst & Young **(1624) 691-800**
Rose House **Fax: (1624) 691-801**
51 – 59 Circular Road
Douglas IM1 1AZ
Isle of Man

Corporate Tax
Paul Duffy **(1624) 691-818**
E-mail: pduffy@im.ey.com

★ Gerard Mahr (1624) 691-840
E-mail: gmahr@im.ey.com
Jeremy Herridge (1624) 691-837
E-mail: jherridge@im.ey.com

Value-Added Tax
Steven Cain (1624) 691-841
E-mail: scain1@im.ey.com

A. At a Glance

Resident Corporation Income Tax Rate (%)	
Trading Companies	10 (a)
Investment Companies	18
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	18
Exempt Company Fee (Annual)	£430
Nonresident Company Duty (Annual)	£830
Withholding Tax (%)	
Dividends	0/18 (b)
Interest	0/18 (b)
Royalties and Franchise Payments	18
Net Operating Losses (Years)	
Carryback	1
Carryforward	Unlimited

(a) Companies meeting certain conditions may qualify as exempt companies, which pay only an annual fee. They may also qualify as International Companies (ICs), which pay tax equal to the greater of a minimum charge or an amount calculated by applying a negotiated rate to all or part of their income. The negotiated rate may be as high as 35%, but in the majority of cases, it is less than the higher corporate income tax rate of 18%. Effective from 1 January 2006, a standard 0% rate will apply to business income, and the exempt company and IC regimes will be eliminated. For further details, see Section B.

(b) 18% is withheld if dividends or interest other than bank and building society deposit interest is paid to a company or individual that is not resident in the Isle of Man, unless the payer is an exempt company or an IC (see Section B).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in the Isle of Man are subject to income tax on their worldwide income, but relief from double taxation is available (see *Foreign Tax Relief* below). A nonresident company with a branch carrying on a trade in the Isle of Man is subject to tax on the income of the branch. A company is resident in the Isle of Man if central management and control of the company are exercised there. Companies incorporated in the Isle of Man are resident unless they have filed a nonresident declaration. However, the filing of new nonresident declarations has not been allowed since 6 April 1999.

Rates of Corporation Tax. For the year of assessment ending 6 April 2004, a 10% rate applies to the first £100 million of trading profits derived by resident trading companies from a business carried on in the Isle of Man. The £100 million limit applies to taxable income, after taking into account capital allowances, distributions and loss or group relief. Incidental investment income is treated as trading profits for purposes of the 10% rate. A 15% rate applies to the profits of trading companies in excess of £100 million. In practice, no companies pay the higher rate.

An 18% tax rate applies to investment companies resident in the Isle of Man and to branches of foreign companies not resident in the Isle of Man.

Future Taxation Strategy. On 25 June 2002, the Treasury proposed a standard 0% rate of income tax for business activities, which will be effective from 1 January 2006. This rate will replace the existing regimes for exempt companies and International Companies (see below). It meets the European Union (EU) Code of Conduct on Business Taxation, which seeks the phasing out of special preferential rates for particular types of business. The zero rate will apply to all business activities, except for a few business activities within specified regulated business sectors, such as the deposit-taking industry. The withholding taxes regime on dividends and interest paid to nonresidents will also be eliminated, effective from 1 January 2006.

Funds Industry. Certain measures, which are described below, were introduced in 2003 with respect to the Isle of Man's fund management industry.

A 0% tax rate applies to third-party fund administrators, and to managers of Experienced Investment Funds (EIFs) and Professional Investment Funds (PIFs). This represents an extension of the 0% tax regime that applies to the profits of fund managers.

Management fees paid to managers of EIFs and PIFs are now exempt for value-added tax (VAT) purposes.

Overseas funds may be administered in the Isle of Man without being subject to Isle of Man regulations if they are incorporated in a jurisdiction with an appropriate regulatory framework.

Exempt Companies. Until 1 January 2006 (see *Future Taxation Strategy* above), private companies incorporated in the Isle of Man and foreign companies registered under the Isle of Man Companies Act 1931 may apply for exempt status. To qualify for exempt status, a company must meet the following conditions:
- It may not carry on business in the Isle of Man or derive income, other than deposit interest, from the Isle of Man, except from other exempt companies;
- At least one of the directors of the company must be resident in the Isle of Man;
- The secretary of the company must be resident in the Isle of Man and possess certain professional qualifications; and
- No resident of the Isle of Man, except for other exempt companies, may have an interest in the company.

Exempt companies are exempt from corporate income tax. They must pay a standard annual fee of £430 by 30 June of the year of assessment for such exemption, or within 30 days of beginning business activities. Applications made after 30 June (but no later than 30 September) must pay a fee of £1,200. Exempt companies are not subject to withholding taxes.

International Companies. Until 1 January 2006 (see *Future Taxation Strategy* above), Isle of Man and foreign-registered companies, as well as Isle of Man branches of foreign companies, may qualify as International Companies (ICs). To qualify as an IC, a company must meet broadly the same conditions as for exempt companies (see *Exempt Companies* above).

Under the International Business Act, ICs pay the greater of a minimum charge or income tax assessed on all or part of a company's income. The proportion of the income subject to tax and the tax rate are determined through negotiation with the Assessor of Income Tax and are specified by the Assessor in the notice of assessment. The maximum tax rate is 35%, but in the majority of cases, the tax rate is lower than the Isle of Man's higher corporate income tax rate of 18%. ICs are not subject to withholding tax.

The amount of the minimum charge depends on when in the year of assessment application for IC status is filed. The following are the applicable minimum charges:

- Application filed not later than 5 August: £1,200 (£2,000 for insurance companies);
- Application filed after 5 August but not later than 5 December: £2,400 (£4,000 for insurance companies); and
- Application filed after 5 December but not later than 5 April: £3,600 (£8,000 for insurance companies).

Limited Liability Companies. The Limited Liability Companies Act 1996 allows for the formation of limited liability companies (LLCs). The liability of the members of an LLC is limited to the members' contributions to capital.

For Manx tax purposes, an LLC is treated like a partnership. Consequently, an LLC's profits are allocated among its members for tax purposes. The act provides for two types of LLCs — an International LLC (no members resident in the Isle of Man) and a Resident LLC (members resident in the Isle of Man).

Members of an International LLC are not subject to income tax on income derived by the LLC. To qualify as an International LLC, a company must meet certain specified requirements including the following:

- No member of the LLC may be resident in the Isle of Man;
- No person resident on the island may have an interest in an LLC, except for an exempt company, an IC and certain shareholders in public companies;
- The company may not engage in prescribed activities, such as banking and insurance; and
- The company must derive its income from activities carried on outside the island.

An application for International LLC status must be filed annually with a fee of £430.

Nonresident Companies. A company incorporated in the Isle of Man, but not managed and controlled in the Isle of Man, does not pay Manx income tax on income earned outside the Isle of Man if it files an annual declaration that it is nonresident and if it pays an annual duty of £830. Nonresident companies are not subject to withholding taxes. Effective from 6 April 1999, the filing of an initial nonresident declaration is no longer allowed.

Capital Gains. The Isle of Man does not impose a Capital Gains Tax.

Administration. The tax year ends on 5 April. Tax returns must be filed by 30 June following the year of assessment. In general, income tax is payable by 1 January in the year of assessment. However, if the assessment is issued after 1 January, payment is due within 21 days of the assessment.

Dividends and Interest. Dividends and interest paid to nonresidents are currently subject to an 18% nonresident income tax. However, this tax will be eliminated, effective from 1 January 2006 (see *Future Taxation Strategy* above). By concession, bank and building society deposit interest paid to nonresidents is exempt from tax.

Foreign Tax Relief. Foreign tax on income of a resident company may be credited against Manx income tax on the same profits. Foreign tax relief cannot exceed the income tax assessed by the Isle of Man on those profits.

C. Determination of Trading Income

General. The tax assessment is based on financial accounts prepared using generally accepted accounting principles, subject to certain adjustments and provisions.

Expenses must be incurred wholly and exclusively for the purpose of the trade and in acquiring income. Dividends are deductible in calculating taxable profit.

Inventories. Inventory is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis; the last-in, first-out (LIFO) basis is not acceptable.

Capital Allowances (Tax Depreciation)

Plant and Machinery. A first-year allowance of up to 100% may be claimed.

Motor Vehicles. Expenditures on motor vehicles qualify for an annual allowance of 25% of the declining balance. The maximum annual allowance is £3,000.

Industrial Buildings, Agricultural Buildings and Tourist Premises. A 100% initial allowance may be claimed on capital investment to acquire, extend or alter a qualifying industrial building, agricultural building or tourist facility. This allowance is granted on expenditures in excess of any government grants received.

For tourist premises, an additional capital allowance of up to 50% is available in each of the three years after the 100% allowance is claimed, subject to the level of government grants received.

Disposals. On the ultimate disposal of assets on which capital allowances have been claimed, an adjustment is made by add-back or further allowance to reflect the net cost to the company of the asset.

Relief for Trading Losses. Trading losses may be used to offset other income of the year in which the loss was incurred or income of the preceding year if the same trade was carried on, or losses may be carried forward, without time limit, to offset future income from the same trade. Special rules apply to the carryback of losses on commencement or cessation of the trade.

Companies may also surrender losses to 75%-group companies. A recipient company can use surrendered losses only against profits earned in the same year of assessment.

If the amount of a dividend distributed by a company in a year exceeds the company's income for the year, the excess may be treated as a trading loss.

D. Other Significant Taxes

The Isle of Man and the United Kingdom are considered one area for VAT purposes, and VAT is levied in the Isle of Man at the standard U.K. rate. The Customs and Excise Division in the Isle of Man operates independently from the United Kingdom, but under similar legislation.

Under Protocol 3 of the U.K.'s Treaty of Accession to the EU, the Isle of Man enjoys the benefits of being within Europe for financial services, customs and VAT purposes, but outside the United Kingdom and the EU with respect to direct taxation and legal and regulatory matters. This makes it possible to operate businesses from the Isle of Man that are tax-exempt, but VAT-registered. It allows U.K. inward investors to arrange for VAT registration in the Isle of Man without the risk of a taxable presence in the United Kingdom.

The Isle of Man has the same system for National Insurance contributions as the United Kingdom, but the contributions are calculated at lower rates.

E. Miscellaneous Matters

Antiavoidance Provisions. The Assessor of Income Tax has the authority to make an assessment or an additional assessment in situations in which the Assessor considers Manx tax to have been avoided. Appeals are made to the Income Tax Commissioners. No assessment is made if the person involved persuades the Assessor that either of the following conditions was satisfied:

- The purpose of avoiding or reducing income tax liability was not the primary purpose or one of the primary purposes for which the transaction was carried out; or
- The transaction was a bona fide commercial transaction and was not designed for the purpose of avoiding or reducing income tax liability.

Foreign-Exchange Controls. The Isle of Man imposes no foreign-exchange controls.

F. Treaty Withholding Taxes

	Dividends (a) %	Interest (a)(b) %	Royalties %
United Kingdom	18	18	18
Nontreaty countries	18	18	18

(a) Effective from 1 January 2006, the withholding taxes on dividends and interest will be eliminated in the Isle of Man (see Section B).

(b) By concession, bank and building society deposit interest is exempt from withholding tax in the Isle of Man.

ISRAEL

(Country Code 972)

Please send all e-mail inquiries to the following address:
leon.harris@il.ey.com
Copies should also be sent to the following address:
sharon.shulman@il.ey.com

TEL-AVIV **GMT +2**

Ernst & Young Israel	**(3) 623-2525**
Kost Forer and Gabbay	**(3) 625-2535 (International Tax)**
Certified Public Accountants	**Fax: (3) 562-2555**
3 Aminadav Street	**(3) 562-1484 (International Tax)**
Tel-Aviv 67067	
Israel	

Corporate Tax

Naama Baram	**(3) 623-2570** **Mobile: (54) 736-317**
Lior Harary *(resident in New York)*	**[1] (212) 773-1984** **E-mail: lior.harary@ey.com**
★ Leon Harris	**(3) 623-2527** **Mobile: (50) 906-093**
Saul Israel	**(3) 623-2592** **Mobile: (54) 736-328**
Doron Kochavi	**(3) 623-2522**
Amit Oring, *Venture Capital*	**(3) 623-2522**
★ Sharon Shulman	**(3) 568-7485** **Mobile: (54) 736-311**

Human Capital

Offer Ezra	**(3) 623-2529**
Lior Harari *(resident in New York)*	**[1] (212) 773-1984** **E-mail: lior.harari@ey.com**
★ Leon Harris	**(3) 623-2527** **Mobile: (50) 906-093**
Doron Kochavi	**(3) 623-2522**
Hagit Korine	**(3) 568-7116**
★ Sharon Shulman	**(3) 568-7485** **Mobile: (54) 736-311**

Foreign Desks

David Abrahams, *United States*	**(3) 623-2599**
Jonathan E. Lubick, *United States – Transfer Pricing*	**(3) 568-8412** **Mobile: (54) 736-347**

A. At a Glance

Corporate Income Tax Rate (%)	36 (a)
Capital Gains Tax Rate (%)	25/36 (b)(c)
Branch Tax Rate (%)	36 (a)
Withholding Tax (%)	
Dividends	25 (c)(d)(e)
Interest	25 (c)(d)(f)(g)(h)
Royalties from Patents, Know-how, etc.	25 (c)(d)(f)
Branch Remittance Tax	0 (i)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) This is the regular company tax rate for profits and real capital gains. Company tax rates ranging from 0% to 25% are available for approved enterprises or properties and in other cases (for details, see Section B).
(b) See Section B for details.
(c) Subject to applicable tax treaties.
(d) Applicable to nonresident companies and to individuals.
(e) This is a final tax. Dividends paid out of the profits of an approved enterprise or property are subject to a final 15% withholding tax.
(f) In principle, the withholding taxes on interest and royalties are not final taxes, but nonresidents without an Israeli presence generally do not take any further action.
(g) Alternatively, nonresident lenders may apply to pay regular company tax on their lending profit margin after deducting proven lending expenses.

(h) At the discretion of the tax authorities, interest paid to recognized foreign financial institutions that lend funds to projects benefiting Israel's economy may be subject to a reduced rate of 15% of the amount by which the loan interest exceeds the London interbank offer rate (LIBOR).

(i) A 15% tax is imposed on the approved enterprise profits and approved property profits of a branch after deducting company tax. In principle, this tax is payable together with the company tax, but the Tax Commissioner may allow payment of this tax on approved enterprise profits and approved property profits to be deferred until the relevant branch profits are withdrawn from Israeli business operations. This tax may be overridden by a tax treaty.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to Israeli tax on their worldwide income. Nonresident companies are subject to Israeli tax on income accrued or derived in Israel, unless otherwise provided for in an applicable tax treaty.

A company is considered resident in Israel for Israeli tax purposes if either of the following applies:
- It is incorporated in Israel; or
- Its business is controlled and managed in Israel.

Rates of Corporate Tax. The rate of company tax is 36%.

The major tax reductions and exemptions offered by Israel are described below.

Approved Enterprises. Under the Law for the Encouragement of Capital Investments, 1959, the Investment Center may grant "approved enterprise" status to industrial or tourism projects that provide economic benefits to Israel. The Investment Center's authority to grant approved enterprise status to new projects is subject to periodic renewal. The promoters of a proposed project must apply in advance for approved enterprise status. Approved enterprises benefit from reduced company tax rates on income but not on capital gains. These reduced rates vary according to the percentage of foreign ownership of the company. The following are the reduced company tax rates for approved enterprises and the maximum period for the reduced rates.

Foreign Ownership From %	To %	Tax Rate %	Maximum Period of Rate Reduction Years
0	25	25	7
25.01	48.99	25	10
49	73.99	20	10
74	89.99	15	10
90	100	10	10

Dividends paid out of the profits of approved enterprises are generally subject to a 15% withholding tax. Branches of nonresident companies are subject to a 15% branch tax on their approved enterprise profits after deduction of company tax. In principle, the branch tax is payable together with the company tax. However, the Tax Commissioner may allow payment of the branch tax to be deferred until the profits are withdrawn from Israeli business operations. Certain of Israel's tax treaties contain provisions overriding the branch tax. Many of Israel's tax treaties include tax-sparing provisions under which regular taxes, rather than the reduced Israeli taxes described above, may be credited against income tax imposed in the investor's country of residence on dividends or branch income derived from an approved enterprise. As a result of these provisions, tax benefits are preserved for the investor.

Under an alternative system of benefits, companies may elect to waive their rights to claim grants (see next paragraph) and to receive a tax exemption (tax holiday) on undistributed profits for a period of 2 to 10 years, which varies according to the location of the approved enterprise. If those profits are distributed, company tax and dividend withholding tax at the reduced rates described above are due. For profits earned after the end of the tax holiday, the reduced rates described in the table above apply for any remaining period of rate reduction.

In addition to tax benefits, approved enterprises in National Priority Regions may elect to receive grants of up to 24% of approved expenditure on tangible fixed assets. Furthermore, in addition to receiving grants, approved enterprises in National Priority Region "A" may elect a two-year tax holiday followed by the reduced tax rates described above for five to eight years.

Eilat Free Port. Corporate tax exemptions and other benefits are granted to authorized enterprises in the Eilat free port and free trade area.

Other Incentives. Approved industrial, commercial and residential rental properties qualify for reduced tax rates on rental income (and on gains derived from sales of certain buildings that have a residential element; a building has a residential element if at least 50% of the floor space is rented for residential purposes for a prescribed number of years, according to detailed rules). The reduced rates range from 10% to 18%. A tax holiday or grants may be available to approved industrial properties, depending on their location.

Preferential tax treatment may also be allowed with respect to the following: agriculture; oil; movies; international trading; research and development (R&D) financing; and nonresidents' bank accounts. Significant nontax incentives include financial support for the following: R&D; development of production prototypes; investment in new facilities or products to promote competition with foreign companies (trade exposure fund); exporters; export agents; equipment leasing to approved enterprises; and textile collections. Loans may also be available for small businesses.

Foreign resident investors may qualify for exemption from capital gains tax in certain circumstances (see *Capital Gains and Losses* below).

Capital Gains and Losses

Residents. Resident companies are taxable on worldwide capital gains. Capital gains are divided into real and inflationary components. The following are descriptions of the taxation of these components:

- The time-based portion of real gains that accrue after 1 January 2003 is taxed at a rate of 25%. A 36% rate applies to the time-based portion of real gains that accrue before 1 January 2003.
- The inflationary component is exempt from tax to the extent that it accrued on or after 1 January 1994, and is generally taxable at a rate of 10% to the extent that it accrued before that date.

Notwithstanding the above, companies doing business in Israel are generally subject to tax at a rate of 36% on gains from publicly traded securities of Israeli or foreign companies. Special rules are expected to be introduced for intellectual property licenses and for sales between related parties. Full tax rates apply to depreciation recapture with respect to depreciable assets.

Capital losses may be used to offset capital gains derived in the same or future tax years without time limit. In each year, capital losses are first offset against real gains and then offset against inflationary amounts in accordance with the following ratio: NIS 3.5 of inflationary amounts per NIS 1 of capital losses. Capital losses from assets located abroad must be offset against capital gains on other assets abroad, then against capital gains from assets in Israel.

Gains derived from sales of Israeli real estate or from sales of an interest in a real estate association (an entity whose primary assets relate to Israeli real estate) are subject to Land Appreciation Tax at rates similar to those applicable to other capital gains. The time-based portion of real gains that accrue after 7 November 2001 may be taxed at a rate of 25%. A 36% rate applies to real gains accruing before 7 November 2001. Nevertheless, to encourage real estate transactions, the resulting tax liability is reduced by 20% for transactions effected in the period of 7 December 2001 through 31 December 2002. A reduction of 10% applies to the tax liability resulting from real estate transactions effected in 2003.

Nonresidents. Unless a tax treaty provides otherwise, in principle, nonresident companies are subject to Israeli tax on their capital gains relating to any of the following:

- An asset located in Israel.
- An asset located abroad that is primarily a direct or indirect right to an asset, inventory or real estate in Israel or to a real estate association (an entity whose primary assets relate to Israeli real estate). Tax is imposed on the portion of the consideration that relates to such property in Israel.
- Shares or rights to shares (for example, warrants and options) in an Israeli resident entity.
- A right to a nonresident entity that primarily represents a direct or indirect right to property in Israel. Tax is imposed on the portion of the consideration that relates to such property in Israel.

Foreign residents not engaged in business in Israel may qualify for exemption from capital gains tax on disposals of the following investments:

- Securities traded on the Tel-Aviv stock exchange;
- Securities of Israeli companies traded on a designated foreign stock exchange; and
- Shares in a research-intensive company that were issued to the foreign resident investor by the company on or after 1 January 2003.

In addition, foreign residents not engaged in business in Israel are exempt from capital gains tax on gains derived with respect to venture capital funds that obtain an exemption ruling in advance from the Israeli tax authorities. To obtain such ruling, a fund must meet certain qualifying conditions, including a requirement that at least US$10 million of the fund be devoted to Israel-related industrial or research-intensive companies.

In other cases, foreign resident companies pay capital gains tax in accordance with the rules and rates applicable to residents, as described above. However, nonresidents investing with foreign currency may elect to apply the relevant exchange rate rather than the inflation rate to compute the inflationary amount.

Administration. The Israeli tax year is normally the calendar year. However, subsidiaries of foreign publicly traded companies may sometimes be allowed to use a different fiscal year.

Companies are generally required to file audited annual tax returns and financial statements within five months after the end of their fiscal year, but extensions may be obtained.

Companies must normally file monthly or bimonthly reports and make payments with respect to the following taxes:

- Company tax advances, which are typically computed as a percentage of a company's sales revenues;
- Supplementary company tax advances with respect to certain nondeductible expenses;
- Tax withheld from salaries and remittances to certain suppliers; and
- Value-added tax (VAT).

Nonresidents are required to appoint an Israeli tax representative and VAT representative if any part of their activities is conducted in Israel. The VAT representative is deemed to be the tax representative if no other tax representative is appointed. The tax representative is empowered to pay tax out of the foreign resident's assets.

Dividends. A 15% withholding tax is imposed on dividends paid out of income of an approved enterprise or approved property. A 25% withholding tax is generally imposed on dividends paid out of other income (regular income). However, resident companies are exempt from company tax on dividends paid out of regular income that was accrued or derived from sources within Israel. Companies are generally subject to tax at a rate of 25% on foreign dividend income that is paid from a foreign source or from income accrued or derived abroad (foreign-source income that is passed up a chain of companies).

Foreign Tax Relief. A credit for foreign taxes is available for federal and state taxes but not municipal taxes. Any excess foreign tax credit may be offset against Israeli tax on income from the same type in the following five tax years.

With respect to foreign dividend income, an Israeli company may receive a direct and an underlying tax credit for foreign taxes. The foreign dividend income is grossed up for tax purposes by the amount of the creditable taxes. The following are the alternative forms of the credit:

- Direct foreign tax credit only: a 25% tax is imposed on foreign dividend income, and any dividend withholding tax incurred is creditable in Israel.
- Direct and underlying foreign tax credit: a 36% tax is imposed on foreign dividend income, and a credit is granted for dividend withholding tax and underlying corporate tax paid abroad by 25%-or-more affiliates and their direct 50%-or-more subsidiaries. If an underlying foreign tax credit is claimed, any excess foreign tax credit may not be used to offset company tax in future years.

Foreign residents that receive little or no relief for Israeli taxes in their home countries may be granted a reduced Israeli tax rate by the Minister of Finance. In practice, the reduced rate is usually at least 25% and applies to capital gains only.

C. Determination of Trading Income

General. Taxable income is based on financial statements that are prepared in accordance with generally accepted accounting principles and are derived from acceptable accounting records. In principle, expenses are deductible if they are wholly and exclusively incurred in the production of taxable income. Various items may require adjustment for tax purposes, including depreciation, R&D expenses, and vehicle and travel expenses.

The tax law also prescribes a series of inflation adjustments to the taxable income of businesses in Israel. Alternatively, companies with foreign ownership of more than 25% may elect to report income on a U.S. dollar basis in accordance with detailed rules.

Payments subject to withholding tax, such as salaries, interest and royalties, are not deductible unless the requisite tax is withheld and paid to the tax authorities.

Inventories. In general, inventory may be valued at the lower of cost or market value. Cost may be determined using one of the following methods: actual; average; or first-in, first-out (FIFO). The last-in, first-out (LIFO) method is not allowed.

Provisions. Bad debts are deductible in the year they become irrecoverable. Special rules apply to employee-related provisions, such as severance pay, vacation pay, recreation pay and sick pay.

Depreciation. Depreciation at prescribed rates, based on the type of asset and the number of shifts the asset is used, may be claimed with respect to fixed assets used in the production of taxable income.

Accelerated depreciation may be claimed in many instances. Consequently, for assets acquired in 2003, industrial enterprises may depreciate new assets using the straight-line method at annual rates of 4% to 16% for buildings and 20% to 40% for equipment. Alternatively, they may depreciate equipment using the declining-balance method at rates ranging from 30% to 50%. It is anticipated that these rates will continue to apply in 2004. The following are some of the standard straight-line rates that apply primarily to nonindustrial companies.

Asset	Rate (%)
Mechanical equipment	7 to 10
Electronic equipment	15
Personal computers and peripheral equipment	33
Buildings (depending on quality)	1.5 to 4
Goodwill	10*

* This rate is effective from 1 July 2003.

Groups of Companies. Subject to certain conditions, consolidated returns are permissible for a holding company and its industrial subsidiaries if the subsidiaries are all engaged in the same line of production. For this purpose, a holding company is a company that has invested at least 80% of its fixed assets in the industrial subsidiaries and controls at least 50% (or two-thirds in certain cases) of various rights in those subsidiaries. For a diversified operation, a holding company may file a consolidated return with the subsidiaries that share the common line of production in which the largest amount has been invested.

Group returns may also be filed by an industrial company and industrial subsidiary companies if the subsidiaries are at least two-thirds controlled (in terms of voting power and appointment of directors) by the industrial company and if the industrial company and the subsidiaries are in the same line of production.

Detailed rules concerning the deferral of capital gains tax apply to certain types of reorganizations, including corporate mergers, divisions and shares-for-assets exchanges.

Relief for Losses. In general, business losses may be offset against income from any source in the same year. Unrelieved business losses may be carried forward for an unlimited number of years to offset business income, capital gains derived from business activities or business-related gains subject to the Land Appreciation Tax (see Section B). According to case law, the offset of losses may be disallowed after a change of ownership and activity of a company, except in certain bona fide circumstances.

Special rules govern the offset of foreign losses incurred by Israeli residents. Passive foreign losses (relating to income from dividends, interest, rent or royalties) may be offset against current or future foreign passive income. Passive foreign rental losses arising from depreciation may also be offset against capital gains from the sale of the relevant foreign real property.

Active foreign losses (relating to a business or profession) may be offset against the following:
- Passive foreign income in the current year.
- Active Israeli income in the current year if the taxpayer so elects and if the foreign business is controlled and managed in Israel. However, in the preceding two years and in the following five years, foreign-source income is taxable up to the amount of the foreign loss.
- Active foreign income and business-related capital gains in future years.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), standard rate	18
Wage and profit tax, imposed on financial institutions instead of VAT; this tax is imposed in addition to company tax	18
National insurance contributions on monthly employment income (an upper income limit of NIS 34,820 applies from 1 July 2003)	
Employer payments	
Resident employees	5.93
Nonresident employees	0.84

Nature of Tax	Rate (%)
Employee payments	
Resident employees	4.50 to 10.38
Nonresident employees	0.17 to 0.69
Payroll levy on salaries of foreign employees	8
Organizational levy, on monthly employment income of employees who are members of the Histadrut labor movement or who work in certain unionized workplaces; plans to extend the levy to other employees have not been implemented	0.7 to 0.9
Real property sales tax	
Standard rate	2.5
Certain homes	0
Other real estate acquired after 7 November 2001	0
Acquisition tax, imposed on purchasers of real estate rights; maximum rate for 2004	5
Annual municipal taxes on property	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. The Israeli currency is the new Israel shekel (NIS).

On 14 May 1998, exchange control restrictions were abolished. However, transactional and periodic reporting requirements apply in certain circumstances, principally to Israeli residents if the amounts involved or overseas assets total over US$5 million. These reports are filed with the Bank of Israel.

Debt-to-Equity Rules. There are no thin-capitalization rules in Israel. However, approved enterprises and approved properties (see Section B) must be at least 30% equity-financed.

Transfer Pricing. Transactions between related parties should be at arm's length. Detailed transfer-pricing rules are expected to be issued. Advance rulings may be requested regarding transfer pricing.

Measures to Counteract Tax Planning Involving Foreign Companies. New measures, which are effective from 1 January 2003, are designed to counteract tax planning involving foreign companies.

Foreign Professional Companies. A foreign professional company (FPC) is deemed to be controlled and managed in Israel, and, accordingly, taxable in Israel. A company is considered to be an FPC if a company meets all of the following conditions:
- It has five or fewer individual shareholders;
- It is owned 75% or more by Israeli residents;
- Most of its 10%-or-more shareholders conduct a special profession for the company; and
- Most of its income or profits are derived from a special profession.

The special professions include engineering, management, technical advice, financial advice, agency, law, medicine and many others.

Controlled Foreign Corporations. Israeli residents are taxed on deemed dividends received from a controlled foreign corporation (CFC) if they hold 10% or more of the CFC. A foreign company (or any other body of persons) is considered to be a CFC if all of the following conditions exist:

- The foreign company primarily derives passive income or profits that are taxed at a rate of 20% or less abroad.
- The foreign company's shares are not publicly traded, or less than 30% of its shares or other rights have been offered to the public.
- The foreign company's shares are not publicly traded.
- One of the following requirements is satisfied:
  - Israeli residents own either directly or indirectly more than 50% of the foreign company;
  - An Israeli resident owns over 40% of the foreign company, and together with a relative, owns more than 50% of the company; or
  - An Israeli resident has veto rights with respect to material management decisions, including decisions regarding the distribution of dividends or liquidation.

The shareholdings of the CFC are calculated as the higher of the following: the shareholdings at the tax year-end; or the shareholdings any day in the tax year plus any day in the following tax year. The deemed dividend is the taxpayer's share of passive undistributed income on the last day of the tax year. A deemed foreign tax credit is granted against tax on the deemed dividend. Tax on deemed dividends may be credited against tax on subsequent actual dividends or, to the extent that the credit is not utilized, against capital gains tax on a sale of shares in the CFC.

Withholding Taxes on Overseas Remittances. Israeli banks must withhold tax, generally at a rate of 25%, from most overseas remittances unless the remittances relate to imported goods. An exemption or a reduced withholding rate may be obtained from the Israeli tax authorities in certain circumstances, such as when a treaty applies or when the payments are for services that are rendered entirely abroad.

Free-Trade Agreements. Israel has entered into free-trade agreements with Bulgaria, Canada, the Czech Republic, the European Free Trade Association, the European Union, Hungary, Mexico, Poland, Romania, the Slovak Republic, Slovenia, Turkey and the United States.

F. Treaty Withholding Tax Rates

The following table provides Israeli withholding tax rates for payments of dividends, interest and royalties to residents of various countries. Exemptions or conditions may apply, depending on the terms of the particular treaty.

	Dividends %	Interest %	Royalties (a) %
Austria	25	15	10
Belgium	15	15	10
Bulgaria	10/12.5 (b)	5/10 (c)	12.5 (d)
Canada	15	15	15
China	10	7/10 (e)	7/10 (f)

	Dividends %	Interest %	Royalties (a) %
Czech Republic	5/15 (g)	10	5
Denmark	25	25	10
Finland	5/10/15 (h)	10 (i)	10
France	5/10/15 (h)	5/10 (i)(j)	10
Germany	25	15	5
Greece	25 (k)	10	10
Hungary	5/15 (g)	0	0
India	10	10	10
Ireland	10	5/10 (k)	10
Italy	10/15 (l)	10	10
Jamaica	15/22.5 (m)	15	10
Japan	5/15 (n)	10	10
Korea	5/10/15 (h)	7.5/10 (c)	2/5 (o)
Mexico	5/10 (p)	10 (q)	10
Netherlands	5/10/15 (h)	10/15 (r)	5
Norway	25	25	10
Philippines	10/15 (s)	10	10/15 (t)
Poland	5/10 (g)	5	5/10 (u)
Romania	15	5/10 (v)	10
Russian Federation	10	10 (q)	10
Singapore	0 (w)	15	0 (x)
Slovak Republic	5/10 (g)	2/5/10 (y)	5
South Africa	25	25	0
Spain	10	5 (z)	5/7 (aa)
Sweden	0 (w)	25	0
Switzerland (jj)	5/10/15 (h)	5/10 (c)	5
Thailand	10/15 (bb)	10/15 (cc)	5/15 (dd)
Turkey	10	10 (ee)	10
United Kingdom	15	15	0
United States	12.5/15/25 (ff)	10/17.5 (gg)	10/15 (hh)
Uzbekistan	10	10	5/10 (ii)
Nontreaty countries	25 (kk)	25 (kk)	25

(a) Different rates may apply to cultural royalties.

(b) The 10% rate applies to dividends that are paid out of profits taxed at a reduced company tax rate. For other dividends, the withholding tax rate may not exceed one-half the nontreaty withholding tax rate; because the nontreaty withholding tax rate for dividends is currently 25%, the treaty withholding tax rate is 12.5%.

(c) Interest on certain government loans is exempt. The rate of 5% (Bulgaria, Switzerland) or 7.5% (Korea) applies to interest on loans from banks or financial institutions. The 10% rate applies to other interest payments.

(d) The withholding tax rate may not exceed one-half the nontreaty withholding tax rate; because the nontreaty withholding tax rate is currently 25%, the treaty withholding tax rate is 12.5%.

(e) The 7% rate applies to interest paid to banks or financial institutions.

(f) Under a protocol to the treaty, the 7% rate is the effective withholding rate for amounts paid for the use of industrial, commercial or scientific equipment.

(g) The 5% rate applies if the recipient holds directly at least 10% of the capital of the payer (Hungary, Slovak Republic) or at least 15% of the capital of the payer (Poland), or if the recipient is a company that holds at least 15% of the capital of the payer (Czech Republic).

(h) The 5% rate applies if the dividends are paid out of profits that were subject to the regular company tax rate (currently, 36%) and if they are paid to a corporation holding at least 10% (Finland, France, Korea, Switzerland) or 25% (Netherlands) of the payer's capital. The 10% rate applies to dividends paid to such a corporation out of profits that were taxed at a reduced rate of company tax. The 15% rate applies to other dividends.

(i) Alternatively, an interest recipient may elect to pay regular tax (currently, the company tax rate is 36%) on the lending profit margin.

(j) The 5% rate applies to interest on a bank loan as well as to interest in connection with sales on credit of merchandise between enterprises or sales of industrial, commercial or scientific equipment.
(k) Dividends are subject to tax at the rate provided under domestic law, which is currently 25% in Israel.
(l) The 10% rate applies if the recipient holds at least 25% of the capital of the payer.
(m) The 15% rate applies if the recipient is a company that holds directly at least 10% of the voting power of the payer.
(n) The 5% rate applies to corporate recipients that beneficially own at least 25% of the voting shares of the payer during the six months before the end of the accounting period for which the distribution is made.
(o) The 2% rate applies to royalties for use of industrial, commercial or scientific equipment.
(p) The 5% rate applies if the recipient holds at least 10% of the payer and if the payer is not an Israeli resident company that paid the dividends out of profits that were taxed at a reduced tax rate. The 10% rate applies to other dividends.
(q) Interest on certain government loans is exempt.
(r) The 10% rate applies to a Dutch bank or financial institution.
(s) The 10% rate applies if the recipient holds at least 10% of the capital of the payer.
(t) The 15% rate applies unless a lesser rate may be imposed by the Philippines on royalties derived by a resident of a third country in similar circumstances. The Philippines-Germany treaty specifies a 10% withholding tax rate on industrial and commercial royalties. Consequently, a 10% rate might apply to these royalties under the Israel-Philippines treaty.
(u) The 5% rate applies to royalties for the use of industrial, commercial or scientific equipment.
(v) The 5% rate applies to interest on bank loans as well as to interest in connection with sales on credit of merchandise between enterprises or sales of industrial, commercial or scientific equipment. Interest on certain government loans is exempt.
(w) Under a disputed interpretation of the treaty, a 15% rate may apply to dividends paid out of the profits of an approved enterprise or property.
(x) The tax rate on the royalties in the recipient's country is limited to 15%.
(y) The 2% rate applies to interest paid on certain government loans. The 5% rate applies to interest received by financial institutions that grant loans in the course of its usual business activities. The 10% rate applies to other interest payments.
(z) This rate applies to interest in connection with sales on credit of merchandise between enterprises and sales of industrial, commercial or scientific equipment, and to interest on loans granted by financial institutions.
(aa) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment, and for copyrights of literary, dramatic, musical or artistic works. The 7% rate applies to other royalties.
(bb) The 10% rate applies if the recipient is an Israeli resident or if the recipient is a Thai resident holding at least 15% of the capital of the payer.
(cc) The 10% rate applies to interest paid to banks or financial institutions, including insurance companies.
(dd) The 5% rate applies to royalties paid for the use of literary, artistic or scientific works, excluding radio or television broadcasting works.
(ee) Interest on certain government loans is exempt. The 10% rate applies to all other interest payments.
(ff) The 12.5% rate applies to dividends paid by a company that does not have an approved enterprise or approved property in Israel to U.S. corporations that own at least 10% of the voting shares of the payer, subject to certain conditions. The 15% rate applies to dividends paid out of the profits of an approved enterprise or property. The 25% rate applies to other dividends.
(gg) The 10% rate applies to interest on a loan from a bank, savings institution, insurance company or similar company. The 17.5% rate applies to other interest. Alternatively, an interest recipient may elect to pay regular tax (the company tax rate is currently 36%) on the lending profit margin.
(hh) The 10% rate applies to copyright and film royalties. The 15% rate applies to industrial and other royalties.
(ii) The 5% rate applies to royalties paid for the use of literary, artistic or scientific works, excluding cinematographic films. The 10% rate applies to other royalties.
(jj) These are the withholding tax rates under the draft treaty with Switzerland, which will have retroactive effect from 1 January 2002 after procedures for ratification and entry into force are completed.
(kk) See Sections A and B.

ITALY

(Country Code 39)

The e-mail addresses for the persons listed below who are resident in Italy are in the following standard format:

firstname.middleinitial.surname@it.ey.com

The middle initial is included only if it is listed below. For persons whose names contain more than one word, a hyphen is placed between the words.

The e-mail addresses for the persons not resident in Italy are listed below the respective persons' names.

MILAN — GMT +1

Studio Legale Tributario	**(02) 85141**
Via Cornaggia, 10	**Fax: (02) 8901-0199**
20123 Milan	
Italy	

International Tax Services

Georg Augustin	**(02) 851-3433**
Filippo di Carpegna	**(02) 851-4208**
Mario Ferrol	**[1] (212) 773-7893**
(resident in New York)	**E-mail: mario.ferrol@ey.com**
Carlo Gnetti	**(02) 851-4314**
Gérard Prinsen	**(02) 851-4225**

Transaction Tax

★ Massimo Giaconia	**(02) 851-4210**
Fabio Greco	**(02) 851-4204**
★ Roberto Lazzarone	**(02) 851-4325**
Gabriele Terribile	**(02) 851-4332**

Human Capital

★ Roberto Gruttadauria	**(02) 7221-2912**

Foreign Country Specialists

Georg Augustin, *Germany*	**(02) 851-3433**
Filippo di Carpegna, *France*	**(02) 851-4208**
Channing P. Flynn, *United States*	**(02) 851-4569**
Takahiro Kitte, *Japan*	**(02) 851-4230**
★ Gérard Prinsen, *Netherlands*	**(02) 851-4225**

Indirect Taxes

Silvia Confalonieri	**(02) 851-4559**

Financial Services and Insurance/Capital Markets

Marco Civelli	**(02) 851-4024**
Salvatore Livecchi	**(02) 851-4516**
Marco Ragusa	**(02) 851-4330**
Piera Vitali	**(02) 851-4407**

Transfer Pricing

★ Davide Bergami	**(02) 851-4409**

Corporate Tax

★ Marco Da Re	**(02) 851-4405**
Roberto Gianelli	**(02) 851-4561**
Fosco Rondinini	**(02) 851-4324**
Giulio Salvi	**(02) 851-4435**

Tax Litigation

★ Maria Antonietta Biscozzi	**(02) 851-4312**

Legal Services

Francesco Marotta, *Managing Partner, Legal (resident in Rome)*	**(06) 4406-4907**
★ Raffaele Caldarone, *Mergers and Acquisitions*	**(02) 851-4334**
Fabrizio Cassella, *Administrative Law (resident in Turin)*	**(011) 5165-2179**
★ Edoardo Courir, *Intellectual Property Law*	**(02) 851-4582**
Ugo Milazzo, *Real Estate Law*	**(02) 851-4588**
★ Luigi Neirotti, *Information Technology Law*	**(02) 851-4589**
★ Luciano Spagnuolo Vigorita, *Labor Law*	**(02) 851-4480**
Paolo Tanoni, *General Corporate*	**(02) 851-4888**
★ Corrado Verna, *Banking and Finance*	**(02) 851-4826**

ANCONA — GMT +1

Studio Legale Tributario — **(071) 203-872**
Corso Mazzini, 170 — **Fax: (071) 207-5255**
60121 Ancona
Italy

Legal Services

Paolo Tanoni *(resident in Milan)*	**(02) 851-4888**

BARI — GMT +1

Studio Legale Tributario — **(080) 521-3433**
Corso V. Emanuele, 143 — **Fax: (080) 521-0210**
70100 Bari
Italy

Legal Services

Antonio De Feo	**(080) 521-3433**

BERGAMO — GMT +1

Studio Legale Tributario — **(035) 359-3111**
Viale Papa Giovanni XXII, 48 — **Fax: (035) 359-3350**
24121 Bergamo
Italy

Corporate Tax

Marco Da Re *(resident in Milan)*	**(02) 851-4405**

BOLOGNA — GMT +1

Studio Legale Tributario — **(051) 278-411**
Via Rizzoli, 9 — **Fax: (051) 235-538 (Tax)**
Galleria del Leone — **(051) 271-859 (Legal)**
40125 Bologna
Italy

International Tax Services

Guido Lenzi	**(051) 278-411**

Corporate Tax

Adriano Piacitelli	**(051) 278-411**

Legal Services

Sante Ricci *(resident in Rome)*	**(06) 6748-9228**

BRESCIA GMT +1

Studio Legale Tributario — **(030) 293-263**
Via Crispi, 3 — **Fax: (030) 293-591**
25121 Brescia
Italy

Corporate Tax

Stefano Guerreschi	**(030) 293-263**

FLORENCE GMT +1

Studio Legale Tributario — **(055) 552-411**
Piazza della Liberta, 11 — **Fax: (055) 552-4420**
50123 Florence
Italy

International Tax Services

Angelo Rabatti	**(055) 552-4441**

Corporate Tax

Mario Bini	**(055) 552-4409**
Aldo Bompani	**(055) 552-4408**
Sandro Malevolti	**(055) 552-4406**
Luca Noferi	**(055) 552-4475**
Andrea Parenti	**(055) 552-4406**

Value-Added Tax and Indirect Taxes

Rita Pelagotti	**(055) 552-4482**

Tax Litigation

Gino Manfriani	**(055) 552-4443**

Legal Services

Sante Ricci *(resident in Rome)*	**(06) 6748-9228**

NAPLES GMT +1

Studio Legale Tributario — **(081) 248-0111**
Riviera di Chiaia, 180 — **Fax: (081) 248-0580**
80122 Naples
Italy

Corporate Tax

Ciro Serio	**(081) 248-0540**

Legal Services

Massimo Cesaro	**(081) 248-0535**
Biagio Grasso	**(081) 248-0555**

PADUA GMT +1

Studio Legale Tributario — **(049) 877-1611**
Via N. Tommaseo, 60 — **(049) 875-2314**
35131 Padua
Italy

Corporate Tax

Giuseppe Mongiello	**(049) 877-1600**

Legal Services

Maurizio Cimetti *(resident in Verona)*	**(045) 831-2011**

ROME GMT +1

Studio Legale Tributario — **(06) 360-9631**
Via G.B. Vico, 9 — **Fax: (06) 3609-6336**
00196 Rome
Italy

Studio Legale Tributario
Via delle Botteghe Oscure, 4 — **(06) 6748-91**
00186 Rome — **Fax: (06) 6748-9250**
Italy

Studio Legale Tributario — **(06) 440-641**
Via dei Villini 13/15 — **Fax: (06) 4423-1792**
00161 Rome
Italy

International Tax Services

Guido Lenzi	(06) 360-9631
Gaetano Pizzitola	(06) 360-9631

Corporate Tax

Antonella Bientinesi	(06) 6748-9404
Stefano Carta	(06) 360-9631
Aldo Correale	(06) 360-9631
Carlo Dragani, *Government and Public Institutions*	(06) 360-9631
Giacomo Granata	(06) 360-9631
Francesco Guidi	(06) 360-9631

Transaction Tax

Giacomo Granata	(06) 360-9631

Human Capital

Claudia Giambanco	(06) 360-9631
Roberto Gruttadauria *(resident in Milan)*	(02) 7221-2912

Mergers and Acquisitions/Financial Services and Insurance/Capital Markets

★ Attilio Pelosi	(06) 360-9631

Legal Services

★ Francesco Aratari, *Litigation*	(06) 4406-4956
Giuseppe Barreca, *Mergers and Acquisitions*	(06) 4406-4912
★ Francesco Marotta, *General Corporate*	(06) 4406-4907
★ Raffaele Pendibene, *Real Estate Law and Antitrust Law*	(06) 4406-4944
Tiziano Treu, *Labor Law*	(06) 6748-9274
Vittorio Valieri, *Banking and Finance*	(06) 6748-91

TORINO — GMT +1

Studio Legale Tributario — **(011) 516-5211**
Corso Vittorio Emanuele II, 83 — **Fax: (011) 531-047**
10128 Torino
Italy

Corporate Tax

Giuseppe Bonardi	(011) 5165-21234
Marco Bosca	(011) 5165-21236

Legal Services

★ Fabrizio Cassella, *Administrative Law and General Corporate*	(011) 5165-2179

TREVISO — GMT +1

Studio Legale Tributario — **(0422) 625-111**
v. le Appiani 20/B — **Fax: (0422) 228-063**
1100 Treviso
Italy

International Tax Services

Andrea Lovisatti	(0422) 625-100

Corporate Tax

Stefano Brunello	**(0422) 625-106**

Legal Services

Maurizio Cimetti *(resident in Verona)*	**(045) 831-2011**

VERONA **GMT +1**

Studio Legale Tributario
Stradone Palio, 76
37122 Verona
Italy
(045) 809-7000
Fax: (045) 809-7020

Studio Legale Tributario
Via Isonzo 11
37216 Verona
Italy
(045) 831-2011 (Legal)
Fax: (045) 831-2250 (Legal)

Corporate Tax

Angelo Marangoni	**(045) 809-7016**

Transaction Tax

Roberto Cimetti	**(045) 809-7025**
Nicola Fiorini	**(045) 809-7008**

Legal Services

Maurizio Cimetti	**(045) 831-2011**

In September 2003, the Italian government approved a draft law that contains a substantial corporate tax reform. At the time of writing, parliament was considering the law, which is expected to be effective from 1 January 2004. The measures in the law, which are discussed in Section G of the chapter, include the introduction of a single corporate tax rate of 33% and the introduction of consolidated income tax returns. Because of the major changes contained in the law, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	34 (a)
Capital Gains Tax Rate (%)	12.5/27/34 (a)(b)
Branch Tax Rate (%)	34 (a)
Withholding Tax (%)	
Dividends	0/12.5/27 (c)
Interest	0/12.5/27 (d)
Royalties from Patents, Know-how, etc.	22.5 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (f)

(a) A 19% tax rate may apply to a portion of taxable income under the Dual Income Tax (DIT) regime. A regional tax on productive activities (*imposta regionale sulle attività produttive*, or IRAP) is imposed on the net value of production. For further details regarding the DIT regime and IRAP, see Section B. Under a proposed tax reform (see Section G), a single tax rate of 33% would be introduced, and IRAP would be gradually eliminated.

(b) For details concerning capital gains taxation, see Section B.

(c) Withholding tax is not imposed on dividends paid to resident companies. These companies include dividends received and the related tax credit in taxable income. The 12.5% rate applies to dividends paid to resident individuals with nonsubstantial participations (for information on substantial and nonsubstantial participations, see discussion of capital gains taxation in Section B). The 27% rate applies to dividends paid to nonresidents. Nonresidents may be able to obtain a refund of the withholding tax equal to the amount of foreign tax paid on the dividends. However, the maximum refund is 4/9 of the withholding tax paid. Tax treaties may provide for a lower tax rate.

(d) The 0% rate applies to interest derived by nonresidents from demand deposits, deposit accounts, and bank and postal accounts. The 12.5% rate applies to interest paid to residents and nonresidents on bonds issued by companies with a minimum maturity of more than 18 months and to interest accrued on or before 31 December 1996 on government bonds. In general, the 27% rate applies to interest paid to residents on the following: deposit certificates; savings deposits; and bonds issued by companies with a minimum maturity of 18 months or less. For resident individuals carrying on business activities in Italy and resident companies, the interest withholding taxes are advance payments of tax. For other resident individuals and nonresident individuals and companies, the interest withholding taxes are final taxes. For residents in tax havens, a final withholding tax at a rate of 27% is imposed on all interest payments.

(e) Applicable to nonresidents. The rate may be reduced under tax treaties.

(f) Loss carryforwards are allowed only for corporate income tax purposes. Losses incurred in the first three tax years of an activity may be carried forward indefinitely. Antiabuse rules may limit loss carryforwards.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to corporate income tax (*imposta sul reddito delle persone giuridiche*, or IRPEG) on their worldwide income. A resident company is a company that has any of the following located in Italy for the majority of the tax year:

- Its registered office;
- Its administrative office; or
- Its principal corporate activity.

Nonresident companies are subject to IRPEG on their Italian-source income only.

Rates of Corporate Tax. The IRPEG rate is 34%.

Under the Dual Income Tax (DIT) regime, the IRPEG rate may be reduced to 19% for qualifying taxable income corresponding to the legal rate of interest (currently 3%) of the net equity increases since 30 September 1996. For this purpose, net equity increases include capital contributions, reserves created with profits and reserves created with capital, such as the share-premium reserve. These increases may be taken into account only if they derive from contributions of money (not other property) or retained earnings of the company. Net equity decreases are offset against the net equity increases to determine the amount to which the 3% percentage is applied. Net equity decreases include distributions of dividends, and reductions of reserves and corporate capital. The amount of qualifying net equity increases is limited to the total equity of the company at the end of the tax year, net of operating profits.

To determine the tax base for purposes of the DIT regime, the net equity increases are limited to those realized on or before 30 June 2001. However, net equity increases realized after 30 June 2001 that result from reserves created with profits derived in a tax year ended before 30 June 2001 are taken into account. All net equity decreases are taken into account even if they are realized after 30 June 2001. The tax base may not exceed the net equity of the company before taking into account the profits for the tax year.

The original version of the DIT regime provided a 6% percentage and a 1.4 multiplier to be applied to the net equity increases in order to determine the tax base subject to the 19% rate. A company may elect to continue to apply these rules. However, if the original version of the DIT regime is elected, the average IRPEG rate for a company may not fall below 30%. For newly quoted companies that elect the original version of the DIT regime, the average IRPEG rate may not fall below 22%.

The tax law also provides for a special DIT regime. Under this regime, for the first three tax years in which companies are quoted on regulated stock exchanges in Italy or other EU countries, the reduced tax rate is 7% (instead of 19%). This regime does not apply if the net equity of a quoted company at the end of the tax year preceding the relevant tax year exceeds €258,228,450 before taking into account the profits for the tax year.

Parliament is considering a draft law that contains a substantial tax reform, which is expected to be effective from 1 January 2004. The measures in the draft law include the introduction of a single corporate tax rate of 33% and the repeal of the DIT system. In addition, the law provides for the gradual elimination of the regional tax on productive activities (see *Local Income Tax* below). For details regarding the proposed tax reform, see Section G.

Local Income Tax. Resident and nonresident companies are subject to a regional tax on productive activities (*imposta regionale sulle attività produttive*, or IRAP) on their Italian-source income.

For manufacturing companies, IRAP is imposed at a rate of 4.25% on the net value of production, which is calculated by subtracting the cost of production from the value of production. An 8.5% rate applies to public entities performing commercial activities.

Special rules for the calculation of the tax base for IRAP purposes also apply to banking institutions, insurance companies, public entities and noncommercial entities.

Each region may increase or decrease the rate of IRAP by one percentage point. Companies producing income in more than one region will be required to allocate their tax base for IRAP purposes among the various regions and pay the applicable tax to the local tax authorities.

Certain deductions are not allowed for IRAP purposes, such as certain extraordinary costs, credit losses, labor costs (excluding certain compulsory social contributions), and interest expenses (except for banks and holding companies registered under Article 113 of Legislative Decree No. 385/1993).

Capital Gains

Resident Companies and Nonresident Companies with a Permanent Establishment in Italy. In general, capital gains derived by resident companies or nonresident companies with a permanent establishment in Italy are subject to IRPEG. Extraordinary capital gains are excluded from the tax base for IRAP purposes. Extraordinary gains are gains not related to the core business of the company, such as those derived from sales or capital contributions of going concerns.

Companies may elect to pay a 19% substitute tax on capital gains derived from sales or capital contributions of the following: going concerns that have been held for at least three years; or substantial participations recorded in the last three financial statements as fixed assets.

Capital gains on assets that have been held for at least three years, but do not qualify for the substitute tax regime, may be taxed, at the taxpayer's option, entirely in the year of sale or spread over a maximum period of five years.

No interest is due on the deferral of tax liability described in the preceding paragraphs.

However, under the proposed tax reform (see Section G), the 19% tax regime will no longer be available as an alternative to the corporate income tax. A participation exemption regime will be introduced for capital gains derived from disposals of Italian or foreign shareholdings that satisfy the following conditions:
- The shareholding is classified for financial statement purposes as a long-term financial investment;
- The Italian parent company holds the shareholding for an uninterrupted period of at least 12 months before the disposal; and
- The subsidiary actually carries out a business activity and is not resident in a tax haven as identified in a "black list" contained in a ministerial decree.

Under the proposed tax reform, capital contributions between resident companies of going concerns that have been held for at least three years may be carried out as tax-neutral transactions. In such circumstances, the recipient company records the assets and liabilities at the same value used by the transferor company for tax purposes, and the transferor company receives the newly issued shares of the receiving company at the same value as that of the transferred going concern. The subsequent sale by the transferor company of the shares of the recipient company may qualify for the participation exemption regime described above and, accordingly, may also be carried out as a tax-neutral transaction.

Nonresident Companies without a Permanent Establishment in Italy. If no treaty protection is available, capital gains derived from sales of shares by nonresident companies are subject to a substitute tax. Capital gains on shares qualifying as a substantial participation are taxed at a 27% rate. A substantial participation in a company listed on a stock exchange requires more than 2% of the voting rights at ordinary shareholders' meetings or 5% of the company's capital. For an unlisted company, these percentages are increased to 20% and 25%, respectively.

Capital gains on nonsubstantial participations are normally taxed at a rate of 12.5%. However, such gains are exempt from tax if any of the following apply:
- The participation is in a resident company and the shares representing the participation are publicly traded on a stock market;
- The seller is resident in a country that is not a tax haven;
- The seller's country of residence has entered into a tax treaty containing an exchange of information clause with Italy;
- The capital gains are derived from sales or redemptions of shares that are publicly traded on a stock market but are not representative of commodities;
- The capital gains are derived from sales or withdrawals of currency derived from bank deposits and current accounts; or
- The gains are derived by nonresidents from forward transactions involving financial instruments, currencies and precious metals.

Under the proposed tax reform (see Section G), the 27% substitute tax on gains from sales of substantial participations will be repealed. The draft law provides that 40% of such gains will be included in taxable income for corporate income tax purposes and taxed at the standard rate of 33%.

Administration. Income tax returns must be filed by the end of the 10th month following the end of the company's fiscal year. Companies must make advance payments of their corporate and local tax liability equal to a specified percentage of the tax paid for the preceding year. This percentage is 99% for 2004. By the 20th day of the 6th month following the end of the fiscal year, companies must pay the balance of tax due for the preceding fiscal year and 40% of the amount of the advance payments. This date may be extended 30 days if the company pays an additional sum equal to 0.4% of the amount due. The remaining 60% of the amount of advance payments must be paid by the end of the 11th month of the company's fiscal year.

Tax Rulings. Taxpayers may request ordinary tax rulings in order to obtain advice or clarification regarding the application of tax measures to transactions. The request for an ordinary tax ruling must include the identification data for the taxpayer, a description of the transaction and a list of applicable measures, circulars and court decisions.

Nonresidents may request special tax rulings for advice regarding the correct application of tax measures and reliefs. The taxpayer or its representative may file the request for a special tax ruling directly with the Main Office.

Tax rulings are available with respect to specific matters, such as corporate reorganizations, fictitious interposition legislation (legislation under which the tax authorities may attribute income to the beneficial owner), deduction of advertisement and entertainment expenses, exchanges of tax credits and excess taxes, tax-haven transactions and international group companies. These rulings are not binding on the tax authorities but they shift the burden of proof to them.

Under a new tax ruling procedure, which was introduced by Law No. 212 of 27 July 2000, the taxpayer must submit a written request to tax authorities in the case of objective uncertainty regarding the tax law. The request must include a detailed description of the facts involved, the proposed transaction and the proposed tax treatment for the transaction. The tax authorities must reply within 120 days. The tax authorities' opinion applies only to the transaction for which the ruling is requested and to the taxpayer submitting the request. If the tax authorities do not reply within the 120-day period, the taxpayer may assume that the tax authorities agree with the proposed tax treatment.

Law No. 212 also established, at each regional Department of Revenue, the taxpayer Guarantor (known as the "Garante"). Under Law No. 212, the Garante may ask tax offices for clarification on tax issues, and the offices are required to respond within thirty days. The Garante may also require the tax authorities to render their defective actions void. On the notice or request of a taxpayer or individual, the Garante may proceed with respect to administrative defects or malfeasance that may damage the fiduciary relationship of the tax authorities with the taxpayers. In contrast to a notice, which is a communication, a request is a formal application, which may not be ignored by the Garante. The Garante must communicate the result of its activities to the applicant and the regional Department of Revenue.

Dividends

Dividends Received from Resident Companies. Dividends received by a resident company from another resident company normally form part of the recipient's income for IRPEG purposes. For companies other than financial institutions, dividends are exempt from IRAP.

Dividends are included in taxable income after being increased by an imputation credit equal to 51.51% of the dividends. The imputation credit is allowed as a credit against the recipient's ultimate corporate income tax liability.

The dividend tax credit may not exceed the income taxes actually paid by the company on distributed profits. However, because income taxes may not have been paid on certain corporate profits as a result of certain tax-incentive schemes provided by law, the rate of corporate income tax effectively paid at the company level could be lower than the nominal rate of corporate income tax that is effective for the fiscal year in which the relevant profits are accrued.

To avoid distortions resulting from situations in which shareholders benefit from a dividend tax credit higher than the amount of corporate income tax paid at the corporate level, the law provides for a dual-basket system. In this context, the Italian distributing company must record in its tax return the following two baskets of tax:

- Basket A, which contains corporate income tax actually paid; and
- Basket B, which contains tax that was not paid as a result of special tax regimes provided by law.

Only the amount accrued in Basket A results in a full dividend tax credit at the shareholder level. Consequently, the shareholder may use such a tax credit to reduce its income tax liability, may carry forward the excess tax credit, or may claim a refund of the excess tax credit. In contrast, for the amounts in Basket B, restrictions are imposed on the full enjoyment of the dividend tax credit at the shareholder level. Amounts in Basket B may be credited against only a portion of tax due. This portion is calculated by applying a fraction to the amount of tax due. The numerator of the fraction is the amount of the dividend distributed out of (partially) exempt income, gross of tax credit, and the denominator is total taxable income, gross of tax credit. In addition, the shareholder may not carry forward or claim a refund of such a credit. Companies are free to choose what portion of the dividends is distributed out of each basket.

On the distribution of dividends, the distributing company must reduce the amounts recorded for both baskets even if the recipient is not entitled to take advantage of the dividend tax credit (for example, foreign shareholders).

However, under tax measures recently approved by the government, the full imputation credit (Basket A) has been replaced with a notional one (Basket B) for all dividends declared after 30 September 2003. As a result, the imputation tax credit is treated as a limited tax credit, which may be offset against the recipient's corporate tax liability, but may not be carried forward or claimed as a refund. The new measure is intended to anticipate the effects of the proposed tax reform (see the following paragraph and Section G), which will convert Italy's dividend taxation system to an exemption method. The recently enacted tax measures are intended to prevent a company incurring losses from obtaining an excess tax credit. Under the prior law, companies incurring losses could claim a refund for the amount of the credit or surrender the credit to other companies within the group.

Under the proposed tax reform (see Section G), both the imputation credit for dividend distributions and the dual-basket system will be eliminated for dividends distributed out of profits earned in 2003 and future years. Dividends received from Italian subsidiaries will be 95%-exempt from corporate tax.

Dividend Withholding Tax. A 27% withholding tax is imposed on dividends paid to nonresidents without a permanent establishment in Italy, unless otherwise provided in double tax treaties. Nonresidents may obtain a refund of dividend withholding tax equal to the amount of foreign tax paid on the dividends, but the maximum refund is 4/9 of the withholding tax paid. Companies from European Union (EU) member states that receive dividends from Italian companies may be exempted from the dividend withholding tax or obtain a refund of the tax paid if they hold at least 25% of the shares of the payer for at least one year.

Dividends Received from Nonresident Companies. Ninety-five percent of dividends from qualifying EU subsidiaries is excluded from taxable income. The remaining 5% is subject only to IRPEG. To qualify for the exclusion, the Italian company must hold at least 25% of the subsidiary's shares for at least one entire year. The 95% tax exemption also applies to dividends distributed by non-EU companies resident in a state that has a tax regime similar to the Italian regime and that provides for adequate exchange of information, as indicated in a decree of the Ministry of Economy and Finance dated 21 November 2001.

Only 40% of the dividends received by a resident company from a nonresident company not described above is included in taxable income for IRPEG tax purposes if the shareholder exercises at least 20% control (10% if the payer is a listed company) of the payer's ordinary shareholder votes. Dividends from subsidiaries resident in countries that have privileged tax systems are fully taxable for IRPEG purposes. A decree of the Ministry of Finance dated 23 January 2002 identifies these tax-haven countries.

If the dividend is 5% or 40% includible in income for IRPEG purposes, the shareholder may claim a tax credit for a corresponding proportion of the withholding tax on the dividend. If the dividend is fully taxable, the shareholder may claim a full credit for the withholding tax on the dividend.

Under the proposed tax reform, dividends received from foreign subsidiaries would be 95% exempt from corporate tax even if the EU Parent-Subsidiary Directive does not apply.

Foreign Tax Relief. A direct foreign tax credit may be claimed. The amount of the foreign tax credit cannot exceed that part of the corporate income tax, computed at the standard rate, that is attributable to the foreign-source income. Accordingly, the foreign tax credit may be claimed up to the amount that results from prorating the total tax due by the proportion of foreign-source income over total income.

If income is received from more than one foreign country, the above limitation on the foreign tax credit is applied for each country (per-country limitation). Excess foreign tax credits cannot be carried forward or back. However, under the proposed tax reform (see Section G), carrybacks and carryforwards of foreign tax credits are allowed.

The credit method described above is also used in nearly every tax treaty concluded by Italy for granting relief from double taxation.

The proposed tax reform (see Section G) includes a group taxation regime, which would introduce significant changes to the foreign tax credit system. Under this regime, a resident parent company will be able to consolidate profits and losses of its foreign subsidiaries joining the corporate group and compute a single group tax liability. Such group tax liability may be offset by a direct foreign tax credit granted to the resident parent company with respect to taxes paid abroad by foreign subsidiaries that are members of the tax group.

The amount of the foreign tax credit is computed by prorating the total taxes due by the proportion of foreign-source income over total income. However, under the proposed group taxation regime, the foreign tax credit will be computed on a company-by-company (instead of country-by-country) basis, to avoid offsetting of profits and losses of subsidiaries located in the same country, which would otherwise make taxes paid in that country unavailable for credit. Losses are taken into account in computing the proportion. Taxes paid by foreign subsidiaries electing the group taxation regime are first allowed as a credit against the group tax liability, up to the amount computed by prorating the total taxes due by the proportion of foreign-source income over total income.

Excess foreign taxes paid by each subsidiary in the corporate group may be carried back or forward for eight years on a company-by-company basis.

C. Determination of Business Income

General. To determine taxable income, profits disclosed in the financial statements are adjusted for exempt profits, nondeductible expenses, special deductions and losses brought forward. Exempt profits include interest on government bonds issued on or before 30 September 1986 and income subject to Italian withholding tax at source as a final tax. Interest on government bonds issued after 30 September 1986, however, is not exempt from tax.

Deductions. The following general principles govern the deduction of expenses:

- Expenses are deductible if and to the extent to which they relate to activities or assets that produce revenue or other receipts that are included in income.
- Expenses are deductible in the fiscal year to which they relate (accrual basis rule). Exceptions are provided for specific items, such as compensation due to directors, which is deductible in the fiscal year in which it is paid.

Only one-third of entertainment expenses is deductible. The deductible amount may be deductible in equal installments over five years.

Companies may not deduct expenses incurred in transactions with enterprises resident in non-EU tax-haven countries. However, this limitation does not apply if it is established that either of the following conditions is satisfied:
- The foreign enterprise is effectively involved in an actual business activity in the country or territory in which it is located; or
- The relevant transactions had a real business purpose and actually took place.

The Ministry of Finance issued a decree dated 23 January 2002, which identifies the tax-haven countries.

Declines in the value of Italian or foreign shareholdings that are classified for financial statement purposes as long-term investments may be deductible in equal installments over five years. However, write-downs of such shareholdings may not be deducted for corporate income tax purposes to the extent that the write-downs are based on the following:
- Reductions in the value of the net equity as a result of the distribution of reserves of profit; and
- Losses resulting from nondeductible goodwill amortization allowances and provisions.

The proposed tax reform provides thin-capitalization rules. For details, see Section E.

Nonoperating Companies. Italian resident companies and permanent establishments of nonresident companies are deemed to be "nonoperating companies" if the total of their average non-extraordinary proceeds (proceeds from the ordinary activities of a company as shown on its financial statements) and increases in inventory are less than the sum of the average of the following during the preceding three years:
- 1% of financial assets.
- 4% of the gross book value of real estate and ships, and 15% of the gross book value of other fixed assets, including, in either case, the price of assets leased from other parties. In this context, the price of leased assets is the cost incurred by the lessor if properly documented. Otherwise, it is the total of the rent and the redemption price payable under the lease.

The above amounts are derived from the company's annual financial statements.

The taxable income of nonoperating companies is deemed to be the sum of the values of the assets described above multiplied by the following percentages: financial assets, 0.75%; real estate and ships, 3%; and other fixed assets, 12%. For this purpose only, the values in the preceding year are taken into account.

Nonoperating companies are not entitled to value-added tax refunds.

Certain companies are specifically excluded from the nonoperating companies' regime.

Inventories. Inventory is normally valued at the lower of cost or market value for both fiscal and accounting purposes. However, companies may select other methods of inventory valuation specifically provided in the law, such as first-in, first-out (FIFO), last-in, first-out (LIFO) or average cost.

Provisions. Italian tax law provides a limited number of provisions.

Bad and Doubtful Debts. A general provision of 0.5% of total trade receivables at the year-end may be made each year until the total doubtful debt provision reaches 5%. Bad debts actually incurred are deductible to the extent they are not covered by the accumulated reserve and only if they have become irrecoverable or if there are bankruptcy proceedings.

Banks may deduct on a straight-line basis over seven years the write-down of receivables that exceeds the 0.5% limitation described in the preceding paragraph.

Redundancy and Retirement Payments. Provisions for redundancy and retirement payments are deductible in amounts stated by civil law and relevant collective agreements.

Foreign-Exchange Losses. Companies may deduct annually a reserve for foreign-exchange losses, up to the amount of the net loss resulting from the revaluation of assets and liabilities denominated in foreign currencies (excluding those hedged by forward exchange or insurance contracts) at the average exchange rate for the last month of the company's financial year. All realized foreign-exchange losses must be charged against this reserve, and if losses exceed the reserve, the excess may be deducted from income in the year the loss is actually realized. If the reserve reported in the company's financial statements exceeds the actual loss realized, the amount of such excess is added to taxable income.

Depreciation and Amortization Allowances. Depreciation at rates not exceeding those prescribed by the Ministry of Finance is calculated on the purchase price or cost of manufacture. Incidental costs, such as customs duties and transport and installation expenses, are included in the depreciable base. Depreciation is computed on the straight-line method. Rates for plant and machinery vary between 3% and 15%. Land is not depreciable. The established rates may be increased if assets are more intensely used than they are normally. For the first three years of an asset's life, anticipated depreciation of up to two times the ordinary rate per year may be claimed.

Goodwill that is purchased may be amortized over a period of 10 years.

Patents and know-how may be amortized at amounts not exceeding one-third of the cost each year. The amortization period for trademarks is 10 years.

Research expenses and advertising expenses may be either entirely deducted in the year incurred or written off in equal installments in that year and in the four subsequent years, at the company's option.

Amortization allowances of other rights may be claimed with reference to the utilization period provided by the agreement.

Relief for Losses. For IRPEG purposes only, losses may be carried forward and deducted from income of the five subsequent tax periods. Stricter rules apply to loss carryforwards if ownership of the company is transferred and if the company changes its activities. Losses incurred in the first three years of an activity may be carried forward for an unlimited number of tax periods.

The company resulting from or surviving after a merger may carry forward unrelieved losses of the merged companies against its own profits for the unexpired portion of the loss carryforward periods. In general, tax losses carried forward may not exceed the lower of the net equity at the close of the last fiscal year or the net equity shown on the statement of net worth prepared for the merger of each company involved in the merger. This limitation is applied on a company-by-company basis. Contributions to capital made in the 24 months preceding the date of the net worth statement are disregarded. Special rules further limit the amount of the losses that can be carried forward.

Groups of Companies. In general, Italian law does not include any special provisions for groups of companies. Transfers of losses from loss-making to profit-making members of the same group of companies are not allowed. In addition, Italian law does not provide for consolidated returns. However, it does contain a tax credit exchange provision, which may produce substantially similar results to that of consolidation for certain companies.

In addition, for groups of companies linked by more than a 50% direct shareholding, net value-added tax refundable to one group company with respect to its own transactions may be offset against net value-added tax payable by another, and only the balance is required to be paid by, or refunded to, the group.

Intragroup dividends received from related foreign companies may be partially exempt from corporate income tax (see Section B).

However, the proposed tax reform includes a group taxation regime, which provides for consolidated income tax returns (see Section G).

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, on goods, services and imports	
Standard rate	20%
Other rates	4%/10%
Municipal real property tax, imposed on property's cadastral value	0.4% to 0.7%
Social security contributions (2004 rates)	
Industry; paid on gross remuneration by employers with more than 50 employees	
Workers	43.07%
Office staff	40.85%

Nature of Tax	Rate
Executives	
Basic contribution	37.49%
Additional contributions	
Social Security Institute for Industrial Executives (PREVINDAI) (maximum of €85,215.39)	6%
Other social insurance fund (FASI)	€1,744.59
Trade; paid on gross remuneration by employers with more than 200 employees	
Workers	40.87%
Office staff	40.87%
Executives	37.29%

E. Miscellaneous Matters

Mergers. The basic rule is that mergers are neutral for income tax purposes. The negative merger difference (the difference between the net worth of the merged company and the book value of the transferred or written-off shares) may be used to step-up the basis of assets of the merged company for income tax purposes if a 19% optional substitute tax on such difference is paid.

If the 19% tax regime is not elected, the step-up may be made for book purposes only. In such circumstances, depreciation and capital gains on the assets of the merged company will be made with reference to the book value before the merger.

Merger differences resulting from the write-off of shares are recognized for income tax purposes, up to the amount of any capital gains on such shares that were taxed previously in Italy.

However, the proposed tax reform (see Section G) provides for the repeal of the 19% tax election for mergers or demergers occurring after a date in 2004, which will be determined.

Foreign-Exchange Controls. The underlying principle of the foreign-exchange control system is that transactions with nonresidents are permitted unless expressly prohibited. However, payments by residents to foreign intermediaries must be channeled through authorized banks or professional intermediaries. In addition, transfers of money and securities exceeding €10,329.14, must be declared to the Italian Exchange Office. Inbound and outbound investments are virtually unrestricted.

Transfer Pricing. Italy imposes transfer-pricing rules on transactions between related resident and nonresident companies. Under these rules, intragroup transactions must be carried out at arm's length. A circular of the Italian Ministry of Finance, dated 26 February 1999, states that tax avoidance may result from intercompany transactions carried out with non-arm's length prices. The circular confirms that the existing transfer-pricing rules do not apply to domestic transactions. As a result, adjustments of the prices in these transactions must be based on other antiabuse provisions.

Controlled Foreign Companies. Law No. 342 of 21 November 2000 introduced a controlled foreign company (CFC) regime. The CFC rules apply if a resident of Italy controls a nonresident company that is subject to a "privileged tax regime." The rules for determining whether an Italian company controls a nonresident company are contained in Article 2359 of the Italian Civil Code. A decree of the Ministry of Finance dated 21 November 2001 provides a "black list" of countries regarded as having privileged tax regimes and entities and activities considered to be subject to such regimes. If the CFC rules apply, the Italian resident is taxed on the resident's share of the profits of the CFC, regardless of the actual distribution of such profits.

Antiavoidance Legislation. Under Italian antiavoidance rules (Article 37-bis of Presidential Decree No. 600/1973), in principle, the tax authorities may consider a transaction that involves single or connected acts to be a tax-avoidance transaction if it meets all of the following requirements at the same time:

- The transaction involves one or more of the following operations:
  - Contributions to companies or transfers or use of going concerns;
  - Assignments of credits;
  - Assignments of excess tax credits;
  - Transactions provided for in EU Directive No. 90/434/CEE; and
  - Transactions, including appraisals, regarding participations, securities, certificates, currencies, precious metals, swaps, options, hedging instruments and other specified items.
- The transaction was entered into without a sound economic reason.
- The transaction was entered into in order to get around the law.
- The transaction was entered into in order to achieve an undue income tax savings or tax refunds.

The tax authorities may disregard a tax-avoidance transaction for tax purposes. The antiavoidance rules may be applied for income tax purposes only.

Debt-to-Equity Rules. The existing tax law does not include thin-capitalization rules. However, the proposed tax reform (see Section G) contains thin-capitalization rules, which treat a debt obligation as equity (stock) if the borrower's debt-to-equity ratio is 4:1 or higher. Interest paid on the debt obligation in excess of this ratio is recharacterized as a nondeductible dividend.

F. Treaty Withholding Tax Rates

	Dividends (1) %	Interest %	Royalties %
Albania	10	0/5 (d)(e)(z)	5
Algeria	15	0/15 (d)(e)(z)	5/15 (o)
Argentina	15	0/20 (d)(e)(z)	10/18 (h)
Australia	15	0/10 (d)	10
Austria	15	0/10 (d)(e)	0/10 (i)
Bangladesh	10/15 (a)	0/10/15 (d)(e)(y)	10
Belgium	15	0/15 (w)	5
Brazil	15	0/15 (d)	15/22.5 (k)
Bulgaria	10	0	5
Canada	15	0/15 (d)(e)	0/10 (l)
China	10	0/10 (d)	7/10 (aa)
Côte d'Ivoire	15	0/15 (d)	10
Cyprus	15	10	0
Czechoslovakia (t)	15	0	5

	Dividends (1) %	Interest %	Royalties %
Denmark	0/15	0/10 (ee)(mm)	0/5 (nn)
Ecuador	15	0/10 (d)(e)(z)	5
Egypt	27 (cc)	0/25 (d)(e)(z)	15
Estonia	5/15 (a)	0/10 (d)	5/10 (kk)
Finland	10/15 (a)	0/15 (d)(e)(z)	0/5 (o)
France	5/15 (a)(gg)	0/10 (d)(e)(z)(ee)	0/5 (o)
Germany	10/15 (a)	0/10/12.5 (d)(e)(z)(ee)(ff)	0/5 (l)
Greece	15	0/10 (d)(e)(z)	0/5 (m)
Hungary	10	0	0
India	15/27 (a)	0/15 (e)	20
Indonesia	10/15 (a)	0/10 (d)(e)(z)	10/15 (x)
Ireland	15	10	0
Israel	10/15 (a)	10	0/10 (o)
Japan	10/15 (a)	10	10
Kazakhstan	5/15 (a)	0/10 (d)(e)(z)	0/10 (hh)
Korea	10/15 (a)	0/10 (d)(e)	10
Kuwait	5/27 (a)	0	10
Lithuania	5/15 (a)	10 (d)(e)	5/10 (kk)
Luxembourg	15	0/10 (d)(e)(z)	10
Macedonia	5/15 (a)	10	0
Malaysia	10	0/15 (d)	15
Malta	15	0/10 (d)(e)(z)	0/10 (m)
Mauritius	5/15 (a)	0/12.5/27 (dd)	15
Mexico	15	0/15 (d)(e)	0/15 (l)
Morocco	10/15 (a)	0/10 (d)(e)(z)	5/10 (o)
Netherlands	5/10/15 (c)	0/10 (d)(e)(z)	5
New Zealand	15	0/10 (d)(e)(z)	10
Norway	15	0/15 (d)(e)(z)	5
Pakistan	15/25 (a)	0/27 (d)(e)(z)	22.5 (k)
Philippines	15	0/15 (d)(e)(z)	22.5 (k)
Poland	10	0/10 (d)(e)(z)	10
Portugal	15	0/15 (d)(e)(z)	12
Romania	10	0/10 (d)(e)(z)	10
Russian Federation	5/10 (g)	10	0
Senegal	15	15 (ll)	15
Singapore	10	0/12.5 (d)(z)	15/20 (n)
South Africa	5/15 (a)	10 (d)(e)(z)	6
Spain	15	0/12 (d)(e)(z)	4/8 (o)
Sri Lanka	15	0/10 (d)(e)(z)	10/15 (q)
Sweden	10/15 (a)	0/15 (d)(e)(z)	5
Switzerland	15	12.5	5
Tanzania	10	12.5	15
Thailand	15/20 (a)	0/10 (d)(e)(j)	5/15 (h)
Trinidad and Tobago	10/20 (a)	10	0/5 (bb)
Tunisia	15	0/12 (d)(e)	5/12/16 (r)
Turkey	15	15	10
Ukraine (oo)	5/15 (a)	0/10 (ll)	7
USSR (u)	15	0/12.5/27 (ii)	–
United Arab Emirates	5/15 (a)	0	10
United Kingdom	5/15 (a)(gg)	0/10 (e)(ee)	8
United States	5/10/15 (c)	0/15 (d)	5/7/8/10 (s)
Venezuela	10	0/10 (b)	7/10 (p)

	Dividends (1) %	Interest %	Royalties %
Vietnam	5/10/15 (f)	10 (d)(e)(z)	7.5/10 (jj)
Yugoslavia (v)	10	10	10
Zambia	5/15 (a)	0/10 (d)	10
Nontreaty countries	27 (pp)	12.5/27 (pp)	22.5

(1) Dividends paid by Italian companies to EU parent companies are exempt from withholding tax if the recipient company holds a participation of at least 25% in the distributing company for an uninterrupted period of at least one year.

(a) The lower rate applies to corporate shareholders satisfying the following qualifying tests: Bangladesh, Estonia, India, Kazakhstan and Lithuania: at least 10% of the capital; Denmark: at least 25% of the capital for 12 months before the date the dividend is distributed; Finland: more than 50% of the capital; France: more than 10% of the capital for 12 months; Germany, Indonesia, Israel, Korea, Macedonia, Mauritius, Morocco, Pakistan, Trinidad and Tobago, United Arab Emirates and Zambia: at least 25% of the capital; Japan: at least 25% of the shares with voting rights for six months; Kuwait: at least 75% of the capital; South Africa: at least 25% of the capital for 12 months ending on the date the dividend is declared; Sweden: at least 51% of the capital; Thailand: at least 25% of the shares with voting rights; Ukraine: at least 20% of the capital; and United Kingdom: at least 10% of the shares with voting rights for 12 months.

(b) The 0% rate applies to interest paid to or by a government.

(c) The 5% rate applies to corporations that beneficially own more than 50% of the voting rights of the shares for 12 months ending on the date the dividend is declared. The 10% rate requires 10% ownership. The 15% rate applies in all other cases.

(d) Interest paid to a government or central bank is exempt.

(e) Interest paid by a contracting state is exempt.

(f) The 5% rate applies to dividends paid to corporations that beneficially own at least 70% of the capital of the payer. The 10% rate applies to dividends paid to corporations that beneficially own at least 25% but less than 70% of the capital of the payer. The 15% rate applies to other dividends.

(g) The 5% rate applies if the recipient of the dividend is a corporation that beneficially owns more than 10% of the capital of the payer and if the value of the participation of the recipient is at least US$100,000 or an equivalent amount in another currency. The 10% rate applies to other dividends.

(h) The lower rate is for the use of or right to use literary, artistic and scientific copyrights.

(i) The higher rate applies if the recipient has an investment exceeding 50% of the capital of the payer.

(j) The 10% rate applies only if the payer is engaged in an industrial activity and the interest is paid to a financial institution (including an insurance company).

(k) Because the tax rates provided by these treaties are higher than the rate under domestic law, the domestic rate of 22.5% applies. For Brazil, the 22.5% rate applies to trademark royalties only.

(l) The lower rate applies to royalties for literature, plays, and musical or artistic works. Under the Germany treaty, royalties for films and recordings for television qualify for the lower rate. Under the Canada treaty, such royalties do not qualify for the lower rate. Under the Mexico treaty, royalties for films and recordings for television and radio do not qualify for the lower rate.

(m) The lower rate applies to royalties paid for literary, artistic or scientific works and for films and recordings for radio or television.

(n) The lower rate applies to patents, trademarks, trade names or other intellectual property.

(o) The lower rate applies to royalties from the use of copyrights on literary, artistic or scientific works (excluding cinema and television films).

(p) The lower rate applies to royalties paid for the use of, or the right to use, copyrights for literary, artistic or scientific works, including cinematographic films and recordings for radio and television broadcasts.

(q) The lower rate applies to royalties paid for literary and artistic works, including films and recordings for radio and television.

(r) In the case of royalties for the use of trademarks, films and industrial, commercial or scientific equipment, the withholding is 16%; for the use of copyrights for artistic, literary and scientific works, the rate is 5%. In all other cases, the rate is 12%.

(s) In the case of royalties for the use of literary, artistic and scientific works, the rate is 5%; for the use of tangible property, the rate is 7%; for the use of films and recordings for radio or television, the rate is 8%. In all other cases, the rate is 10%.
(t) The Czechoslovakia treaty applies to the Czech and Slovak Republics.
(u) In general, the USSR treaty is honored by the Commonwealth of Independent States (CIS), except for Kazakhstan, but CIS members have different positions on the treaty. Italy and Kazakhstan have entered into a tax treaty (see rates in table).
(v) The treaty with the former Yugoslavia applies to Croatia, Slovenia and the Federal Republic of Yugoslavia. Italy has entered into a new tax treaty with Macedonia.
(w) An exemption applies to the following:
- Interest on loans that are not in the form of bearer securities if the interest is paid to the following: the other contracting state; its political or administrative subdivisions; or its local authorities; and
- Interest paid to credit institutions of the other contracting state if the interest is paid on loans that are not in the form of bearer securities and if the loans are permitted under an agreement between the governments of the contracting states.

(x) The 10% rate applies to royalties and commissions paid for the use of or right to use the following: industrial, commercial or scientific equipment; or information concerning industrial, business or scientific know-how. The 15% rate applies to other royalties.
(y) The 10% rate applies to interest paid by banks and other financial entities (that is, insurance companies). The 15% rate applies to other interest.
(z) Interest paid on loans made in accordance with an agreement between the governments of the contracting states is exempt.
(aa) Payments for the use of industrial, commercial and scientific equipment are taxed on the basis of 70% of the gross payments. Consequently, the effective rate for such payments is 7%.
(bb) The lower rate applies to royalties for literature, musical and artistic works.
(cc) The 27% rate is the rate under Italian domestic law for dividends paid to nonresidents.
(dd) These are the rates under Italian domestic law. Under the treaty, the rate is 0% if the interest is paid to a Mauritian public body or bank resident in Mauritius.
(ee) Exemption is provided for interest paid in connection with the following:
- Credit sales of industrial, commercial or scientific equipment; and
- Credit sales of goods delivered from one enterprise to another enterprise.

(ff) The 12.5% rate applies to payments on profit-sharing loans and to silent partners. The 10% rate applies in all other circumstances.
(gg) A refund may be available for the underlying tax credit with respect to business profits attached to the dividends.
(hh) If a resident of a contracting state receives payments for the use of, or the right to use, industrial, commercial or scientific equipment from sources in the other contracting state, the resident may elect to be taxed in the contracting state in which the royalties arise as if the property or right for which the royalties are paid is effectively connected with a permanent establishment or fixed base in that contracting state. If such election is made, no withholding tax is imposed on the payments.
(ii) The treaty exempts the following types of interest:
- Interest on bank credits and loans; and
- Interest on current accounts and deposits with banks or other credit institutions.

The 12.5% and 27% rates are the withholding tax rates under Italian domestic law.
(jj) The lower rate applies to fees paid for technical assistance services. The higher rate applies to royalties paid for the use of the intangibles.
(kk) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
(ll) The treaty provides the following exemptions:
- Interest paid by the government or its local authorities;
- Interest paid to the government of the other contracting state or its local authorities or others entities and organizations (including credit institutions) wholly owned by the other contracting state or its local authorities; and
- Interest paid to other entities and organizations (including credit institutions) if the interest is paid on loans permitted under an agreement between the governments of the contracting states.

(mm) The treaty provides the following exemptions:
- Interest paid by the state of source, its political or administrative subdivisions or its local authorities; and
- Interest paid on loans granted, guaranteed or secured by the government of the other contracting state, by its central bank or by other entities and organizations (including credit institutions) wholly owned by the other contracting state or under its control.

(nn) The lower rate applies to royalties paid for the use of, or the right to use, copyrights for literary, artistic or scientific works, excluding cinematographic films and other audio and visual recordings.

(oo) This treaty is effective from 25 February 2003.

(pp) See Section A.

G. Proposed Tax Reform

In September 2003, the Italian government approved a draft law containing a corporate tax reform package. At the time of writing, parliament was considering the law, which is expected to become effective on 1 January 2004. The law includes the following significant changes to the corporate tax system:

- Reduction of the corporate income tax rate from 34% to 33% and change of the name of the tax from *imposta sul reddito delle persone giuridiche* (IRPEG) to *imposta sul reddito delle società* (IRES).
- Repeal of the DIT regime, which provides for the application of a reduced corporate tax rate to the portion of taxable income attributable to deemed interest income.
- Introduction of a participation exemption regime for dividends and capital gains. Dividends received from Italian or foreign subsidiaries would be 95% exempt from corporate tax even if the EU Parent-Subsidiary Directive does not apply. Capital gains derived from disposals of Italian or foreign shareholdings would not be included in the corporate tax base (accordingly, capital losses would not be deductible) if all of the following requirements are satisfied:
  - The shareholding is classified, for financial statement purposes, as a long-term financial investment;
  - The Italian parent company holds the shareholding for an interrupted period of at least 12 months before the disposal; and
  - The subsidiary actually carries out a business activity and is not resident in a tax-haven as identified in a “black list” contained in a ministerial decree.
- Introduction of significant restrictions on deductibility for corporate income tax purposes of interest expenses for Italian companies holding participations that qualify for the new participation exemption regime.
- Elimination of the imputation tax credit on dividend distributions.
- Introduction of a check-the-box system to enable Italian corporate entities meeting certain requirements to be treated as flow-through vehicles for tax purposes.
- Introduction of thin-capitalization rules, which treat a debt obligation as equity (stock) if the borrower’s debt-to-equity ratio is 4:1 or higher. The interest paid on the recharacterized debt obligation in excess of this ratio is treated as a nondeductible dividend.
- Revision of the foreign tax credit rules to provide the possibility of carrying back and forward unused foreign tax credits.
- Repeal of the 19% tax regime that is currently available for certain corporate reorganizations.

The tax reform also provides for consolidated income tax returns for Italian corporate groups under common control. Under this measure, Italian corporations may elect to file a consolidated return if they are connected through control over a majority of votes at the ordinary shareholders' meeting. The election will be irrevocable for three years.

The Italian tax consolidation measures will allow the filing of a single consolidated tax return, which combines the operations of each separate entity, subject to certain adjustments designed to account for intercompany transactions.

Antiavoidance provisions will include rules aimed at limiting the extent to which a group can use the tax losses of a new member of the group.

A group may also elect to include foreign companies in an Italian consolidated return. However, the election must include all foreign subsidiaries. The election will be irrevocable for five years and subject to other requirements, including the mandatory audit of the group's financial statements by qualified auditors, and compliance with other requirements deemed appropriate on a case-by-case basis.

JAMAICA

(Country Code 1)

KINGSTON **GMT -4**

Ernst & Young
8 Olivier Road
Manor Park
Kingston
Jamaica

(876) 925-2501, 969-9000
Fax: (876) 755-0413

Corporate Tax

Ben Arrindell
(resident in Barbados)
(246) 430-3800
Mobile: (246) 231-2515
Fax: (246) 435-2079
E-mail: ben.arrindell@bb.ey.com

Juliette Brown
(876) 925-2501
E-mail: juliette.brown@jm.ey.com

Allison Peart
(876) 925-2501
Mobile: (876) 990-7660
E-mail: allison.peart@jm.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	$33^1/_3$
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	$33^1/_3$
Withholding Tax (%)	
Dividends	$0/33^1/_3$ (a)
Interest	$25/33^1/_3$ (b)
Royalties	$33^1/_3$ (c)
Management Fees	$33^1/_3$ (c)
Branch Remittance Tax	$33^1/_3$

Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (d)

(a) The dividend withholding tax is a final tax imposed on payments to both residents and nonresidents. No withholding tax is imposed on dividends paid by companies listed on the Jamaica stock exchange. The 33$^{1}/_{3}$% rate applies to other dividends. This rate may be reduced under tax treaties.
(b) The 25% rate apples to interest paid to nonresident individuals. The 33$^{1}/_{3}$% rate applies to interest paid to nonresident companies. Special rules apply to interest paid by prescribed persons (as defined). The withholding tax rates may be reduced under tax treaties. The recipients of the payments include the payments in taxable income reported on their annual income tax returns, and they may credit the tax against their annual income tax.
(c) This is a final tax imposed on payments to both residents and nonresidents. The withholding tax rate may be reduced under tax treaties.
(d) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies are resident in Jamaica if the control and management of their affairs are exercised in Jamaica. Nonresident companies operating a branch on the island are taxed on profits derived from Jamaican operations.

Rate of Tax. The rate of tax on profits is 33$^{1}/_{3}$%.

Several tax incentive programs offer tax exemptions. Building societies and life insurance companies are taxed at lower rates.

Remittances overseas by branches of foreign companies are subject to branch remittance tax at a rate of 33$^{1}/_{3}$%.

For periods generally ranging from 5 to 15 years, companies registered under the Export Encouragement Act or Hotel Incentive Act and companies engaged in approved agricultural activities are relieved from tax on the particular income for which the incentive is granted. The period of relief is specified in the order granting the exemption.

Companies registered under the Jamaica Export Free Zones Act are exempt from tax on income derived from the manufacturing and international trading of products. This exemption does not have a time limit.

Capital Gains. No tax is levied on capital gains. However, a transfer tax of 7.5% is imposed on transfers of certain Jamaican property, including land and securities.

Capital allowances are subject to recapture on the disposal of assets (see Section C).

Administration. The tax year is the calendar year. The Commissioner of Income Tax may allow companies with an accounting year-end other than 31 December to pay tax based on income earned in the accounting year ending within the tax year.

Returns must be filed and payments made by 15 March of the year following the tax year. Quarterly advance payments of tax must be made.

Interest of 40% per year is levied on late tax payments, and penalties may also be charged.

Dividends. In general, dividends are subject to withholding tax and the tax withheld must be paid to the Revenue Authorities. However, no withholding tax is imposed on dividends paid by companies listed on the Jamaica stock exchange. The recipient includes the gross dividend in taxable income but receives a credit for the tax withheld. If this dividend is further distributed to a resident shareholder, it is known as a franked dividend and does not attract any further tax because the initial payment of tax on the dividend is treated as discharging the liability of any subsequent recipient of the dividend. As a result, the recipient of a franked dividend does not include the dividend in taxable income.

Dividends paid out of capital are not subject to income tax, but they are subject to a 7.5% transfer tax.

No special rules apply to dividends received from subsidiaries.

Foreign Tax Relief. For income derived from treaty countries, the tax rate is the treaty rate applicable to the direct investor. The regular Jamaican corporate tax rate of 33 1/3% is applied to income derived from nontreaty countries.

C. Determination of Trading Income

General. Taxable income is based on accounting income with appropriate adjustments. To be deductible, expenses must be incurred wholly and exclusively in earning income.

Nondeductible expenses include incorporation expenses and interest accrued, but not paid. Charitable donations approved by the Minister of Finance are deductible, up to a maximum of 5% of taxable income.

Companies with shares not quoted on a recognized stock exchange may deduct dividends paid on preference shares, subject to certain limitations.

Inventories. The first-in, first-out (FIFO) method of valuing inventory is permitted.

Provisions. To be deductible, bad debts must be specific. General provisions are not allowed.

Tax Depreciation (Capital Allowances). The following capital allowances are granted.

Initial Allowance. An initial allowance of 20% of the cost of an asset is granted for certain types of assets, including office equipment, computers, plant and machinery, and industrial buildings, as defined in the Income Tax Act. An initial allowance of 12.5% is granted for trade vehicles, which include motor vehicles used primarily for the transport of goods or members of the public. Initial allowances are granted in the year of purchase and are deducted from the depreciable value of the asset.

Investment Allowance. A 20% investment allowance is granted instead of the initial allowance for buildings and plant and machinery used in basic industries, which include certain specified types of manufacturing and construction. Plant and machinery purchased in Jamaica must be new to qualify for the investment allowance. However, both new and used plant and machinery purchased overseas qualify for the allowance. A 40% investment allowance is granted for assets used in agriculture (plant and machinery used in irrigation and agricultural buildings) and for ships. The initial allowance is substituted for the investment allowance if the asset is disposed of within three years of its purchase. The investment allowance does not reduce the depreciable value of an asset.

Annual Allowance. Plant and machinery qualify for an annual allowance of 10% under the reducing-balance method or 11.25% under the straight-line method. A 12.5% annual allowance under the straight-line method is granted to motor vehicles. However, the maximum depreciable cost for vehicles that are not trade vehicles is J$3,200. A 22.5% annual allowance under the straight-line method is granted for computers. Office equipment qualifies for an annual allowance of 10% under the reducing-balance method or 11.25% under the straight-line method. Commercial and industrial buildings generally qualify for annual allowances under the reducing-balance method at rates that range from 2.5% to 5%, depending on the type of structure. Nonresidential buildings may also be depreciated over a maximum period of 40 years. If additions are made to the original structure, the cost of the additions is grouped with the tax-depreciated value at that date and is written off equally over the number of years remaining in the original 40 years. Consequently, there is a revised calculation for the write-off for each addition.

Special Capital Allowance. A special capital allowance is granted for capital expenditure incurred in 1994 and subsequent years by qualifying enterprises on new machinery. Fifty percent of the capital expenditure is deducted in the tax year the expenditure is incurred, and 50% is deducted in the following year. The machinery must be calibrated in the metric system if applicable. Motor vehicles, furniture and fixtures do not qualify for this special capital allowance. Qualifying businesses include certain manufacturing and industrial activities. A formal application must be made for approval to claim the special capital allowance.

Disposal of Depreciable Assets. Initial and annual allowances are generally subject to recapture on the sale of an asset, to the extent the sales proceeds exceed the tax value after depreciation. The amount recaptured may not exceed the total of the initial and annual allowances granted. Any amounts recaptured are subject to tax at the regular corporate tax rate. If the proceeds are less than the tax-depreciated value, an additional allowance is granted.

Relief for Losses. Losses incurred since the 1987 tax year can be carried forward indefinitely. No carryback is permitted.

Groups of Companies. The law does not contain any group loss relief or consolidated return provisions.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Customs User Fee; imposed on the value of all imports with few exceptions	2%
General consumption tax, on the value added to goods and services	0%/15%/20%
Assets tax, on gross assets	J$1,000 to J$35,000

Nature of Tax	Rate
Transfer tax, on transfers of certain Jamaican property, including land and securities	7.5%
Social security contributions	
National insurance scheme; imposed on annual earnings (income for self-employed individuals) up to J$500,000; paid by	
Employer	2.5%
Employee	2.5%
Self-employed individual	5%
National Housing Trust; paid by	
Employer, on payroll	3%
Employee, on salary	2%
Self-employed individual, on income	3%
Human Employment and Resource Training program (H.E.A.R.T.), on total payroll if it exceeds J$173,328 a year; paid by employer	3%
Education tax, on taxable salary; paid by	
Employer, on payroll	3%
Employee, on salary	2%
Self-employed individual, on net earnings	3%

E. Miscellaneous Matters

Foreign-Exchange Controls. Jamaica does not impose foreign-exchange controls.

Debt-to-Equity Rules. No restrictions are imposed, except that foreign-controlled corporations are not permitted to borrow locally.

Foreign-Controlled Companies. Subsidiaries of nonresident corporations are subject to income tax and withholding tax at 33$^{1}/_{3}$% on dividends remitted, unless a treaty provides a different rate.

Antiavoidance Legislation. Several antiavoidance measures are in force. These measures apply to transactions between persons that were not made at arm's length, artificial transactions that would reduce the amount of tax payable by any person and other similar transactions.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (i) %	Interest %	Royalties %	Management Fees %
Barbados (h)	0	15	15	15
Belize (h)	0	15	15	15
Canada	15/22.5 (a)	15	10	12.5
China	5	7.5	10	0
Denmark	10/15 (b)	12.5	10	10
Dominica (h)	0	15	15	15
France	10/15 (e)	10	10	10
Germany	10/15 (c)	10/12.5 (d)	10	33$^{1}/_{3}$
Grenada (h)	0	15	15	15
Israel	15/22.5 (e)	15	10	33$^{1}/_{3}$

	Dividends (i) %	Interest %	Royalties %	Management Fees %
Norway	15	12.5	10	10
St. Kitts and Nevis (h)	0	15	15	15
St. Lucia (h)	0	15	15	15
Sweden	10/22.5 (f)	12.5	10	10
Switzerland	10/15 (e)	10	10	10
Trinidad and Tobago (h)	0	15	15	15
United Kingdom	15/22.5 (a)	12.5	10	12.5
United States	10/15 (e)	12.5	10	0 (g)
Nontreaty countries	0/33⅓	25/33⅓ (j)	33⅓	33⅓

(a) Higher rate applies if payment is made to a company owning 10% or more of the voting stock of the payer.
(b) Lower rate applies if payment is made to a company owning 25% or more of the capital or voting stock of the payer.
(c) Lower rate applies if payment is made to a company owning 25% or more of the shares of the payer.
(d) Lower rate applies to interest received by a bank recognized as a banking institution under the laws of the state from which the payment is made.
(e) Lower rate applies if payment is made to a company owning 10% or more of the voting stock of the payer.
(f) Lower rate applies if payment is made to a company owning 25% or more of the voting stock of the payer.
(g) Management fees are not subject to withholding tax, but they are included in business profits. Consequently, net management fees are subject to tax in Jamaica only if the recipient has a permanent establishment there.
(h) These are the rates under the Caribbean Community and Common Market (CARICOM) tax treaty.
(i) Under Jamaican domestic law, withholding tax is not imposed on dividends paid by companies listed on the Jamaican stock exchange. As a result, the treaty rates do not apply to such dividends.
(j) The lower rate applies to payments to nonresident individuals.

JAPAN

(Country Code 81)

The e-mail addresses for the persons listed below who are resident in Japan are in the following standard format:

firstname.surname@jp.ey.com

The e-mail addresses for persons who are not resident in Japan are listed below the respective persons' names.

TOKYO **GMT +9**

Shin Nihon Ernst & Young
Hibiya Kokusai Building
20th Floor
2-2-3 Uchisaiwai-cho
Chiyoda-ku
Tokyo 100-0011
Japan

(3) 3506-2411
Fax: (3) 3506-2412 (Corporate Tax)
(3) 3506-2040 (Expatriate Tax)
(3) 3506-2413 (Transfer Pricing and Foreign Desks)

Chairman
Masahide Hayuka — **(3) 3506-2419**
Mobile: (90) 2427-7595

Managing Partner

★ Shigeru Nomura	**(3) 3506-2415** **Mobile: (90) 2655-7032**

Corporate Tax

Kazuo Ando *(resident in New York)*	**[1] (212) 773-7539** **E-mail: kazuo.ando@ey.com**
Yasuo Horikawa	**(3) 3506-2417** **Mobile: (90) 7283-4327**
Masaaki Inoue	**(3) 3506-2414** **Mobile: (90) 2655-8641**
Hitoshi Ishida	**(3) 3506-2495** **Mobile: (90) 7408-2666**
Hisako Kato	**(3) 3506-2042** **Mobile: (90) 8891-1723**
Yukie Kuwahara	**(3) 3506-2426** **Mobile: (90) 4830-7761**
Koichi Sekiya	**(3) 3506-2447** **Mobile: (70) 5214-5159**
Akio Takisaki	**(3) 3506-2416** **Mobile: (90) 8502-6345**

Financial Services

Kenji Amino *(resident in New York)*	**[1] (212) 773-0120** **E-mail: kenji.amino@ey.com**
Shinichi Tanimoto	**(3) 3506-2843** **Mobile: (90) 2747-1241**
Noboru Yokoyama	**(3) 3506-2435** **Mobile: (90) 7282-7949**

Human Capital

Kiyohide Iwasaki	**(3) 3506-2014**
Harish Shrivastava	**(3) 3506-2017** **Mobile: (90) 6107-2121**

Transfer Pricing

Mark T. Campbell	**(3) 3506-2460** **Mobile: (90) 1530-9698**
Masanobu Muramatsu	**(3) 3506-2418** **Mobile: (90) 1254-7954**
Ken Okawara	**(3) 3506-2461** **Mobile: (90) 1615-2047**

Foreign Desks

Wayne H. Aoki, *United States*	**(3) 3506-2602** **Mobile: (90) 7256-6562**
John Kondos, *Australia Transfer Pricing*	**(3) 3506-2596** **Mobile: (90) 7289-2982**
Tobias J. Lintvelt, *Netherlands*	**(3) 3506-2423** **Mobile: (90) 2428-6525**
Bruce W. Miller, *United States*	**(3) 3506-2422** **Mobile: (90) 7714-1134**

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (a)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%) (b)	
Dividends	20 (c)
Interest	15/20 (d)
Royalties from Patents, Know-how, etc.	20
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1 (e)
Carryforward	5

(a) Local income taxes (see Section D) are also imposed. The resulting effective corporate income tax rate is approximately 41% (42% if the head office is located in Tokyo). If a corporation elects tax consolidation, a 2% surtax is imposed on the consolidated taxable income for tax years beginning during the period of 1 April 2002 through 31 March 2004 (see Section C).
(b) Except for the withholding tax on royalties, these withholding taxes are imposed on both residents and nonresidents. For nonresidents, these are final taxes, unless the income is effectively connected with a permanent establishment in Japan. Royalties paid to residents are not subject to withholding tax.
(c) Dividends paid on listed shares from 1 April 2003 through 31 March 2008 are generally subject to a 10% withholding tax (including local tax) if certain requirements are met.
(d) Interest paid to residents and nonresidents is generally subject to a 20% withholding tax. However, interest paid to nonresidents on bonds, debentures or bank deposits is subject to a 15% withholding tax. Interest paid to nonresidents on government bonds under the Bank of Japan's book entry system is exempt from withholding tax for interest calculation periods beginning on or after 1 September 1999, if certain requirements are met. For residents, the tax consists of a national tax of 15% and a local tax of 5%.
(e) The loss carryback is temporarily suspended (see Section C).

B. Taxes on Corporate Income and Gains

Corporate Tax. Japanese domestic companies are subject to tax on their worldwide income, but nonresident companies pay taxes only on Japanese-source income. A domestic corporation is a corporation that is incorporated or has its head office in Japan. Japan does not use the "central management and control" criteria for determining the residence of a company.

Rates of Corporate Tax. For tax years beginning on or after 1 April 1999, the basic rate of national corporation tax is 30%. For corporations capitalized at ¥100 million or less, a tax rate of 22% applies to the first ¥8 million of taxable income.

Local income taxes, which are local inhabitant tax and enterprise tax, are also imposed on corporate income (see Section D). The resulting effective corporate income tax rate for companies subject to the 30% rate is approximately 41% (42% if the head office is located in Tokyo). Under Business Scale Taxation (Gaikei Hyojun Kazei; see Section D), for certain corporations, the effective rate will be reduced to approximately 40%, effective from tax years beginning on or after 1 April 2004.

If a corporation elects tax consolidation, an additional 2% surtax is imposed on the consolidated taxable income for tax years beginning during the period of 1 April 2002 through 31 March 2004 (see Section C).

Capital Gains. In general, for Japanese corporate tax purposes, capital gains are not taxed separately. Such gains are treated as ordinary income to which normal tax rates apply. Transferor corporations in qualified reorganizations may defer the recognition of capital gains and losses arising in such transactions. Mergers, corporate spinoffs and contributions in kind are considered qualified reorganizations if they satisfy certain conditions.

A special surplus tax is imposed on capital gains from the sale of land located in Japan. However, this tax is currently suspended for sales conducted through 31 December 2003. It has not yet been announced whether the suspension will continue to apply to sales conducted after that date. The tax is calculated by applying the following rates, which vary depending on the length of time the property was held, to the capital gains.

Number of Years Held		Rate
Exceeding	Not Exceeding	%
0	5	10
5	–	5

Administration. The tax year for a corporation is its fiscal year. A corporation must file a tax return within two months of the end of its fiscal year, paying the tax at that time. A one-month extension is normally available on application to the tax authorities. Except for newly established corporations, if the fiscal year is longer than six months, the corporation must file an interim return within two months of the end of the first six months and make an advance payment at the time of filing the interim return equal to either 50% of its prior year's tax liability or 100% of its estimated tax liability for the first six months of the current year.

Dividends Received/Paid. Dividends received from another domestic corporation, net of any related interest expense incurred for acquisition of the shares, are generally excluded from gross income. However, if the recipient corporation owns less than 25% of the domestic corporation distributing the dividends, 50% (temporary reduced rates apply to medium-sized and small corporations) of the net dividend income is includible in gross income. Dividends distributed from a domestic corporation are subject to a 20% withholding tax, unless a tax treaty modifies the rate.

Foreign Tax Credit. A Japanese company may be entitled to claim a foreign tax credit against both Japanese corporation tax and local inhabitant tax (see Section D). Creditable foreign income taxes for a Japanese company include foreign income taxes paid directly by a Japanese company and its foreign branches (direct tax credit) and foreign income taxes paid by a first- or second-tier foreign subsidiary (indirect tax credit). In addition, under tax treaties, a tax-sparing credit may be available to domestic companies with a branch or subsidiary in a developing country.

C. Determination of Trading Income

General. The tax law prescribes which adjustments to accounting income are required in computing taxable income. Expenditures incurred in the conduct of the business, except as otherwise provided by the law, are allowed as deductions from gross income.

Bonuses to directors are considered a distribution of income and are not deductible by the corporation. The deductibility of entertainment expenses incurred by a corporation is restricted according to the size (capitalization) of the corporation. Deductions of donations, except for those to national or local governments or similar organizations, are limited.

Inventories. A corporation may value inventory at cost under methods such as the following: actual cost; first-in, first-out (FIFO); last-in, first-out (LIFO); weighted average; moving average; straight average; most recent purchase; and retail. Alternatively, inventory may be valued at the lower of cost or market value. If a corporation fails to report the valuation method to the tax office, it is deemed to have adopted the most recent purchase price method.

Depreciation. The cost of tangible fixed assets, excluding land, may be recovered using statutory depreciation methods, such as straight-line or declining-balance. Depreciation rates are stipulated in the Japanese tax law, which provides a range of rates for each asset category based on the useful life. Depreciation for tax purposes may not exceed the amount of depreciation recorded for accounting purposes. The following are the ranges of depreciation rates for both the straight-line and declining-balance methods for selected asset categories.

Asset Category	Straight-Line From	Straight-Line To	Declining-Balance From	Declining-Balance To
Buildings	0.142	0.020	0.280	0.045
Building improvements	0.333	0.055	0.536	0.120
Other structures	0.333	0.013	0.536	0.028
Motor vehicles	0.500	0.050	0.684	0.109
Machinery and equipment	0.500	0.040	0.684	0.088

In the year of acquisition of specified machinery or equipment, a corporation may take additional depreciation. A corporation has the option of taking such additional depreciation or claiming the investment tax credit (see *Investment Tax Credit* below).

Depreciation rules for intangible assets differ from those for tangible assets with respect to statutory salvage value and limit of depreciation. Goodwill is amortized using the straight-line method over a period of five years.

Investment Tax Credit. A specified medium-sized or small corporation that acquires or produces certain qualifying machinery or equipment (for use in its business within one year of acquisition) may receive a credit against its corporate tax liability. The credit generally equals 7% of the cost or 20% of the corporate tax, whichever is less, and acts as a substitute for additional depreciation (see *Depreciation* above). In addition, if a corporation acquires certain assets relating to information technology (for example, computers, digital copying machines, fax machines, internet telephone equipment and software) from 1 January 2003 to 31 March 2006, the corporation can choose either a tax credit of 10% (subject to a limit of 20% of corporate tax for a year) or a special allowance for 50% accelerated depreciation of the acquisition cost, if certain conditions are met. For research and development (R&D), a corporation may claim a credit that is generally equal to 15% of certain incremental R&D expenditures, or 12% of the corporate tax before the credit, whichever is less.

Instead of claiming the incremental R&D tax credit, a corporation may elect to apply new rules introduced in 2003. Under the new rules, a corporation may credit proportionally 10% to 12% (effective for fiscal years beginning on or after 1 April 2006, 8% to 10%) of the total R&D expenditure in a year, subject to the limit of 20% of the corporate tax due for the year. If the credit amount exceeds 20% of the corporate tax for the year, the excess portion can be carried forward as a credit to the following year.

Net Operating Losses. Legislation provides that the net operating loss of certain corporations may be carried forward five years and back one year. However, the loss carryback is suspended for fiscal years ending from 1 April 1992 through 31 March 2004.

For certain Japanese branches and subsidiaries of foreign companies, net operating losses incurred during the fiscal years that end within the first five years of the company's existence may be carried forward seven years. In addition, under the Law on Special Measures for Industrial Revitalization, qualified companies may carry forward certain net operating losses seven years and carry back such losses one year.

Groups of Companies. The Consolidated Tax Return System (CTRS) applies to a domestic parent corporation and its 100% domestic subsidiaries. A consolidated group must elect the application of the CTRS, subject to the approval of the National Tax Agency (NTA). If a consolidated group wants to terminate its CTRS election, it must obtain the approval of the NTA. The national tax rate for tax-consolidated groups is increased to 32% (the normal rate is 30%) for fiscal years beginning during the period of 1 April 2002 through 31 March 2004.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Consumption tax, on a broad range of goods and services	5%
Enterprise tax, on taxable income (deductible from taxable income on a cash basis); rate depends on business location and the amount of taxable income; for fiscal years beginning on or after 1 April 2004, only corporations with capital of ¥100 million or less will calculate the tax based solely on taxable income; Business Scale Taxation (Gaikei Hyojun Kazei) will apply to corporations with capital of more than ¥100 million; under Business Scale Taxation, a corporation will be subject to tax on the basis of its added value, its capital amount and its taxable income	
Rates on taxable income under current system	5% to 10.08%
Standard tax rates under Business Scale Taxation	
Added value	0.5%
Capital amount	0.21%
Taxable income	3.8% to 7.56%
Local inhabitant tax, which consists of an income levy and a capital levy	
Income levy; computed as a percentage of national income tax; rate depends on the company's capitalization and amount of national income tax	17.3% to 20.7%
Capital levy; based on the company's capitalization and number of employees; annual assessments vary depending on the cities and prefectures in which the company's offices are located	¥70,000 to ¥5.2 million

Nature of Tax	Rate
Social insurance contributions, on monthly standard remuneration and bonuses	
Basic contribution, paid by	
Employer	12.53%
Employee	11.59%
Nursing insurance premium for employees who are age 40 or older, paid by	
Employer	0.445%
Employee	0.445%

E. Miscellaneous Matters

Foreign-Exchange Controls. The Bank of Japan controls inbound and outbound investments and transfers of money. Effective from 1 April 1998, the reporting requirements were simplified.

Transfer Pricing. The transfer-pricing law stipulates that pricing between internationally affiliated entities should be determined at arm's length. Entities are considered to be internationally affiliated entities if there is a relationship by way of holding 50% or more of the shares either directly or indirectly. The legislation stipulates that the burden of proof as to the reasonableness of the pricing is passed to the taxpayer, and if the taxpayer fails to provide proof or to disclose pertinent information to the tax authorities, taxable income is increased at the discretion of the tax authorities. The legislation specifies three transfer-pricing methods — uncontrolled price, resale price and cost-plus. However, the tax authorities may also allow the use of the profit-split method if the three methods specified in the legislation cannot be used. It is possible to reach transfer-pricing agreements in advance with the tax authorities.

Tax-Haven Legislation. Japanese tax law has tax-haven rules. If a Japanese domestic company owns 5% or more of the issued shares of a tax-haven subsidiary of which more than 50% is owned directly or indirectly by Japanese domestic companies and Japanese resident individuals, the undistributed income of the subsidiary must be included in the Japanese parent company's taxable income in proportion to the equity held. A foreign subsidiary is considered a tax-haven subsidiary if its head office is located in a country that does not impose income tax or if the company is subject to tax at an effective rate of 25% or less (the effective rate is calculated on a company-by-company basis). Losses of a foreign affiliate may not offset the taxable income of the Japanese parent company.

Debt-to-Equity Rules. Thin-capitalization rules limit the deduction for interest expense for companies with foreign related-party debt if the debt-to-equity ratio exceeds 3:1.

F. Treaty Withholding Tax Rates

For treaty countries, the rates reflect the lower of the treaty rate and the rate under domestic tax laws on outbound payments.

	Dividends %	Interest %	Royalties %
Australia	15	10	10
Austria	10/20 (a)	10	10
Bangladesh	10/15 (a)	10 (c)	10
Belgium	10/15 (a)	10	10
Brazil	12.5	12.5 (c)	12.5/15/20 (f)
Bulgaria	10/15 (a)	10 (c)	10
Canada	5/10/15 (a)(r)	10 (c)	10
China	10	10 (c)	10
Czechoslovakia (n)	10/15 (a)	10 (c)	0/10 (i)
Denmark	10/15 (a)	10	10
Egypt	15	15/20 (q)	15
Finland	10/15 (a)	10	10
France	0/5/15 (o)	10 (c)	10
Germany	10/15 (a)	10 (c)	10
Hungary	10	10 (c)	0/10 (i)
India	15	10/15 (c)(j)	20
Indonesia	10/15 (a)	10 (c)	10
Ireland	10/15 (a)	10	10
Israel	5/15 (a)	10 (c)	10
Italy	10/15 (a)	10	10
Korea	5/15 (a)	10 (c)	10
Luxembourg	5/15 (a)	10 (c)	10
Malaysia	5/15 (a)	10 (c)	10
Mexico	0/5/15 (o)	10/15 (c)(p)	10
Netherlands	5/15 (a)	10 (c)	10
New Zealand	15	15/20 (q)	20
Norway	5/15 (a)	10 (c)	10
Pakistan	15/20 (a)	0/15/20 (m)(q)	0
Philippines	10/20 (a)	10/15 (c)(l)	15/20 (g)
Poland	10	10 (c)	0/10 (i)
Romania	10	10 (c)	10/15 (i)
Singapore	5/15 (a)	10 (c)	10
South Africa	5/15 (a)	10 (c)	10
Spain	10/15 (a)	10	10
Sri Lanka	20	15/20 (c)(q)	0/10 (h)
Sweden	0/5/15 (d)	10	10
Switzerland	10/15 (a)	10 (e)	10
Thailand	15/20 (s)	10/20 (c)(j)	15
Turkey	10/15 (a)	10/15 (c)(j)	10
USSR (k)	15	10 (c)	0/10 (i)
United Kingdom	10/15 (a)	10	10
United States	10/15 (b)	10 (c)	10
Vietnam	10	10 (c)	10
Zambia	0	10 (c)	10
Nontreaty countries	20	15/20 (q)	20

(a) The treaty withholding rate is increased to 15% or 20% if the recipient is not a corporation owning at least 25% (Pakistan — 33 1/3%; Austria — 50%) of the distributing corporation.

(b) The rate is 15% unless the recipient is a corporation that owned at least 10% of the voting shares of the payer since the beginning of the prior taxable year and if not more than 25% of the payer's gross income for the prior year was from dividends and interest (other than from a subsidiary or financial institution).

(c) Interest paid to a contracting state, subdivision or certain financial institutions is exempt.

(d) Dividends are exempt from withholding tax if the beneficial owner of the dividends is a listed company and if certain other conditions are met. The withholding tax rate of 5% applies to dividends paid to a company owning at least 25% of the voting shares of the payer. The 15% rate applies to other dividends. However, the exemption and the 5% rate described above do not apply to dividends paid by Japanese special purpose companies or securities investment corporations or by Swedish companies similar to such companies that may be introduced in the future. The withholding tax rate of 15% applies to such dividends.
(e) Interest paid to a Swiss resident pursuant to debt claims guaranteed or insured by Switzerland is exempt.
(f) The withholding rate for trademark royalties is 20%; for motion picture films and videotapes, the rate is 15%. The 12.5% rate applies to other royalties.
(g) The withholding rate for motion picture films is 15%.
(h) The withholding rate for motion picture films is 0% and for patent royalties is 10%.
(i) The withholding tax on cultural royalties is exempt (Romania — 10%) and on industrial royalties is 10% (Romania — 15%).
(j) The rate is generally 15% (Thailand — 20%), except it is reduced to 10% for interest paid to banks.
(k) The USSR treaty applies to Armenia, Belarus, Georgia, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
(l) Interest on bonds is taxed at 10%.
(m) Interest on debentures or loans is exempt.
(n) The Czechoslovakia treaty applies to the Czech and Slovak Republics.
(o) The 5% rate applies if the recipient of the dividends is a corporation owning at least 15% (Mexico — 25%) of the payer. The 0% rate applies if such corporation is an “eligible resident” (Mexico — “specified parent company”) as defined in the treaty. The 15% rate applies to other dividends.
(p) The general rate is 15%. The 10% rate applies to interest paid to banks or by listed corporations.
(q) See footnote (c) to Section A.
(r) The 5% rate applies to dividends paid to a company owning at least 25% of the voting shares of the payer. The 10% rate applies to dividends paid by a nonresident-owned investment corporation resident in Canada to a Japanese company owning at least 25% of the voting shares of the payer. The 15% rate applies to other dividends.
(s) The 15% rate applies if the dividends are paid by a company engaged in an industrial undertaking to a company owning at least 25% of the payer of the dividends. The 20% rate applies to other dividends.

JERSEY, CHANNEL ISLANDS

(Country Code 44)

The e-mail addresses for the persons listed below are in the following standard format:

initial of first name (directly followed by) surname@uk.ey.com

For example, John Shenton’s e-mail address is the following:

jshenton@uk.ey.com

ST. HELIER **GMT**

Ernst & Young	**(1534) 288-600**
Unity Chambers	**Fax: (1534) 288-688**
28 Halkett Street	
St. Helier	
Jersey JE1 1EY	
Channel Islands	

Corporate Tax

Claire Sandford	**(1534) 288-686**
★ John Shenton	**(1534) 288-696**

A. At a Glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	20 (a)
Exempt Company Fee (Annual)	£600
Withholding Tax (%)	
Dividends	0 (b)
Interest (c)	
On Bank Deposits and Short-Term Debt	0 (d)
Other Interest	0/20 (e)
Royalties from Patents	0/20 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	2
Carryforward	Unlimited

(a) Reduced rates apply to certain types of companies. An International Business Company (IBC, see Section B) may be taxed at rates ranging from 0.5% to 30%. Alternatively, an IBC may apply to have its international business profits assessed at a single rate of tax, which may not be less than 2%.
(b) See Section B.
(c) Jersey will enact legislation implementing withholding tax and exchange of information measures in the European Union (EU) Savings Directive, effective from 1 January 2005. For details, see Section E.
(d) Debt is considered short-term if it cannot exceed 364 days.
(e) The 0% rate applies to interest and royalties paid by exempt companies and IBCs.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Except for exempt companies (see *Exempt Companies* below), all companies incorporated in Jersey and companies incorporated elsewhere whose central management and control are exercised in Jersey are resident for tax purposes. Resident companies are subject to tax on their worldwide profits excluding capital gains.

Rate of Corporate Income Tax. The rate of tax is 20%.

Captive insurance and reinsurance companies and International Business Companies (see *International Business Companies* below) may qualify for reduced tax rates.

Exempt Companies. An exempt company is the most common form used by offshore investors. To qualify as an exempt company, a company must be beneficially owned by nonresidents of Jersey and meet certain other requirements. An exempt company is not subject to corporate income tax on its profits derived from business conducted abroad. It may be registered in Jersey or elsewhere and managed and controlled in Jersey. Exempt companies must pay an annual exempt company fee of £600 by 31 March.

By concession, a foreign-registered (not incorporated in Jersey) investment company may avoid the exempt company fee if it files an application with the tax authorities and obtains a waiver of the fee. An investment company is defined as a company not carrying on a trade.

International Business Companies. An International Business Company (IBC) may be a Jersey company, a foreign company controlled in Jersey or a Jersey branch of a nonresident company.

A multinational located in a country with an extensive treaty network may establish a finance branch in Jersey with IBC status that is subject to a low tax rate.

A permanent establishment in Jersey may qualify as an IBC. As a result, companies engaged in international trading operations that have offices and personnel in Jersey may be subject to low IBC tax rates.

The tax rates payable by an IBC are negotiated in advance with the tax authorities. The minimum rates of tax payable on the total profits of IBCs decrease from 2% for taxable profits not exceeding £3 million to 0.5% for taxable profits exceeding £10 million. Tax rates in excess of these minimum amounts may be negotiated, but the rate may not exceed 30%. The typical effective tax rate imposed on the taxable profits of an IBC is 2%. An IBC may apply to have its international business profits assessed at a single rate of tax, which may not be less than 2%. IBCs must pay an annual minimum tax of £1,200 by 31 October.

Capital Gains. Jersey does not impose capital gains tax.

Administration. Corporate income tax returns must be filed within 30 days of their date of issue. In practice, financial statements are accepted instead of tax returns. Assessments are normally issued to taxpayers in the year following the income year (the Jersey fiscal year coincides with the calendar year), and tax is payable on the day following the issue of the assessment. No penalties are imposed for late filing of tax returns. A 10% surcharge is imposed if tax remains unpaid as of the deadline set by the tax authorities, which is usually the first Friday of December.

Dividends. Dividends paid by Jersey resident companies are deemed to be paid net of a 20% tax. A 20% withholding tax is imposed on dividends paid by collective-investment funds (exempt companies) to Jersey residents.

Foreign Tax Relief. Jersey has double tax treaties with the United Kingdom, Guernsey and France. The treaty with France is extremely limited and deals only with the exemption of air transport and shipping profits. The arrangements with the United Kingdom and Guernsey give credit for tax on all sources of income, except that the treaty with the United Kingdom specifically excludes dividends and debenture interest.

Although Jersey has a limited treaty network, multinationals with Jersey companies in their corporate structures may reduce their global tax burden by routing income to Jersey through companies in other jurisdictions that can collect and pass on such income with the imposition of little or no withholding tax.

Unilateral relief is granted for income not covered by a treaty, to the extent that foreign tax paid is allowed as a deduction in the computation of the amount assessable. Unilateral relief in the form of a tax credit may also be granted by concession to certain trading companies.

C. Determination of Trading Income

General. The amount assessable is based on the accounting profit, adjusted for tax purposes.

Expenses incurred wholly and exclusively for the purposes of trade or managing investments are deductible.

Inventories. There are no statutory rules prescribing which methods of stock valuation are acceptable. Inventory is normally valued at the lower of cost or net realizable value.

Provisions. Only specific provisions are allowable as deductions.

Tax Depreciation. Capital allowances, normally at 25% of the declining balance, are given on capital expenditure incurred to acquire machinery or plant to be used wholly and exclusively for the purposes of the trade.

Depreciation is calculated on a pool of assets. A balancing charge is imposed if the proceeds from the sale of an asset (limited to the cost of the asset) exceed the depreciated value of the pool or if the business is terminated.

Groups of Companies. No special legislation applies to groups of companies in Jersey. However, by concession, the tax authorities informally allow losses to be offset within a trading group through the payment of management fees.

Relief for Losses. Losses in any trade may be used to offset either other income for the year in which the losses were incurred or profits derived from the same trade in the preceding two years. Unused losses may be carried forward, without time limit, to offset income from the same trade for any subsequent year of assessment.

D. Social Security Contributions

Social security contributions are payable with respect to employees resident in Jersey. Employers and employees are required to pay contributions based on the salary paid to each employee. The rates are 6.5% for employers and 6% for employees. For 2003, the maximum contribution for each employee is £179.01 for employers and £165.24 for employees. It is anticipated that the contribution rates and the ceilings will be increased, effective from 1 January 2004. However, information about such increases was not available at the time of writing.

E. Miscellaneous Matters

Antiavoidance Legislation. The Comptroller may make assessments or additional assessments to counteract transactions if the primary purpose is the avoidance or reduction of income tax. In general, these provisions do not apply to Jersey exempt companies or to IBCs.

Foreign-Exchange Controls. Jersey does not apply any form of exchange controls, and capital can be freely repatriated.

Related-Party Transactions. No special legislation applies to related-party transactions.

Debt-to-Equity Rules. Jersey does not impose debt-to-equity requirements.

Transfer Pricing. Jersey law does not include transfer-pricing rules.

Advance Rulings. The local tax administration provides advance rulings promptly.

European Union Savings Directive. Jersey intends to enact legislation that will implement the withholding tax and exchange of information measures in the European Union (EU) Savings Directive, effective from 1 January 2005. The withholding tax rate will be 15% for the first three years, 20% for the next three years and 35% thereafter. The legislation will affect companies that fall within the definition of "paying agent."

F. Treaty Withholding Tax Rates

	Dividends %	Interest (e) %	Royalties %
Guernsey	0 (a)	0/20 (b)(c)	0/20 (b)(c)(d)
United Kingdom	0 (a)	0/20 (b)(c)	0/20 (b)(c)(d)
Nontreaty countries	0 (a)	0/20 (c)	0/20 (c)(d)

(a) See Section B.
(b) Withholding tax is not imposed on interest and royalties if the income in the hands of the recipient represents business profits.
(c) Interest on short-term debt (cannot exceed 364 days) and on bank deposits is exempt from withholding tax. Interest and royalties paid by exempt companies and IBCs (see Section B) are also exempt from withholding tax.
(d) The 20% rate applies to patent royalties.
(e) Jersey intends to enact legislation implementing the withholding tax and exchange of information measures in the EU Savings Directive, effective from 1 January 2005. For details, see Section E.

JORDAN

(Country Code 962)

AMMAN **GMT +2**

Ernst & Young
Mail Address:
P.O. Box 1140
Amman 11118
Jordan

(6) 553-7314, 552-6111
Fax: (6) 553-8300
E-mail: amman.office@jo.ey.com

Street Address:
Intersection of Mecca Street
and Kindy Street
Amman
Jordan

Corporate Tax
Mohamed A.K. Saadeh **(6) 553-7314**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	
On Shares	0
On Depreciable Assets	35 (a)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	0
Interest	5 (b)
Other Payments to Nonresidents	10
Branch Remittance Tax	0

Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) This is the maximum rate.
(b) This withholding tax is imposed on interest paid by banks to depositors (except banks).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. In general, income tax is levied on corporate entities and foreign branches with respect to taxable profit from all sources arising or deemed to arise in Jordan. Income is deemed to arise in Jordan if one of the following is located there:
- The place of performance of work; or
- The place of delivery of work.

Rates of Corporate Tax. Corporate income tax is levied at the following rates.

Sector	Rate (%)
Hospitals, hotels, industrial, mining, construction and transportation	15
Banks and financial institutions	35
Insurance, exchange (foreign-exchange dealers), telecommunication, trade, services and other companies	25

Capital Gains. Jordanian and foreign shareholding companies are taxable on up to 25% of capital gains derived from sales of shares. Banks and financial institutions are taxable on 75% of capital gains derived from sales of shares.

Capital gains on sales of depreciable assets are taxed at the normal corporate income tax rates. The amount of the gains on such assets equals the lower of the depreciation for the asset that has been deducted in prior years or the profit realized on the sale.

Administration. Tax returns for all corporate entities must be filed in Arabic within four months from the end of each fiscal year, together with the total amount of taxes due per the final tax declaration. If the tax return is not submitted within the statutory time limit, delay fines of 2% are levied for each month of delay, up to a maximum of 24% of the amount of tax due. The Director General of the Income Tax Department may waive or reduce these fines.

A taxpayer who is found guilty of evading tax is liable to pay double the amount of tax evaded. In addition, the taxpayer may be liable for fines of not less than JD 100 to JD 500 and may be subject to imprisonment, depending on the circumstances.

The tax regulations provide incentives to taxpayers who choose to make payments in advance. The following credits can be claimed:
- 6% on payments made in the first month after the fiscal year-end;
- 4% on payments made in the second month after the fiscal year-end; and
- 2% on payments made in the third month after the fiscal year-end.

Dividends. Jordanian and foreign shareholding companies, including banks and financial institutions, are taxable on 25% of dividends received.

Interest. Interest paid by banks to depositors (except banks) is subject to a 5% withholding tax.

Foreign Tax Relief. Foreign tax relief is granted in accordance with tax treaties signed with other countries.

C. Determination of Trading Income

General. All income earned in Jordan from trading or other sources is taxable in Jordan.

All business expenses incurred to generate income are allowable, with certain limitations. A certain percentage of entertainment expenses is deductible. Head office charges are limited to 5% of net adjusted income.

Provisions. Provisions are generally not deductible for tax purposes. However, companies, except for banks and insurance companies, may deduct provisions for doubtful debts that arose and became doubtful on or after 1 January 2002, subject to the following limitations on deductibility:

- 5% of debts due for more than one year but less than two years; and
- 10% of debts due for more than two years but not more than three years.

However, the deductible amount of a provision may not exceed in a year 1% of the outstanding debts relating to the taxable activity.

Beginning in 2002, banks may deduct a provision for bad and doubtful debts as calculated in accordance with the Central Bank of Jordan guidelines, subject to certain limitations.

Tax Depreciation. Statutory maximum depreciation rates are set for various types of fixed assets. If the rates used for accounting purposes are greater than the prescribed rates, the excess is disallowed. The tax law allows accelerated depreciation rates. A tax regulation provides for the following straight-line and accelerated depreciation rates.

Asset	Straight-Line (%)	Accelerated (%)
Industrial buildings	4	–*
Office equipment	10	20
Motor vehicles	15	30
Plant and machinery	10 to 20	20 to 40

* No accelerated rate is provided for industrial buildings. Machinery and equipment and other fixed assets that are imported on a temporary entry basis (this is equipment that the government allows foreign contractors to import on a temporary basis for the purpose of carrying out certain contractual work in Jordan) do not qualify for accelerated depreciation.

Used assets are depreciated at statutory rates established by the tax authorities, calculated on the purchase price.

Relief for Losses. Taxpayers are allowed to carry forward unabsorbed losses to offset the profits of subsequent periods. Losses may not be carried back.

Groups of Companies. There are no provisions for filing consolidated returns or for relieving losses within a group of companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
University tax, levied on public shareholding companies and foreign operating branches' net profit before taxation	1
General sales tax (similar to value-added tax)	13
Social security contributions, on salaries and all benefits except overtime; paid by	
Employer	11
Employee	5.5
Vocational training tax; imposed on companies' distributable profit	1
Tax on imports; imposed on the value of goods imported for resale	2

E. Miscellaneous Matters

Foreign-Exchange Controls. Jordan does not impose any foreign-exchange controls.

Debt-to-Equity Rules. The only restrictions on debt-to-equity ratios are those stated in the articles and memorandum of a corporation.

F. Tax Treaties

Jordan has entered into double tax treaties with Algeria, Bahrain, Canada, Egypt, France, India, Indonesia, Kuwait, Malaysia, Poland, Romania, Syria, Tunisia, Turkey, the United Kingdom and Yemen.

In addition, Jordan has entered into tax treaties, which primarily relate to transportation, with Austria, Belgium, Cyprus, Denmark, Italy, Kuwait, Oman, Pakistan, Qatar, Saudi Arabia, Spain, and the United States.

KAZAKHSTAN

(Country Code 7)

ALMATY **GMT +6**

Ernst & Young Kazakhstan
240G Furmanov Street
Almaty 480099
Kazakhstan

(3272) 585-960
Fax: (3272) 585-961

Corporate Tax

Gerard Anderson	**(3272) 585-969** **Mobile: [44] 7747-010-009** **E-mail: gerard.anderson@ru.ey.com**
★ Petr V. Medvedev	**(3272) 585-960** **Mobile: (333) 222-3377** **E-mail: petr.v.medvedev@kz.ey.com**
Zhanna S. Tamenova	**(3272) 585-960** **Mobile: (333) 215-7530** **E-mail: zhanna.s.tamenova@kz.ey.com**

New amendments to the Kazakh Tax Code continue to be introduced. For example, the rates of the value-added tax and social tax are reduced, effective from 1 January 2004 (see Section D). Additional amendments to the Tax Code are in the process of being formulated and enacted. Because of these developments, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Profits Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Permanent Representation Tax Rate (%)	30
Branch Profits Tax Rate (Additional Tax) (%)	15 (a)
Withholding Tax (%)	
Dividends	15
Interest	15
Royalties from Patents, Know-how, etc.	20
Permanent Representation Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (b)

(a) This tax is imposed on the taxable profits of permanent representations after deduction of the profits tax.
(b) Subsurface users (see Section C) may carry forward tax losses for seven years.

B. Taxes on Corporate Income and Gains

Corporate Profits Tax. Enterprises carrying out activities in Kazakhstan, including enterprises with foreign participation and foreign entities operating through a permanent representation, are subject to tax. The definition of “permanent representation” is similar to the definition of “permanent establishment” in the model treaty of the Organization for Economic Cooperation and Development, without the standard exemptions. Kazakhstan legal entities are subject to tax on their worldwide income. Foreign legal entities are subject to tax on profits from Kazakh sources that are earned through a permanent representation.

Rates of Corporate Tax. The regular corporate profits tax rate is 30%. This rate also applies to enterprises with foreign participation (joint ventures), companies with foreign participation of 100% and permanent representations of foreign companies.

Permanent representations are also subject to a 15% tax on their profits after deduction of the corporate profits tax. The 15% tax is imposed regardless of whether the profits are remitted to the home country of the permanent representation.

Payments to foreign legal entities abroad are subject to withholding tax. For dividends and interest, the rate is 15%. The rates are 10% for insurance premiums and 5% for reinsurance premiums. The rate for international transportation services is 5%. For all other payments, the rate is 20%.

Capital Gains. Capital gains are included in taxable profits and subject to tax at the regular corporate tax rates.

Administration. The tax year is the calendar year.

Legal entities must make advance payments of tax on or before the 20th day of each month. These payments are based on the estimated income and income tax due for the current year. Annual tax returns must be filed by 31 March of the year following the tax year. Profits tax due must be paid within 10 working days after the deadline for filing annual tax returns.

Excess payments of tax can be applied to certain other taxes or future tax liabilities, or refunded within 15 working days from the date on which a taxpayer submits a written application.

No refunds are granted for overpayments of value-added tax (VAT) unless the company's turnover is taxed at a 0% rate for VAT purposes.

In practice, it is difficult to obtain refunds of overpayments of tax.

Dividends. Dividends, including those paid to domestic enterprises, are subject to a withholding tax of 15%.

Foreign Tax Relief. A foreign tax credit is available for foreign tax paid on income earned abroad. The amount of the tax credited may not exceed the amount of tax that would have been accrued on this income at the rates in effect in Kazakhstan.

C. Determination of Trading Income

General. Kazakhstan has introduced its own accounting legislation. Kazakh Accounting Standards (KAS) closely follow International Financial Reporting Standards (IFRS). Recent amendments to the Law on Accounting introduced a requirement to prepare financial statements in accordance with IFRS instead of KAS. In general, this requirement is effective from 1 January 2004. However, for entities engaged in activities regulated by the National Bank of the Republic of Kazakhstan, the requirement is effective from 1 January 2003.

In general, taxable profit is determined in accordance with IFRS by computing the profit or loss from business activities and adding income from nontrading operations.

In general, under the Tax Code, all properly documented expenses related to the generation of revenues are deductible, unless the code indicates that a certain expense is explicitly nondeductible. In practice, the authorities often attempt to disallow business expenses as a result of their lack of understanding of the specifics of particular businesses.

Interest on tenge credits is deductible up to 200% of the refinancing rate (as of 7 July 2003, the official refinancing rate was 7%) set by the National Bank of Kazakhstan. For interest on hard-currency credits, the deduction is limited to 200% of the London interbank offer rate (LIBOR). The Tax Code establishes additional limits on the deductibility of interest on cross-border loans.

Special Deductions. Deductions are allowed for costs incurred to carry out scientific research and experimental design projects.

Subsurface users may deduct in the form of amortization deductions expenses incurred on geological studies, exploration and preparation work for the extraction of mineral resources, including expenses for assessment, expenses for equipping, general administrative expenses and expenses connected with the payment of bonuses. Subsurface user operations are works related to geological studies and to the exploration and production of natural resources. Enterprises begin to calculate amortization when the extraction of mineral resources starts. They may set the annual amortization rate at their discretion, but the rate may not exceed 25%.

Provisions. Banks may deduct provisions for doubtful and bad debts in an amount established by the National Bank of Kazakhstan and agreed to by the Ministry of State Revenue. Other entities may deduct bad debts that are three years past due.

Tax Depreciation. Buildings may be depreciated using an annual declining-balance rate of 8%. The annual declining-balance depreciation rates for automobiles and equipment range from 7% to 25%.

The depreciation rates may be doubled in the tax year in which fixed assets are first placed in service in Kazakhstan if these fixed assets are used in the business for at least three years.

Relief for Losses. Enterprises may carry forward tax losses to offset annual taxable profits in the following three tax years. Subsurface users (see *Special Deductions* above) may carry forward tax losses seven years. Loss carrybacks are not allowed.

Groups of Companies. The Tax Code does not include any measures permitting related enterprises to offset profits and losses among members of a group.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; imposed on supplies of goods, works and services that are considered to be supplied in Kazakhstan, as well as on imports of goods	
Standard rate	15
Export duties on certain animal skins; rates are in euro amounts	Various
Import duty; for certain goods, the duty is calculated by applying a specified percentage to the customs value, with a minimum duty of a specified amount of euros per unit	
Percentage rates	0 to 100
Import excise taxes; for certain goods, the tax is calculated by applying a specified percentage to the customs value, with a minimum duty of a specified amount of euros per unit	
Percentage rates	10 to 100
Payroll taxes	
Social tax, paid by employer; imposed on a regressive scale	
On the payroll for qualifying foreign specialists	20 to 7
On the payroll for other employees	11 to 5
Pension fund; withheld from employees' salaries, up to a maximum monthly salary of Tenge 375,000 (approximately US$2,538)	10
Individual income tax; withheld by employers at progressive rates	5 to 20

E. Foreign-Exchange Controls

The principal measures governing foreign-exchange controls in Kazakhstan are the Law on Currency Regulations (24 December 1996) and the resolutions of the National Bank of Kazakhstan. The foreign-exchange control system operates largely through the following two sets of rules:

- Rules for residents (that is, Kazakh citizens and Kazakh legal entities); and
- Rules for nonresidents (that is, foreign citizens, foreign companies, representative offices and branches of foreign legal entities).

In general, payments between residents can be made in tenge only.

The exchange-control measures impose several other restrictions on the use of hard currency by residents. For example, residents may withdraw hard-currency cash from their bank accounts only for specified purposes, such as for the payment of salaries to nonresidents or for allowances for business trips abroad. Residents are also not allowed to maintain their bank accounts abroad unless specifically authorized by the National Bank of Kazakhstan. Under the Civil Code, which took effect on 1 January 2002, it is no longer possible to denominate an obligation between two residents in a foreign currency, with certain exceptions. This rule does not apply to contracts between residents and nonresidents.

F. Treaty Withholding Tax Rates

The following table lists the withholding rates under Kazakhstan's tax treaties.

	Dividends %	Interest %	Royalties %
Azerbaijan	10	10	10
Belarus	15	10	15
Belgium	5/15 (b)	10	10
Bulgaria	10	10	10
Canada	5/15 (b)	10	10
China	10	10	10
Czech Republic	10	10	10
Estonia	5/15	10	15
France	5/15 (b)	10	10
Georgia	15	10	10
Germany	5/15 (a)	10	10
Hungary	5/15 (a)	10	10
India	10	10	10
Iran	5/15 (c)	10	10
Italy	5/15 (b)	10	10
Korea	5/15 (b)	10	10
Kyrgyzstan	10	10	10
Latvia	5/15 (a)	10	10
Lithuania	5/15 (a)	10	10
Moldova	10/15 (a)	10	10
Mongolia	10	10	10
Netherlands	5/15 (b)	10	10
Pakistan	12.5/15 (b)	12.5	15
Poland	10/15 (c)	10	10
Romania	10	10	10
Russian Federation	10	10	10
Sweden	5/15 (b)	10	10

	Dividends %	Interest %	Royalties %
Switzerland	5/15	10	10
Tajikistan	10/15	10	10
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	5/15 (a)	10	10
United Kingdom	5/15 (b)	10	10
United States	5/15 (b)	10	10
Uzbekistan	10	10	10
Nontreaty countries	15	15	20

(a) The lower rate applies to dividends paid to companies owning at least 25% of the payer. The 15% rate applies to other dividends.
(b) The lower rate applies to dividends paid to companies owning at least 10% of the payer. The 15% rate applies to other dividends.
(c) The lower rate applies to dividends paid to companies owning at least 20% of the payer. The 15% rate applies to other dividends.

KENYA

(Country Code 254)

NAIROBI **GMT +3**

Ernst & Young
Mail Address:
P.O. Box 44286 00100
Nairobi GPO
Kenya

(20) 271-5300
Fax: (20) 271-6271
E-mail: info@ey.co.ke

Street Address:
Kenya Re Towers
Off Ragati Road,
Upperhill
Nairobi
Kenya

Corporate Tax
Geoffrey G. Karuu
(20) 271-5300
Mobile: 0722-806-437
E-mail: geoffrey.g.karuu@ke.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	37.5
Withholding Tax (%)	
Dividends	10 (a)
Interest	15 (b)
Royalties	20 (c)
Insurance Commissions	5 (d)
Management and Professional Fees	20 (e)
Sports and Entertainment Fees	20 (e)
Rent (e)	
Real Estate	30
Equipment	15
Agency, Consultancy or Contractual Fees	20 (f)
Branch Remittance Tax	0

Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (g)

(a) Applicable to dividends paid to nonresidents. A 5% rate applies to dividends paid to residents.
(b) Applicable to payments to residents and nonresidents. A 25% withholding tax is imposed on interest on bearer instruments.
(c) Applicable to payments to nonresidents. A 5% withholding tax is imposed on royalties paid to residents.
(d) Applicable only to payments to residents. The rate is 5% for brokers and 10% for all others.
(e) Applicable only to payments to nonresidents.
(f) Applicable to payments to nonresidents. Withholding tax is imposed on residents at a rate of 5% on agency and consultancy fees, and at a rate of 3% on contractual fees.
(g) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Kenya income tax is payable by companies and by unincorporated organizations and associations (excluding partnerships). Taxable trading income consists of income arising or deemed to arise in Kenya.

Rates of Corporate Tax. The corporate tax rate is 30% for resident companies and 37.5% for nonresident companies. The corporate tax rate for companies newly listed on a securities exchange approved under the Capital Markets Act is reduced to 25% for a five-year period beginning with the tax year following the year of the listing if the company's listed capital is at least 30% of its paid-up share capital.

Capital Gains. Capital gains are not subject to tax.

Administration. A company's year of assessment (tax year) coincides with its financial accounting year. A change in a financial accounting year must be approved by the Commissioner of Income Tax.

A company must make payments, each equal to 25% of its estimated tax for the year, by the 20th day of the 4th, 6th, 9th and 12th months of its financial accounting year. The estimated tax must equal either 110% of the previous year's tax or 100% of the tax estimated to be due for the current year.

A company must file a self-assessment return within six months after the end of its financial year. It must also file financial statements within six months after the end of its financial year. Late filing of a return is subject to a penalty of 5% of the tax balance. The tax on the self-assessment, reduced by installment tax paid, is due within four months after a company's financial year-end. Late payments are subject to a penalty of 20% plus 2% a month (or part of a month) of the tax balance.

Dividends. Dividends paid by Kenya companies to resident companies are exempt if the recipient controls at least 12.5% of the distributing company's voting power. Taxable dividend income is subject to a final withholding tax of 10% for nonresidents and 5% for residents. Dividends received by financial institutions are exempt from tax.

Compensating tax at the regular corporate rate is levied on dividend distributions of untaxed profits.

Foreign Tax Relief. Relief for foreign taxes paid is granted in accordance with tax treaties with other countries. If foreign tax is paid to a country that does not have a tax treaty with Kenya, the tax paid is unilaterally treated as a tax-deductible expense in Kenya.

C. Determination of Trading Income

General. Taxable income is accounting income adjusted for nontaxable income, such as dividends and capital gains, and for nondeductible expenses such as depreciation. Expenses are deductible if incurred wholly and exclusively in the production of income.

To encourage industrial growth and attract foreign investment, certain special deductions are allowed.

Inventories. No income tax measures exist for the valuation of inventory (stock), and the normal accounting basis of the lower of cost or net realizable value is generally accepted for tax purposes. In certain circumstances, obsolescence provisions may be challenged.

Provisions. Provisions included in computing financial accounting income are generally not deductible for tax purposes.

Tax Depreciation. Depreciation charged in the financial statements is not deductible for tax purposes. It is replaced by the following tax depreciation allowances.

	Method	
Asset Class	**Declining-Balance (%)**	**Straight-Line (%)**
Heavy machinery such as tractors and combines	37.5	–
Other vehicles such as automobiles, trucks and airplanes	25	–
All other machinery including ships	12.5	–
Specified office equipment such as computers	30	–
Other office equipment	12.5	–
Industrial buildings	–	2.5*
Hotels	–	4
Farming operations	–	33⅓

* On capital cost, generally the lower of the construction cost or the purchase price, unless purchased from the business entity that constructed the building.

A 100% investment allowance is granted for capital expenditure on industrial buildings and hotels and on machinery installed on such structures. This investment allowance reduces the depreciable cost of an asset.

Capital allowances are subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. Amounts recaptured are treated as ordinary income and subject to tax at the regular corporate income tax rate.

Relief for Losses. Profits and losses arising from specified sources — rental income, income from agriculture and similar activities, and other profits from business — are computed separately. If a company has a loss in any year from one of the specified sources, the loss is offset only against subsequent profits derived from the same specified source.

Groups of Companies. The income tax law does not permit consolidated returns combining the profits and losses of affiliated companies or the transfer of losses from loss companies to profitable members of the same group of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on the supply of goods and services in Kenya and on imported goods and services	
General rate	16
Other rates	0 and 14
Social security contributions to the National Social Security Fund (NSSF), on salary up to KSH 200 a month; paid by	
Employer	5
Employee	5
(both amounts are refunded to expatriates when they leave Kenya)	

E. Miscellaneous Matters

Foreign-Exchange Controls. The Central Bank of Kenya imposes certain foreign-exchange regulations.

Debt-to-Equity Rules. The deductibility of interest on loans and foreign-exchange losses is restricted for a foreign-controlled company with a debt-to-equity ratio exceeding 3:1. For purposes of the ratio, debt includes any form of indebtedness for which the company is incurring interest, a financial charge, a discount or a premium.

F. Treaty Withholding Tax Rates

Payee Resident in	Dividends %	Interest %	Royalties/ Management and Professional Fees %
Canada	15	15	15
Denmark	20	20 (a)	20
Germany	15	15 (a)	15
India	15	15	20 (d)
Norway	15	20 (a)	20
Sweden	15	15	20
United Kingdom	15	15 (a)	15 (b)
Zambia	0 (c)	15	20
Nontreaty countries	10	15	20

(a) Interest paid by the government and the Central Bank of Kenya is tax-exempt.
(b) The rate is 12.5% for management and professional fees.
(c) No Kenya tax is due if the dividend is subject to tax in Zambia.
(d) The rate is 17.5% for management and professional fees.

KOREA

(Country Code 82)

SEOUL **GMT +9**

Young Wha Corporation **(2) 3787-6600**
Mail Address: **Fax: (2) 785-6991 (Tax)**
K.P.O. Box 338 **(2) 783-5890 (General)**
Seoul
Korea

Street Address:
Bridge Securities Building, 8th Floor
25-15, Yeoido-dong
Youngdeungpo-ku
Seoul
Korea

Corporate Tax

★ Ken Cook	**(2) 761-2864** **Mobile: (011) 228-2864** **E-mail: ken.cook@kr.ey.com**
Yun Taik Auo	**(2) 3787-6430** **Mobile: (011) 245-4333** **E-mail: yun-taik.auo@kr.ey.com**
Jum Shik Moon	**(2) 3787-6450** **Mobile: (011) 898-2035** **E-mail: jum-shik.moon@kr.ey.com**

Indirect Tax

Cheol Shin Park	**(2) 3787-6420** **Mobile: (011) 225-0683** **E-mail: cheol-shin.park@kr.ey.com**

Human Capital

Sa Youl Kim	**(2) 3787-6841** **Mobile: (011) 260-2531** **E-mail: sa-youl.kim@kr.ey.com**
Ok Ja Lee	**(2) 3787-6894** **Mobile: (011) 720-3624** **E-mail: ok-ja.lee@kr.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	27 (a)(b)
Capital Gains Tax Rate (%)	27 (a)(b)(c)
Branch Income Tax Rate (%)	27 (a)(b)
Branch Profits Tax Rate (Additional Tax) (%)	25 (b)(d)
Withholding Tax (%)	
Dividends	0 (e)
Interest	15 (e)
Royalties from Patents, Know-how, etc.	0 (e)
Net Operating Losses (Years)	
Carryback	0 (f)
Carryforward	5

(a) Maximum rate (see Section B).
(b) A resident surtax at a rate of 10% is also imposed (see Section D).
(c) Capital gains are included in ordinary taxable income for corporate tax purposes.
(d) This tax is imposed on income that is remitted or deemed to be remitted by a Korean branch of a foreign corporation. The branch profits tax may be payable if the foreign company is resident in a country with which Korea has entered into a tax treaty and if the treaty requires the imposition of a branch profits tax. For a list of these countries and the rates of the tax, see Section B. The branch tax is imposed in addition to the income tax imposed on branches.

(e) For payments to domestic corporations and foreign corporations with a place of business in Korea. For withholding rates applicable to payments to foreign corporations that do not have a place of business in Korea, see Section B.
(f) Small and medium-sized companies may carry back losses one year.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Korean domestic corporations are taxed on their worldwide income, including income earned by foreign branches. A domestic corporation is one that has its head office in Korea. Foreign corporations are taxed on Korean-source income only.

Rates of Corporate Tax. The rates for 2004 are indicated below.

Domestic Corporations. Taxable income of up to W 100 million is taxed at 15%. Taxable income exceeding W 100 million is generally taxed at 27%. A resident surtax equal to 10% of corporate tax is also imposed (see Section D).

Foreign Corporations with a Domestic Business Operation. The same tax rates as those for domestic corporations apply.

A Korean branch of a foreign corporation is also subject to a branch profits tax, which may be imposed if the foreign company is resident in a country with which Korea has entered into a tax treaty and if the treaty requires the imposition of a branch profits tax. Companies resident in the following countries are subject to the branch profits tax at the rates indicated, which include the resident surtax.

Country	Rate (%)
Australia	15
Brazil	15
Canada	16.5
France	5
Indonesia	10
Kazakhstan	5
Morocco	5
Philippines	11

Foreign Corporations without a Domestic Business Operation. A foreign corporation that does not have a domestic business place in Korea is subject to the following withholding tax rates on its Korean-source income (unless other rates apply under a tax treaty).

Type of Income	Rate
Leasing income from vessels, aircraft, heavy equipment and other assets, and business income	2%
Personal services income	20%
Interest, dividends, royalties and other income	25%
Gain from transfer of securities or shares	Lesser of 10% of the gross sales price and 25% of net gain

The resident surtax at a rate of 10% is imposed in addition to the above rates.

Domestic Place of Business. A foreign corporation that has any of the following fixed operations in Korea is deemed to have a domestic place of business:

- A branch, office or any other business office;
- A store or any other fixed sales place;
- A workshop, factory or warehouse;
- A construction site or place of installation or assembly, which exists for more than six months;
- A place where services are rendered through employees for more than six months during a consecutive 12-month period or a place where services are rendered recurrently or repeatedly through employees over a period of two years or more; or
- A mine or quarry.

A fixed place of business does not include the following:
- A purchasing office;
- A storage or custody area for property that cannot be sold; or
- An office involved in advertising, public relations, collecting and furnishing information, market survey, and other preparatory or auxiliary activities.

A foreign corporation that does not have a fixed place of business in Korea may be considered to have a domestic place of business if it operates a business through a person in Korea authorized to conclude contracts or perform similar activities on its behalf.

Tax Incentives Limitation Law. The Tax Incentives Limitation Law (TILL) grants tax incentives to foreign investors approved by the Ministry of Finance and Economy.

The TILL offers incentives to foreign companies that invest in high-technology businesses and in Foreign Investment Zones (FIZs). Beginning with their first profitable year, these companies are exempt from corporate income tax on a percentage of their income for seven years and benefit from a 50% tax reduction on such income for the following three years. For companies that do not earn a profit in the first five years, the tax exemption begins in the sixth year. In addition, a new tax incentive was introduced in 2003 for foreign investors in Free Economic Zones (FEZs). For the investments made in FEZs, a tax exemption applies for the first three years and a 50% tax reduction applies for the following two years. The percentage of income qualifying for the above tax incentives corresponds to the percentage of shares owned by foreign investors in the company.

Dividends paid to foreign shareholders by foreign-owned companies that benefit from a tax exemption or tax reduction described in the preceding paragraph also qualify for the tax exemption or the same tax reduction.

Depending on the type of investment, exemptions or reductions may apply to other taxes, including acquisition tax, registration tax, property tax and customs duty.

Royalties received in accordance with contracts classified as high technology and accepted by the Ministry of Finance and Economy under the TILL are exempt from income tax for five years.

Capital Gains. Capital gains are included in ordinary taxable income for corporate tax purposes.

Administration. A corporation must file a tax return within three months after the end of its fiscal year. In general, tax due must be paid at the time of submitting the tax return. However, if tax liability exceeds W 10 million, tax may be paid in installments.

Dividends. A corporation must include dividends received in taxable income. However, dividends received by a domestic corporation from a domestic subsidiary may be deducted from the taxable income according to a formula provided in the measure entitled "Dividends Received Deduction."

Foreign Tax Relief. A tax credit is allowed for corporate tax paid to a foreign government. The relief cannot exceed the lesser of the tax paid abroad and the Korean tax amount equivalent to the ratio of the income from foreign sources to the total taxable income. If the amount of a foreign tax credit is limited by this rule, the excess of the foreign tax paid over the limitation may be carried forward to the following five tax years.

C. Determination of Trading Income

General. The tax law defines the specific adjustments that are required in computing taxable income. If not specified by law, the accrual basis is applied.

Inventories. A corporation must select and notify the tax office of its basis for the valuation of inventories on its first annual income tax return. It may select any of the following methods: market value; the lower of cost or market value; or the cost method. The cost method may be applied using any of the following methods: first-in, first-out (FIFO); last-in, first-out (LIFO); moving average; total average; individual costing (specific identification); or retail. If a corporation fails to notify the tax office, it must use FIFO.

Reserves

Reserves for Employee Retirement Allowance. Under the Korean Labor Standard Law, employees with more than one year of service are entitled to a retirement allowance equivalent to one month's pay for each year of service upon termination of employment. Reserves for retirement allowances are permitted, up to 10% of the total amount of wages paid to employees who have been in service for one year or more. However, the accumulated amount of the reserves is limited to no more than 40% of the estimated retirement allowances payable to all employees assuming they retire on the closing date of the business year.

A company may claim a tax deduction for the remainder of the estimated retirement allowances by funding the portion of the reserve in excess of the tax-deductible limit. The only funding method permitted under the tax law is to deposit an amount equal to the excess portion in an interest-bearing account with an insurance company, or in a trust for retirement (Jongopwon Toejik Shintak).

Bad Debt Reserve. A corporation is allowed to set up a reserve for bad debts. The maximum amount of the reserve is the greater of 1% (2% for financial institutions) of receivables at the end of the accounting period or an amount determined by a historical bad debt ratio.

Research and Development Reserves. A company may set up reserves for research and development (R&D) expenditures that amount to either 3% or 5% of sales revenue. This reserve is subject to a recapture over a three-year period after a three-year grace period.

Depreciation and Amortization. In general, corporations may depreciate tangible fixed assets using either the straight-line or declining-balance methods. However, buildings and structures must be depreciated using the straight-line method. Intangible assets must be amortized using the straight-line method. The following are the statutory rates of depreciation under the declining-balance method and useful lives for certain types of assets.

Asset	Annual Depreciation Rate Under Declining-Balance Method (%)	Years of Useful Life
Commercial buildings	–	20 to 40
Industrial buildings	–	20 to 40
Office equipment	45.1	5
Motor vehicles	45.1	5
Plant and machinery	45.1 to 14	5 to 20

Companies may elect to increase or decrease the statutory useful lives of tangible fixed assets acquired between 1 July 2003 and 30 June 2004 by up to 50%.

Relief for Losses. Tax losses can be carried forward for five years. Small and medium-sized companies may carry back losses one year. Otherwise, no carryback is allowed.

Groups of Companies. No form of consolidated income reporting for groups of companies applies in Korea.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Resident surtax, levied as a surtax on ordinary tax	10
Value-added tax	
Standard rate	10
Acquisition tax, including farming and fishing surtax, on land, buildings, ships, automobiles and heavy equipment	
Normal rate	2.2
Acquired for business purposes in a major city	6.6
Registration tax, including local education surtax	
Normal rate on registration of incorporation	0.48
Registration of incorporation in a major city	1.44
Registration of certain property	0.001 to 5
Payroll taxes, on salaries and wages; paid by employer (including resident surtax)	9.9 to 39.6
Property taxes, on the value of property	0.3 to 7

E. Transfer Pricing

Korea has transfer-pricing rules. The acceptable transfer-pricing methods include comparable uncontrolled price, resale price, cost-plus, the transactional net margin method (TNMM) and profit-split. It is possible to reach transfer-pricing agreements in advance with the tax authorities.

F. Treaty Withholding Tax Rates

	Dividends		Interest	Royalties	
	A	B		C	D
	%	%	%	%	%
Australia	15	15	15	15	15
Austria	5	15	10	2	10
Bangladesh	10	15	10	10	10
Belarus (j)	5	15	10	5	5
Belgium	15	15	15	10	10
Brazil	15	15	15 (c)	15	15 (d)
Bulgaria	5	10	10	5	5
Canada (b)	16.5	16.5	16.5	16.5	16.5
Chile (j)	5	10	15 (f)	5	15
China	5	10	10	10	10
Czech Republic	5	10	10	10	0
Denmark	15	15	15	10	15
Egypt	10	15	15 (e)	15	15
Fiji	10	15	10	10	10
Finland	10	15	10	10	10
France	10	15	10	10	10
Germany	5	15	10	2	10
Greece	5	15	8	10	10
Hungary	5	10	0	0	0
India	15	20	15	15	15
Indonesia	10	15	10	15	15
Ireland	10	15	0	0	0
Israel	5	15	10 (h)	2	5
Italy	10	15	10	10	10
Japan	5	15	10	10	10
Kazakhstan	5	15	10	10	10
Kuwait	10	10	10	15	15
Luxembourg	10	15	10	10	15
Malaysia	10	15	15	10	15
Malta	5	15	10	–	–
Mexico	0	15	15 (f)	10	10
Mongolia	5	5	5	10	10
Morocco	5	10	10	10	5
Myanmar (j)	10	10	10	10	15
Nepal (j)	5/10	15	10	15	15
Netherlands	10	15	15 (c)	10	15
New Zealand	15	15	10	10	10
Norway	15	15	15	10	15
Pakistan	10	12.5	12.5	10	10
Papua New Guinea	15	15	10	10	10
Philippines (b)	11	16.5	16.5	16.5	16.5
Poland	5	10	10	10	10
Portugal	10	15	15	10	10
Romania	7	10	10	7	10
Russian Federation	5	10	–	5	5
Singapore	10	15	10	15	15
Slovak Republic (k)	5	10	10	10	10 (i)
South Africa (b)	5.5	16.5	11	11	11
Spain	10	15	10	10	10
Sri Lanka	10	15	10	10	10
Sweden	10	15	15 (c)	10	15
Switzerland	10	15	10	10	10
Thailand (b)	16.5	22	11	16.5	16.5
Tunisia	15	15	12	15	15
Turkey	15	20	15 (a)	10	10

	Dividends A %	Dividends B %	Interest %	Royalties C %	Royalties D %
Ukraine	5	15	5	5	5
United Kingdom	5	15	10	2	10
United States (b)	11	16.5	13.2	16.5	11
Uzbekistan	5	15	5	2	5
Vietnam	10	10	10	5	15
Nontreaty countries (g)	25	25	25	25	25

A Controlling parent.
B Other shareholders.
C Industrial royalties.
D Other royalties.
(a) Reduced to 10% if repayment period is over two years.
(b) Resident tax of 10% of the corporate income tax is included.
(c) Reduced to 10% if repayment period is over seven years.
(d) For royalties for trademarks, the rate is increased to 25%.
(e) Reduced to 10% if the repayment period is more than three years.
(f) Reduced to 10% for interest paid to banks.
(g) Applicable to foreign corporations that do not have a place of business in Korea.
(h) Reduced to 7.5% for interest received from banks or financial institutions.
(i) Royalties for the right to use copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting, are exempt from withholding tax.
(j) The withholding rates apply to payments made on or after 1 January 2004.
(k) The withholding tax rates apply to payments made on or after 8 July 2003.

KUWAIT

(Country Code 965)

KUWAIT **GMT +3**

Ernst & Young **245-2880**
(Al Aiban, Al Osaimi & Partners) **Fax: 245-6419**
Mail Address:
P.O. Box 74 Safat
13001 Safat
Kuwait

Street Address:
Souk As Safat, 3rd Floor
Abdullah Mubarak Street
Safat
Kuwait

Corporate Tax
★ Farooq Mohammad Ladha **243-3297**
Mobile: 788-0411
E-mail: farooq.ladha@kw.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	55 (a)
Capital Gains Tax Rate (%)	55 (a)
Branch Tax Rate (%)	55 (a)
Withholding Tax (%)	
Dividends	0
Interest	0 (b)

Royalties	0 (b)
Management Fees	0 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (c)

(a) This is the maximum rate under Amiri Decree No. 3 of 1955. The maximum rate under Law No. 23 of 1961 is 57%. For details regarding these measures, see Section B.
(b) This income is treated as ordinary business income and is normally assessed on a deemed profit ranging from 96.5% to 100%.
(c) Losses may be carried forward for an unlimited number of years if presence is continuous in Kuwait, in the islands of Kubr, Qaru, and Umm Al Maradim or in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Foreign "bodies corporate" are subject to tax in Kuwait if they carry on a trade or business in Kuwait, in the islands of Kubr, Qaru, and Umm Al Maradim or in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia. Kuwaiti-registered companies wholly owned by Kuwaitis and companies incorporated in Gulf Cooperation Council (GCC) countries that are wholly owned by GCC citizens are not subject to income tax. The members of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

The term "body corporate" refers to an association that is formed and registered under the laws of any country or state and is recognized as having a legal existence entirely separate from that of its individual members. Partnerships fall within this definition.

Foreign companies carrying on a trade or business in Kuwait are subject to income tax under Amiri Decree No. 3 of 1955.

Foreign companies carrying on a trade or business in the islands of Kubr, Qaru and Umm Al Maradim are subject to tax in Kuwait under Law No. 23 of 1961.

Foreign companies carrying on a trade or business in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia are subject to tax in Kuwait on 50% of the taxable profit under Law No. 23 of 1961.

Amiri Decree No. 3 of 1955 and Law No. 23 of 1961 differ primarily with respect to tax rates.

Foreign companies can operate in Kuwait either through an agent or as a minority shareholder in a locally registered company. In principle, the method of calculating tax is the same for companies operating through an agent and for minority shareholders. For minority shareholders, tax is levied on the foreign company's share of the profits (whether or not distributed by the Kuwaiti company) plus any amounts receivable for interest, royalties, technical services and management fees.

Tax Rates. The tax rates are described below.

The following are the tax rates under Amiri Decree No. 3 of 1955.

Taxable Profits Exceeding (KD)	Not Exceeding (KD)	Rate (%)
0	5,250	0
5,250	18,750	5
18,750	37,500	10
37,500	56,250	15
56,250	75,000	20
75,000	112,500	25
112,500	150,000	30
150,000	225,000	35
225,000	300,000	40
300,000	375,000	45
375,000	–	55

The following are the tax rates under Law No. 23 of 1961.

Taxable Profits Exceeding (KD)	Not Exceeding (KD)	Rate (%)
0	500,000	20
500,000	–	57

Kuwaiti income tax is not progressive; consequently, total profit is taxed at the appropriate rate from the above table. If taxable profit is only marginally higher than the previous limit, tax is calculated by adding the actual excess to the amount payable on the previous limit. For example, on KD 38,000 of taxable income derived in Kuwait, the tax is KD 37,500 at 10% = KD 3,750, plus KD 500, giving total tax of KD 4,250.

Investment Incentives. Kuwait offers the investment incentives described below.

Industry Law. To encourage investments in local industrial undertakings, Industry Law No. 56 of 1996 offers the following incentives:
- Reduced import duties on equipment and raw materials;
- Protective tariffs against competing imported goods;
- Low-interest loans from local banks;
- Export assistance; and
- Preferential treatment on government supply contracts.

Leasing and Investment Companies. Law No. 12 of 1998 allows the formation of investment and leasing companies having their principal place of business in Kuwait, with Kuwaiti or foreign shareholders. The law grants a five-year tax holiday to non-Kuwaiti founders and shareholders of such companies, beginning on the date of establishment of the companies. It is currently difficult to obtain the approval of the authorities to form companies under Law No. 12 of 1998.

Direct Foreign Capital Investment Law. The Direct Foreign Capital Investment Law (Law No. 8 of 2001) provides the following benefits to new and existing foreign capital investment projects:
- Opportunity for investment in excess of 50% (up to 100%) in Kuwaiti companies by non-Kuwaitis.
- Full or partial exemption from customs duties on certain imports and other government charges for approved projects.
- A tax holiday of up to 10 years with respect to non-Kuwaiti shareholders' shares of the profits from qualifying projects. An additional tax holiday for a similar period is granted for further investment in an already approved project.

- A guarantee of repatriation of profits and capital invested in the project.
- Benefit of double tax treaties and investment promotion and protection agreements.
- Long-term leases of land in industrial estates at low rents.
- Employment of required foreign manpower without being subject to the restriction contained in Law No. 19 of 2000 concerning employment of Kuwaiti manpower.

The Ministry of Commerce and Industry has issued bylaws to the Direct Foreign Capital Investment Law. The bylaws explain the benefits under the law and the procedures for approval of projects, including the obtaining of investment licenses. However, the criteria for determining which projects qualify for benefits under the law have not been established.

Kuwait Free Trade Zone. The government has established the Kuwait Free Trade Zone (KFTZ) in the vicinity of the Shuwaikh port. The KFTZ offers the following benefits:

- Up to 100% foreign ownership is allowed and encouraged;
- All corporate and personal income is exempt from tax;
- All imports into and exports from the KFTZ are exempt from tax; and
- Capital and profits are freely transferable outside the KFTZ and are not subject to any foreign-exchange controls.

Capital Gains. Capital gains on the sale of assets and shares by a foreign shareholder are treated as normal business profits and are subject to tax at the rates stated above.

Administration. The calendar year is generally used for Kuwaiti tax purposes, but a taxpayer may request in writing for permission to prepare financial statements for a year ending on a date other than 31 December. For the first or last period of trading or carrying on a business, a taxpayer may be allowed to file a tax declaration covering up to 18 months.

Accounting records should be kept in Kuwait, and it is normal practice for the tax authorities to insist on inspecting the books of account (which may be in English) and supporting documentation before agreeing to the tax liability.

A tax declaration must be filed on or before the fifteenth day of the fourth month following the end of the taxable period (for example, 15 April in the case of a 31 December year-end). Tax is payable in four equal installments on the fifteenth day of the fourth, sixth, ninth and twelfth months following the end of the taxable period. An extension of up to 75 days for filing the tax declaration may be granted. If such an extension is granted, no tax payment is necessary until the tax declaration is filed, and payment must then be in one lump sum and not in installments. Tax is payable in Kuwaiti dinars with a certified check drawn on a bank in Kuwait.

In the event of a failure to file a tax declaration by the due date, a penalty is payable equal to 1% of the tax for each 30 days or fraction thereof during which the failure continues. In addition, in the event of a failure to pay tax by the due date, a penalty is payable equal to 1% of the tax payment for each period of 30 days or fraction thereof from the due date to the date of the settlement of the tax due.

Ministerial Order No. 16 of 1997, which was issued by the Ministry of Finance, provides for the filing of objections and appeals against tax assessments.

The Kuwait tax law does not provide a statute of limitations for tax. However, under Article No. 441 of the Kuwait Civil Law, any claims for taxes due to Kuwait or applications for tax refunds may not be made after the lapse of five years from the date on which the taxpayer is notified that tax or a refund is due.

Dividends. Dividends are not taxed. Tax is assessed on the share of profits attributable to the foreign shareholder according to the audited financial statements of a company, adjusted for tax purposes.

C. Determination of Trading Income

General. Tax liabilities are generally computed on the basis of profits disclosed in audited financial statements, adjusted for tax depreciation and any items disallowed by the tax inspector on review.

The tax declaration, supporting schedules and financial statements, all of which must be in Arabic, are to be certified by an accountant in practice in Kuwait who is registered with the Ministry of Commerce and Industry.

Design Expenses. Design expenses incurred on a construction contract requiring the performance of initial design work are allowed to the extent of 75% to 80% of the related design revenue, if the design revenue is specified in the contract. If a third party carries out designing activities, the amounts paid to the third party are deductible if supporting documents are presented and if the requirements of Ministerial Order 44 of 1985 are satisfied. If the design revenue is not specified in the contract but design work needs to be performed outside Kuwait, the following formula may be applied to determine the revenue:

$$\text{Design revenue for the year} = \frac{\text{Design costs for the year}}{\text{Total direct costs for the year}} \times \text{Annual contract revenue}$$

Bank Interest. Interest paid to local banks relating to amounts borrowed for operations (working capital) in Kuwait may normally be deducted. Under a recently issued circular, interest paid to banks or financial institutions outside Kuwait is disallowed unless it is proven that the funds were specifically borrowed to finance the working capital needs of operations in Kuwait. In practice, it is difficult to claim deductions for interest expenses incurred outside Kuwait. Interest paid to the head office or agent is disallowed. Interest paid to a local bank that is directly attributable to the acquisition, construction or production of an asset is capitalized as part of the cost of the asset.

Leasing Expenses. The Kuwait tax authorities may allow the deduction of rents paid under leases after inspection of the supporting documents. The deduction of rent for assets leased from related parties is restricted to the amount of depreciation charged on those assets, as specified in the Kuwait Income Tax Decree. The asset value for the purpose of determining depreciation is based upon the supplier's invoices and customs documents. If the asset value cannot be determined based on these items, the value is determined by reference to the amounts recorded in the books of the related party.

Agency Commissions. The tax deduction for commissions paid to a local agent is limited to 3% of revenue.

Head Office Overhead. The tax authorities allow the following deductions from income as a contribution toward expenses incurred by the head office of a foreign company:

- Contractors, consultants and others operating through an agent: 3.5% of revenue derived from the principal activities, reduced by amounts paid or payable to subcontractors and reimbursed expenses;
- Foreign companies participating with Kuwait companies in the execution of a contract: 2% of the foreign company's share of the contract revenue, reduced by amounts paid to subcontractors and reimbursed expenses;
- Minority shareholders in a share company: 2% of the shareholder's share of the company's revenue from the principal activities, net of payments to subcontractors and reimbursed expenses; and
- Insurance companies: 3.5% of net premiums.

Any direct expenses relating to operations in Kuwait that can be fully supported by documentation are allowed by the tax authorities in addition to the percentages stated above.

Inventory. Inventory is normally valued at the lower of cost or net realizable value, on a first-in, first-out (FIFO) or average basis.

Provisions. Provisions, as opposed to accruals, are not accepted for tax purposes.

Tax Depreciation. Tax depreciation is calculated using the straight-line method. The following are some of the permissible annual depreciation rates: buildings, 4%; most plant, 10%; computer equipment and software, 25%; motor vehicles, 25% to 33$^{1}/_{3}$%; and office furniture, 15%.

Relief for Losses. Losses may be carried forward and deducted from subsequent profits without limit, provided there is no cessation of activities; losses may not be carried back.

Aggregation of Income. If a foreign company has more than one activity in Kuwait, one tax declaration is required, aggregating the income from all activities.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Social security contributions; levied with respect to Kuwaiti employees only; payable monthly by employers and employees on monthly salary up to KD 2,250	
Employer	10.5
Employee	5
Employment tax; levied on the annual distributable profits of Kuwaiti companies listed on the Kuwait Stock Exchange	2.5

Nature of Tax	Rate (%)
Contribution to the Kuwait Foundation for the Advancement of Sciences (KFAS); contribution payable by Kuwait shareholding companies; contribution levied on profits after transfer to the statutory reserve and offset of loss carryforwards	1

E. Miscellaneous Matters

Foreign-Exchange Controls. No foreign-exchange restrictions exist. Equity capital, loan capital, interest, dividends, branch profits, royalties, management and technical services fees, and personal savings are freely remittable.

Transfer Pricing. The Kuwaiti tax authorities deem the following profit margins for imported materials and equipment:

- Imports from head office: 10% to 15% of related revenue;
- Imports from related parties: 6.5% to 10% of related revenue; and
- Imports from third parties: 3.5% to 6.5% of related revenue.

The imputed profit described above is normally subtracted from the cost of materials and equipment claimed in the tax declaration. If the revenue from the materials and equipment supplied is identifiable, the Department of Income Taxes (DIT) normally reduces the cost of such items to show a profit on such materials and equipment in accordance with the percentages described above. If the related revenue from the materials and equipment supplied is not identifiable or not stated in the contract, the following formula may be applied to determine the related revenue:

$$\text{Material and equipment revenue for the year} = \frac{\text{Contract revenue for the year}}{\text{Total direct costs for the year}} \times \text{Material and equipment costs for the year}$$

Supply and Installation Contracts. In supply and installation contracts, a taxpayer is required to account to the tax authorities for the full amount received under the contract, including the offshore supply element, which is the part of the contract (cost, insurance and freight to the applicable port) pertaining to the supply of goods.

Contractors' Revenue Recognition. Tax is assessed on progress billings (excluding advances) for work performed during an accounting period, less the cost of work incurred. The authorities generally do not accept the completed contract or percentage-of-completion methods of accounting.

Subcontractor's Costs. The Kuwait tax authorities are normally stringent in allowing subcontractor's costs, particularly subcontractor's costs incurred outside Kuwait. Subcontractor's costs are normally allowed if the taxpayer provides the related supporting documentation (contract, invoices, settlement evidence and other documents), complies with Ministerial Order No. 44 of 1985 (see *Withholding of Final Payments* below) and fulfills certain other conditions.

Withholding of Final Payments. Under Ministerial Order No. 44 of 1985, all government departments and privately owned and government-owned companies are required to withhold final payments due to entities until such entities present a tax clearance from the Director of Income Taxes. In addition, the following rules must be followed:

- Local and foreign establishments, authorities and companies carrying on a trade or business in Kuwait are required to give the Director of Income Taxes details of the companies with which they are doing business as contractors, subcontractors or in any other form. Information to be provided should include the name and address of the company together with a photocopy of the contract.
- The final payment due to the contractor or subcontractor is to be withheld until the contractor or subcontractor presents a certificate from the Director of Income Taxes confirming that all tax liabilities have been settled. The final payment should not be less than 5% of the total contract value.
- When inspecting the tax declaration filed with the Director of Income Taxes, the Ministry of Finance will disallow all payments made to subcontractors if the rules described above are not observed.

Ministerial Resolution No. 8 of 2003, which was issued by the Minister of Finance on 7 June 2003, empowers the Ministry of Finance to demand payment of the 5% retained amount, referred to in the second bullet above, from the entities holding the amounts, if the concerned contractors or subcontractors fail to settle their taxes due in Kuwait.

Work in Progress. Costs incurred but not billed by an entity at the end of the fiscal year may be carried forward to the subsequent year as work in progress. Alternatively, revenue relating to the costs incurred but not billed may be estimated on a reasonable basis and reported for tax purposes if the estimated revenue is not less than the cost incurred. In general, if less than 20% of the contract is executed in a fiscal year, both income and expenses relating to the contract may be carried forward.

F. Treaty Withholding Tax Rates

The domestic tax law in Kuwait does not provide for withholding taxes. As a result, it is not yet known how the Kuwaiti government will apply the withholding tax procedures included in the treaties listed in the table below. The withholding rates listed in the table are for illustrative purposes only.

	Dividends %	Interest %	Royalties %
Belarus	5 (c)	5 (c)	10
Belgium	10	0	10
China	5 (a)	5 (a)	10
Croatia	0	0	10
Cyprus	10	10 (b)	5
Ethiopia	5 (c)	5 (b)	30
France	0/5 (d)	0	0
Germany	5/15 (e)	0	10
Hungary	0	0	10

	Dividends %	Interest %	Royalties %
Indonesia	10 (c)	5 (b)	20
Italy	5	0	10
Jordan	5 (c)	5 (b)	30
Korea	10	10	15
Lebanon	0	0	30
Mauritius	0	0 (f)	10
Mongolia	5 (h)	5 (h)	10
Netherlands	10 (i)	0	5
Pakistan	10	10 (g)	10
Poland	5 (j)	5 (j)	15
Romania	1	1	20
Russian Federation	5 (c)	0	10
Singapore (m)	0	7 (b)	10
Switzerland	15	10	10
Syria	0	10 (k)	20
Tunisia	10 (c)	2.5 (b)	5
Turkey	10	10	10
United Kingdom	5/15 (e)	0	10
Yugoslavia (m)	5/10 (l)	10	10
Nontreaty countries	0	0	0

(a) The rate is 0% for amounts paid to a company of which the government owns at least 20% of the equity.
(b) The rate is 0% for interest paid to the government of the other contracting state. Under the Ethiopia treaty, the rate is also 0% for interest paid to entities in which the government owns a specified percentage of the equity and for interest paid on loans guaranteed by the government.
(c) The rate is 0% for dividends and interest paid to the government of the other contracting state. Under the Ethiopia treaty, the rate is also 0% for dividends paid to entities in which the government owns a specified percentage of the equity.
(d) The 0% rate applies if the recipient of the dividends owns directly or indirectly less than 20% of the payer. The 5% rate applies to other dividends.
(e) The 5% rate applies if the recipient of the dividends owns directly or indirectly at least 10% of the payer. The 15% rate applies to other dividends.
(f) The rate is increased to 5% if the beneficial owner of the interest carries on business in the other contracting state through a permanent establishment and the debt on which the interest is paid is connected to such permanent establishment.
(g) The rate is 0% for amounts paid to the government of the other contracting state and to entities of which the government owns at least 51% of the paid up capital.
(h) For dividends and interest, the rate is 0% if the payments are made to the government or a governmental institution of the other contracting state, or to a company that is a resident of the other contracting state and is controlled by, or at least 49% of the capital is owned directly or indirectly by, the government and a governmental institution. A 0% rate also applies to interest arising on loans guaranteed by the government of the other contracting state or by a governmental institution or other governmental entity of the other contracting state.
(i) A 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends.
(j) The rate is 0% if the payments are made to the government or a governmental institution of the other contracting state, or to a company that is a resident of the other contracting state and is controlled by, or at least 25% of the capital is owned directly or indirectly by, the government or a governmental institution of the other contracting state.
(k) The rate is 0% if the beneficial owner of the interest is a resident in the other contracting state and the loan is secured or financed directly or indirectly by a financial entity or other local body wholly owned by the government of the other contracting state.
(l) The 5% rate applies if the recipient of the dividends owns directly or indirectly at least 25% of the payer. The 10% rate applies to other dividends.
(m) This treaty is effective from 1 January 2004.

LATVIA

(Country Code 371)

RIGA **GMT +2**

Ernst & Young Baltic SIA
11.novembra krastmala 23
LV-1050 Riga
Latvia

(7) 043-801
Fax: (7) 043-802

Corporate Tax
Egons Liepins
(7) 043-801
Mobile: (9) 212-874
E-mail: egons.liepins@lv.ey.com

Because of the rapidly changing tax law in Latvia, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	15
Capital Gains Tax Rate (%)	15
Branch Tax Rate (%)	15
Withholding Tax (%) (a)	
Dividends	0/10 (b)
Interest	5/10 (c)
Royalties	5/15 (d)
Management and Consulting Fees	10
Payments for the Use of Real Estate Located in Latvia	5
Gains on Transfers of Real Estate Located in Latvia	2 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) These taxes apply to payments by Latvian residents or permanent establishments to nonresidents.
(b) Effective from 1 May 2004, no withholding tax is imposed on dividends paid by a Latvian entity to a legal entity resident in the European Union (EU) if, at the time of payment of the dividends, the recipient of the dividends has held 25% of the share capital and voting rights of the payer of the dividends for at least two years.
(c) Interest withholding tax applies only to interest paid to associated companies or persons. The 5% rate applies to interest paid by Latvian-registered banks; the 10% rate applies to other interest payments.
(d) The 15% rate applies to copyright royalties; the 5% rate applies to royalties on other types of intellectual property.
(e) This is a final withholding tax imposed on gains derived by nonresident companies without a permanent establishment in Latvia from sales of Latvian real estate.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Enterprises are subject to income tax in accordance with the Law of Corporate Income Tax of 9 February 1995.

Resident companies are subject to tax on their worldwide income. Nonresident companies without a permanent establishment in Latvia are subject to tax on their Latvian-source income. Nonresident companies operating through a permanent establishment in Latvia are subject to tax on income derived by the permanent establishment in Latvia as well as income independently derived abroad by the permanent establishment. If a nonresident company engages directly in business activities that are similar to the business activities performed by its permanent establishment or subsidiary in Latvia, income derived from the nonresident company's activities is included in the taxable income of the permanent establishment or the subsidiary.

Resident companies are those established or registered, or required to be established or registered, in accordance with Latvian law. All other companies are considered to be nonresident companies.

Tax Rates. Effective from 1 January 2004, enterprises are subject to income tax at a rate of 15%.

Tax Incentives. Companies that enter into an agreement with the management of the Liepaja or Rezekne special-economic zones or the Riga and Venspils free ports benefit from several tax incentives including an 80% rebate of corporate income tax on income derived from the relevant zone and an 80% rebate of withholding tax on dividends and management and service fees paid to nonresidents. For tax incentives relating to depreciation and loss carryforwards that are granted to companies in the zones, see Section C. Similar incentives are available in the Riga and Ventspils free ports.

Foreign investors investing more than LS 10 million (□17 million) within three years may benefit from a corporate income tax rebate equal to 40% of the amount invested if the foreign investor's investment plan is accepted by the government. The tax rebate is granted in the year the investment project is completed. If the corporate income tax imposed is less than the tax rebate granted, the unused portion of the tax rebate may be carried forward for 10 years.

A corporate income tax rebate equal to 30% of the corporate tax imposed is granted to producers of high-technology products if sales of such products account for at least 75% of the turnover of the company and if the company has ISO 9001 or ISO 14001 (quality certificates).

The prior foreign investment law offered special tax relief to enterprises with foreign investment that were established before 31 December 1994 and had foreign participation of more than 30% before that date. Under this law, beginning in the year it first achieves a profit, an enterprise with foreign participation in excess of 30% is exempt from tax for two years and benefits from a 50% reduction in profit tax for the following two years, provided the enterprise maintains that level of foreign participation for the entire period of the tax incentives. If foreign participation exceeds 50% and US$1 million, the tax-exemption period is increased to three years, and the period for the 50% reduction in profit tax is increased to five years.

Capital Gains. Resident companies (with certain exceptions) and nonresident companies operating through a permanent establishment in Latvia include capital gains in taxable income.

For nonresident companies without a permanent establishment in Latvia, a final withholding tax at a rate of 2% is imposed on proceeds received on sales of Latvian real estate.

Administration. Companies may select the calendar year or a different year for their tax year.

An annual income declaration must be filed within 30 days after the annual shareholders' meeting, but not later than four months after the year-end.

Companies must make advance payments of tax by the 15th day of each month. For the months before and including the month of filing the annual income declaration, up to a maximum of four months, the monthly advance payments are equal to 1/12 of the tax calculated for the year two years before the current year, adjusted for inflation. For the remaining months, monthly advance payments are equal to 1/8 of the tax calculated for the preceding year, adjusted for inflation and reduced by the advance tax payments made in accordance with the rule described in the preceding sentence.

Any balance of tax due must be paid within 15 days after the filing date for the annual income declaration.

Dividends. Dividends paid out of profits that are subject to tax under the enterprise income tax law are not included in taxable income.

A 10% withholding tax is imposed on dividends paid to nonresidents. Effective from 1 May 2004, no withholding tax is imposed on dividends paid by a Latvian entity to a legal entity resident in the EU if, at the time of payment of the dividends, the recipient of the dividends has held 25% of the share capital and voting rights of the payer of the dividends for at least two years.

Foreign Tax Relief. A foreign tax credit is available to resident companies for foreign tax paid on income earned abroad. The amount of credit may not exceed an amount equal to the tax that would be imposed in Latvia on the income earned abroad.

C. Determination of Taxable Income

General. Taxable income is the income reported in a company's profit and loss statements, prepared in accordance with the Latvian accounting law and subject to certain adjustments specified in the corporate income tax law.

The deductibility of interest paid to entities, other than Latvian banks, is limited to the higher of the amounts resulting from the following two calculations:
- The value of the debt multiplied by 1.2 times the Central Statistical Committee rate based on the average short-term interest rate for credit institutions during the last month of the relevant tax year; and
- Interest on the average amount of debt during the tax year, to the extent that the average debt does not exceed four times the equity of the taxpayer as reflected in the annual reports.

Inventories. Inventories can be valued using the first-in, first-out (FIFO) or weighted-average methods.

Tax Depreciation. Tax depreciation is calculated using the double declining-balance method. Double depreciation rates range from 10% to 70% for buildings and structures, technological equipment, machinery, office equipment, furniture and certain other assets. A 10% rate applies to buildings and structures.

Under certain circumstances, companies in the Liepaja or Rezekne special-economic zones may apply a depreciation rate of up to 100% to fixed assets used in the relevant zone. Companies operating in subsidized regions may increase the acquisition value of fixed assets by up to twice the value of the assets. The subsidized regions, which are less developed regions of Latvia, are determined by law.

Expenditure on assets of little value may be fully deducted in the year of the expenditure.

Goodwill may not be amortized.

Relief for Losses. Losses may be carried forward five years. Losses may not be carried back. Companies in the Liepaja or Rezekne special-economic zones may carry forward losses for 10 years.

Groups of Companies. Losses within a group of companies may offset income within the group. To qualify for group relief, the parent company must own at least 90% of the subsidiaries and the parent-subsidiary relationship must exist throughout the entire fiscal year. The parent company may be resident in Latvia or in a country with which Latvia has concluded a tax treaty. However, losses may be offset only between Latvian resident companies that are not at the same time also resident in another country under the provisions of a tax treaty.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax on goods and services, including imports	
Standard rate	18
Medical services and guest accommodation services	9
Exports	0
Social security contributions, paid by	
Employer	24.09
Employee	9
Property tax	1.5

E. Foreign-Exchange Controls

The Latvian currency is the lats (LS). No significant foreign-exchange controls are imposed in Latvia.

F. Treaty Withholding Tax Rates

The table below lists the rates under Latvia's tax treaties. The nontreaty rate applies if it is lower than the treaty rate.

	Dividends %	Interest %	Royalties %
Belarus	10	10	10
Canada	5/15 (c)	10	10
China	5/10 (a)	10	10
Czech Republic	5/15 (a)	10	10
Denmark	5/15 (a)	10	5/10 (b)
Estonia	0/15 (d)	0	0
Finland	5/15 (a)	10	5/10 (b)

	Dividends %	Interest %	Royalties %
France	5/15 (h)	10	5/10 (b)
Germany	5/10 (a)	10	5/10 (b)
Iceland	5/15 (a)	10	5/10 (b)
Ireland	5/15 (c)	10	5/10 (b)
Lithuania	0/15 (d)	0	0
Malta	5/10 (a)	10	10
Moldova	10	10	10
Netherlands	5/15 (a)	10	5/10 (b)
Norway	5/15 (a)	10	5/10 (b)
Poland	5/15 (a)	10	10
Singapore	5/10 (a)	10	7.5
Slovak Republic	10	10	10
Sweden	5/15 (a)	10	5/10 (b)
Ukraine	5/15 (a)	10	10
United Kingdom	5/15 (c)	10	5/10 (b)
United States	5/15 (g)	10	5/10 (b)
Uzbekistan	10	10	10
Nontreaty countries	10 (i)	5/10 (e)	5/15 (f)

(a) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends.
(b) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
(c) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the voting power of the payer of the dividends.
(d) The 0% rate applies if the recipient of the dividends is a company (or a partnership) that holds 25% of the capital and voting power of the payer of the dividends.
(e) Interest withholding tax applies only to interest paid to associated companies or persons. The 5% rate applies to interest paid by Latvian-registered banks; the 10% rate applies to other interest payments.
(f) The 15% rate applies to copyright royalties; the 5% rate applies to royalties for other types of intellectual property.
(g) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the voting power of the payer of the dividends.
(h) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the payer of the dividends.
(i) Effective from 1 May 2004, no withholding tax is imposed on dividends paid by a Latvian entity to a legal entity resident in the EU if, at the time of payment of the dividends, the recipient of the dividends has held 25% of the share capital and voting rights of the payer of the dividends for at least two years.

LEBANON

(Country Code 961)

BEIRUT **GMT +2**

Ernst & Young p.c.c.
Mail Address:
P.O. Box 11-1639
Beirut
Lebanon

(1) 360-640, 360-641, 360-633
Fax: (1) 360-634
E-mail: beirut.office@ey.com.lb
Send all telecommunications to
“Attn M. Alexandrian Ernst & Young”

Street Address:
Société Commerce et Finance Building
Kantari Street
Mina El-Hosn
Beirut
Lebanon

Corporate Tax

★ Massis Alexandrian	**(1) 360-640**
Wassim Chahine	**(1) 360-641**

A. At a Glance

Corporate Income Tax Rate (%)	15
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	15
Withholding Tax (%) (a)	
Dividends	10
Interest	10 (b)
Royalties from Patents, Know-how, etc.	10
Payments for Services	7.5
Branch Remittance Tax	10 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) Applicable to both residents and nonresidents.
(b) Bank interest is not subject to withholding tax.
(c) Profits derived by branches operating in Lebanon are presumed to be distributed and consequently are subject to dividend withholding tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Lebanese companies and branches of foreign companies carrying on business in Lebanon are subject to tax only on their income derived from Lebanon. A company is considered Lebanese if all of the following apply:

- It is registered in Lebanon;
- Its registered office is situated in Lebanon; and
- The majority of its directors are of Lebanese nationality (unless the government authorizes the company to have less than a majority).

Rates of Corporate Income Tax. In general, companies are subject to tax at a flat rate of 15%.

Profits derived in Lebanon by branches of foreign companies are presumed to be distributed and consequently are subject to the 10% dividend withholding tax.

Contractors on government projects are subject to tax at the regular corporate rate on a deemed profit of 10% of actual gross receipts.

Lebanese holding companies and offshore companies are exempt from corporate income tax. However, special taxes apply to these companies (see Section D). A Lebanese holding company is a special type of company that is formed to hold investments in and outside Lebanon (“holding company” is not synonymous with “parent company”). An offshore company is a company that engages exclusively in business transactions outside Lebanon.

Insurance companies are subject to tax at the regular corporate income tax rate of 15% on a fixed percentage of their premium income, which varies by category of insurance.

Lebanese air and sea transport companies are exempt from corporate income tax. Foreign air and sea transport companies are also exempt from corporate income tax if their home countries grant reciprocal relief to Lebanese companies.

Profits derived by industrial enterprises established in Lebanon after 1 January 1980 are exempt from income tax for up to 10 years from the date of commencement of production if such enterprises satisfy all of the following conditions:

- The factory is built in certain areas the government intends to develop;
- The object of the enterprise is to manufacture new goods and materials that were not manufactured in Lebanon before 1 January 1980; and
- The total value of property, plant and equipment used in Lebanon by the new enterprise and allocated for the production of new goods and materials is at least LL 500 million.

Profits qualifying for this tax holiday may not exceed the original cost of the property, plant and equipment used by the enterprise on the date production begins.

Capital Gains. Capital gains on the disposal of fixed assets are taxed at a rate of 10%.

If a company reinvests all or part of a capital gain subject to the 10% rate to construct permanent houses for its employees during a two-year period beginning with the year following the year in which the gain was realized, it may obtain a refund of the tax imposed on the reinvested gain.

Administration. The official tax year is the calendar year. Companies or branches may use a different tax year if they obtain the prior approval of the tax authorities.

Corporations with a financial year-end of 31 December must file their tax returns by 31 May of the year following the year in which the income is earned. Other corporations must file their returns within five months of their financial year-end. The head of the Revenue Department of the Ministry of Finance may grant a one-month extension at the request of the taxpayer if the taxpayer's circumstances warrant the extension. Tax must be paid when the return is filed.

If a taxpayer does not submit timely returns, the tax authorities may levy tax on an amount of deemed profit and impose a fine of 10% of such tax for each month or part of a month that has elapsed since the due date. The fine may not exceed the tax due. For failure to pay tax by the due date, a penalty of 2% of the tax due is imposed for each month or part of a month that the tax remains unpaid.

Dividends and Interest. In general, dividends and interest are subject only to a withholding tax of 10%.

Dividends received by a Lebanese corporation from another Lebanese corporation are exempt from tax. However, dividends redistributed by a parent company to its shareholders or partners are subject only to a withholding tax of 10%.

Dividends distributed by Lebanese holding companies and offshore companies are exempt from dividend withholding tax.

Dividends and interest income earned by banks and financial institutions are considered trading income and consequently are subject to tax at the regular corporate tax rate of 15%.

Foreign Tax Relief. A foreign tax credit is allowed under the tax treaties listed in Section F. Income subject to foreign tax in other foreign countries is taxed in Lebanon net of the foreign tax paid.

C. Determination of Trading Income

General. The tax assessment is based on audited financial statements prepared according to generally accepted accounting principles, subject to certain adjustments.

Deductions are allowed for expenses incurred wholly and exclusively for business purposes. Branches, subsidiaries and affiliates of foreign companies may deduct the portion of foreign head office overhead charged to them if the auditors of the head office present to the tax authorities a certificate confirming that the overhead was fairly and equitably allocated to the various subsidiaries, associated companies and branches. However, the deductible overhead is subject to a tax of 7.5% (see Section D).

Inventories. Inventories are normally valued at the lower of cost or net realizable value. Cost is usually determined using the first-in, first-out (FIFO) or weighted-average cost method.

Provisions. The following are the only provisions that are allowed for tax purposes:
- The actual amount due to employees on the balance sheet date for end-of-service indemnities; and
- Doubtful debts owed by debtors that have been declared legally bankrupt.

Banks and financial institutions may deduct provisions for doubtful debts before declaration of bankruptcy of the debtor if they obtain the approval of the Banking Control Commission of the Central Bank of Lebanon.

Tax Depreciation. Depreciation must be calculated using the straight-line method. The Ministry of Finance sets minimum and maximum depreciation rates. A company may select appropriate rates within these limits for its activities. The following are some of the current minimum and maximum rates.

Asset	Minimum Rate (%)	Maximum Rate (%)
Commercial buildings, hotels, workshops and employees' living quarters	2	2.5
Industrial buildings (depending on the industry)	3	12
Plant and machinery	7.5	11
Furniture and equipment in offices and stores	7.5 to 20	9 to 25
Furniture and equipment in cinemas, theaters and places of entertainment	10 to 15	13 to 20
Furniture in hotels, restaurants and cafes	10	13
Small automobiles and taxis	12	15
Buses and trucks	20	25
Rolling stock and electric tramcars	5	7
Private railway lines	3	4
Boats and launches	5	7
Aircraft	25	30

Relief for Tax Losses. Tax losses may be carried forward for three years.

Groups of Companies. Parent companies must prepare consolidated financial statements that incorporate the activities of their associated companies and subsidiaries. However, each legal entity is taxed separately.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax (VAT); imposed on the supply of goods and services by a taxable person in the course of an economic activity in Lebanon and on imports; certain supplies are exempt; registration with the Directorate of VAT is required if an entity's total taxable turnover for the four preceding quarters exceeded LL 500 million; standard rate	10%
Tax on portion of foreign head office overhead allocated to a Lebanese subsidiary, associated company or branch	7.5%
Customs duties on imported goods	Various
Social security contributions	
Sickness and maternity, on monthly salaries up to LL 1,500,000; paid by	
Employer	7%
Employee	2%
Family allowances, on monthly salaries up to LL 1,500,000; paid by employer	6%
End-of-service indemnity, on monthly salaries; paid by employer	8.5%
Stamp duty on documents, such as issues of share capital, corporate bonds, commercial bills, lease agreements and employment agreements (contracts related to foreign transactions of Lebanese offshore companies are exempt)	
General rate	0.3%
Tax on developed property (all buildings), on annual gross rental income less certain expenses; tax is imposed in addition to regular corporate income tax on such income, but is creditable against corporate income tax; if this tax exceeds corporate income tax due on all activities of the corporation, only this tax is due; maximum rate	13%
Municipal taxes on developed property	
Sidewalk and sewage tax, paid by landlords on annual gross rental from buildings (since 1989, however, the municipalities have collected this tax from tenants)	1.5%
Security and cleaning tax, paid by tenant on a percentage of the rental value of buildings (nonprofit enterprises are exempt from this tax)	
Residential buildings (minimum tax of LL 5,000)	5%
Nonresidential buildings (minimum tax of LL 10,000)	7%

Nature of Tax	Rate
Registration duty, paid by purchaser of land or buildings; levied on fair-market value of building, which is deemed to be 20 times the fair annual rental income set by the government (approximate rate)	6%
Annual tax on total capital and reserves of Lebanese holding companies, up to a maximum tax of LL 5 million (tax is due in full from the first year of company's operations, regardless of the month operations begin); imposed on amounts	
Not exceeding LL 50 million	6%
Exceeding LL 50 million but not exceeding LL 80 million	4%
Exceeding LL 80 million	2%
Annual tax on Lebanese offshore companies (tax is imposed in full from the first year of company's operations, regardless of the month operations begin)	LL 1 million

E. Miscellaneous Matters

Foreign-Exchange Controls. Lebanon does not impose any foreign-exchange controls.

Antiavoidance Legislation. Under the Lebanese tax law, criminal or tax penalties may be imposed for specified tax avoidance schemes.

Related-Party Transactions. Transactions with related entities must be on an arm's length basis.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Armenia	5/10	8	5
Czech Republic	5	10	5/10
Egypt	10	10	5
France	5	5	5
Iran	5	5	5
Malta	5	0	5
Oman	5/10	10	10
Romania	5	5	5
Russian Federation	10	5	5
Syria	5	10	18
Tunisia	5	5	5
United Arab Emirates	10	10	5
Nontreaty countries	10	10	10

LESOTHO

(Country Code 266)

MASERU **GMT +2**

Ernst & Young
Mail Address:
Private Bag A169
Maseru 100
Lesotho

316-490
Fax: 310-230
E-mail: lesothooffice@za.ey.com

Street Address:
Plot 582 Hoohlo
Corner of Kingsway Road/Maseru Bypass
Maseru
Lesotho

Corporate Tax

John H. Blair *(resident in Bloemfontein, South Africa)* — **[27] (51) 447-5181**, **Mobile: [27] 083-456-5801**, **Fax: [27] 448-9381**

★ May A. Moteane — **316-490**, **Mobile: 852-522**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (a)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%) (b)	
Dividends	25 (c)
Interest	25
Royalties from Patents, Know-how, etc.	25 (d)
Payments for Services	10
Branch Remittance Tax	25
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) For manufacturing companies, the rate is 15%.
(b) These withholding taxes apply only to payments to nonresidents.
(c) Final withholding tax. Dividends paid by manufacturing companies are exempt from withholding tax.
(d) For royalties paid by manufacturing companies, the rate is 15%.

B. Taxes on Corporate Income and Gains

Company Tax. Company tax is imposed only on Lesotho-source income that is received during an accounting period. Income received from any source by companies registered or incorporated in Lesotho is deemed to be income derived from a source within Lesotho. A company is deemed to be registered in Lesotho if the company's memorandum and articles are filed with the Registrar of Companies or if it is managed and controlled in Lesotho.

Rates of Company Tax. For the year ending 31 March 2004, the rate of tax is 35%, but it is reduced to 15% for profits from manufacturing operations.

Capital Gains. Capital gains are treated as ordinary income and subject to tax at the regular corporate income tax rate.

Administration. The Income Tax Act does not require companies to use a specific year-end. However, a majority of companies use the same year-end, 31 March, as the Lesotho government.

Returns must be filed within 30 days after they are issued. If a return is not filed, the Commissioner of Income Tax issues an estimated assessment.

Tax levied under the Income Tax Act must be paid at the place and by the date specified in the notice of assessment. If the tax is not paid by the date specified, a penalty of 5% of the amount due and unpaid is immediately payable. Additional penalties of 10% of the amount due and unpaid, including any penalties, must be paid for each three-month period that the tax remains unpaid beyond the date specified in the assessment.

Dividends. Resident companies are exempt from tax on the dividend income they receive, but they may not deduct related expenses or dividends declared. Resident companies are companies that are both registered and incorporated in Lesotho. Dividends paid to nonresidents are subject to a final withholding tax at a rate of 25%. Dividends paid by manufacturing companies are exempt from withholding tax.

Foreign Tax Relief. In the absence of treaty relief provisions, unilateral relief is granted through a credit for foreign taxes paid on income earned abroad. The amount of the credit is the lesser of the foreign tax paid and the Lesotho tax on the foreign-source income.

C. Determination of Trading Income

General. Taxable income is financial statement income adjusted as required by the Income Tax Act. To be eligible for deduction, expenses must be incurred in the production of income, and they must not be of a capital nature.

Inventory. Inventories are valued at the lower of cost or realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Provisions. Provisions are deductible in the year of assessment in which they arise, but provisions not used must be added back to income in the following year.

Depreciation. Depreciation is computed using the declining-balance method at the following rates.

Asset	Rate (%)
Motor vehicles	25
Furniture, fixtures and office machines	20
Plant and machinery	20
Other assets	10

Relief for Losses. Assessed losses may be carried forward for an unlimited period. A carryback of losses is not allowed.

Groups of Companies. Companies in a group may not share their tax losses with profitable companies in the group.

D. General Sales Tax

Sales tax is levied at the following rates: liquor, 20%; electricity and telecommunications, 5%; and other sales, 10%.

E. Tax Treaties

Lesotho has not yet ratified its tax treaties with South Africa and the United Kingdom.

LIECHTENSTEIN

(Country Code 423)

VADUZ **GMT +1**

Ernst & Young Aktiengesellschaft **239-61-11**
Mail Address: **Fax: 239-61-10**
P.O. Box 555
FL-9490 Vaduz
Liechtenstein

Street Address:
Lettstrasse 10
FL-9490 Vaduz
Liechtenstein

Corporate Tax

Dr. Mathias Oertli **[41] (58) 286-20-20**
(resident in St. Gallen, Switzerland) **Mobile: [41] (58) 289-20-35**
Fax: [41] (58) 286-20-22
E-mail: mathias.oertli@ch.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	34.02 (a)
Branch Tax Rate (%)	20 (a)
Withholding Tax (%)	
Dividends	4 (b)
Interest	4 (b)(c)
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) This is a maximum rate. See Section B.
(b) This withholding tax applies to residents and nonresidents.
(c) The rate is 0% on certain interest income. See Section F.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate tax law distinguishes between companies with business activities in Liechtenstein, including foreign enterprises with permanent establishments in Liechtenstein, and special tax-advantaged holding companies and domiciliary companies. Holding companies are companies with a registered seat in Liechtenstein that limit their activities to the administration or management of assets or investments, particularly participations. Domiciliary companies are legal entities having only their legal seat in Liechtenstein and not carrying on any business or commercial activity within the country.

Resident corporations carrying on activities in Liechtenstein are generally taxed on worldwide income other than income from foreign real estate. Subject to discussions with the tax authorities, income from permanent establishments abroad may also be exempt.

Branches of foreign corporations and nonresident companies owning real property in Liechtenstein are subject to tax on income attributable to the branch or real property and capital invested in the branch or real property.

Rates of Corporate Tax. Companies with business activities in Liechtenstein and foreign enterprises with permanent establishments in Liechtenstein are subject to income tax. The rates are graduated based on the company's return-on-equity ratio. The minimum rate is 7.5%, and the maximum rate, which applies if the return-on-equity is more than 30%, is 15% of taxable income.

The applicable tax rate is increased if distributed dividends exceed 8% of taxable capital. The increase is one to five percentage points, depending on the dividend distribution percentage, with the maximum increase applicable to dividend distributions exceeding 24% of taxable capital. The maximum income tax rate is therefore 20% and is reached if the return-on-equity is more than 30% and if the distributed dividends exceed 24% of taxable capital.

Holding companies and domiciliary companies are exempt from income tax. They are, however, subject to capital tax, but at a reduced rate (see Section D).

Capital Gains. Capital gains, except those resulting from sales of real property, are included in income and subject to tax at the regular rates.

Real estate profits tax applies to capital gains from the sale of real property. The basic rate of 1.08% is increased for surcharges based on how long the property was held and the amount of taxable profit. The maximum rate is 34.02%.

Administration. The tax year for a company is its fiscal year.

Companies with operations in Liechtenstein must file their tax return and financial statements within six weeks after the adoption of their financial statements at the annual shareholders' meeting, but no later than 1 July of the year following the end of the fiscal year. The tax authorities issue a tax assessment, generally in the second half of the calendar year, which must be paid within 30 days of receipt. If they obtain approval from the tax administration, companies may pay their tax in installments.

Within six months after their fiscal year-end, holding and domiciliary companies with commercial activities are required to submit audited financial statements to the tax authorities. Holding and domiciliary companies without commercial activities must confirm that they are not engaged in such activities and that they have prepared an asset and liability statement. Their taxes (see Section D) are payable in advance.

Dividends. Dividends are included in the taxable income of companies subject to tax.

Withholding tax (known as coupon tax) applies to distributions of stock corporations (and other companies with capital divided into shares, which are rare). Distributions subject to withholding tax include dividends, profit shares and other monetary contributions and allowances, such as liquidation distributions. The withholding rate is 4%.

Foreign Tax Relief. Neither Liechtenstein law nor the practice of the tax authorities provides for the avoidance of double taxation of foreign income taxed abroad. Double taxation issues should be discussed with the tax authorities.

C. Determination of Trading Income

General. Taxable income is accounting income, subject to adjustments for tax purposes and excluding income from foreign real property and, depending on discussions with the tax authorities, income from permanent establishments situated abroad.

Expenses related to the company's business are generally deductible. Taxes are deductible, except for tax withheld by the company on behalf of the owner of the income.

Nondeductible expenses include hidden distributions to shareholders or related persons and excessive depreciation.

Inventories. Inventories must be valued at the lower of cost or market value, with cost calculated using the first-in, first-out (FIFO) or average-cost method. Companies may establish a general inventory reserve of up to one-third of the inventory cost or market value at the balance sheet date if detailed inventory records are available for review by the tax authorities. The need for a reserve exceeding this amount must be documented to the satisfaction of the tax authorities.

Depreciation. Depreciation of fixed assets that is "commercially justified" and recorded in the statutory accounts may be deducted for tax purposes. The straight-line and declining-balance methods are acceptable. The following are acceptable declining-balance rates: 5% for industrial buildings; 20% for office equipment and furnishings; 30% for machinery, equipment, computers and vehicles other than automobiles; and 35% for automobiles.

Relief for Losses. Losses may be carried forward to offset income in the five years following the year of the loss. Losses may not be carried back.

Groups of Companies. Liechtenstein has no provisions for group taxation. Each company in a group is taxed as a separate entity.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	
Standard rate	7.6
Reduced rate (on basic necessities, such as food and medicine)	2.4
Capital tax, on taxable capital	
Companies with operations in Liechtenstein	0.2
Holding companies and domiciliary companies (minimum tax is CHF 1,000)	0.1
Stamp duty on capital; imposed on incorporations and increases in capital; the first CHF 250,000 is exempt	1

Nature of Tax	Rate (%)
Payroll taxes	
Social security contributions, on gross salary; paid by	
Employer	4.836
Employee	4.4
Accident insurance, imposed on gross salary; rates vary depending on the extent of coverage	
On the job, paid by employer (approximate rate)	1
Off the job, two-thirds paid by employee and one-third paid by the state	1.35
Unemployment insurance; paid by	
Employer (monthly maximum, CHF 243)	0.25
Employee (monthly maximum, CHF 243)	0.25
Company pension fund, imposed on gross salary; minimum contribution (approximate rate, depending on plan); paid by	
Employer	5
Employee	5
Child allowance, imposed on gross salary; paid by employer	2.1
Health insurance, imposed on gross salary; paid in equal amounts by employer and employee (approximate rate)	3

E. Transfer Pricing

Intercompany charges should be determined at arm's length. It is possible to reach an agreement in advance with the tax authorities concerning arm's length pricing.

F. Treaty Withholding Tax Rates

The rates shown are the lower of the treaty rates or the normal domestic rates.

	Dividends %	Interest %	Royalties %
Austria	4	0/4*	0
Nontreaty countries	4	0/4*	0

* A 4% rate applies to interest on bonds, on time deposits with domestic banks that have terms exceeding one year and on loans exceeding CHF 50,000 with terms exceeding two years. The 0% rate applies to other interest, including interest paid on intercompany loans.

LITHUANIA

(Country Code 370)

VILNIUS **GMT +2**

Ernst & Young UAB
Subaciaus 7
2000 Vilnius
Lithuania

(5) 274-2200
Fax: (5) 274-2333

Corporate Tax
Kestutis Lisauskas (5) 274-2252
E-mail: kestutis.lisauskas@lt.ey.com

A. At a Glance

Corporate Profit Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%) (b)	
Dividends	0/15 (c)
Interest	10 (d)
Royalties and Know-how	10 (d)
Sale, Rent or Other Transfer of Real Estate Located in Lithuania	10 (d)
Compensation for Violations of Copyrights or Related Rights	10 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3/5 (e)

(a) A 13% rate applies to small companies (see Section B).
(b) The withholding tax rates may be reduced by applicable tax treaties.
(c) The rate is 0% if the recipient is a company (not located in a tax haven) that holds more than 10% of the shares of the payer of the dividends for a period of at least 12 months. The dividend withholding tax is a final tax.
(d) These withholding taxes apply to payments to nonresident companies.
(e) Losses from disposals of securities and derivative financial instruments may be carried forward three years to offset gains derived from disposals of such items. Other losses may be carried forward five years.

B. Taxes on Corporate Income and Gains

Profit Tax. Under the Law on Profit Tax, Lithuanian companies are subject to profit tax on their worldwide income. Lithuanian (resident) companies are defined as enterprises with the rights of legal persons registered in Lithuania. For purposes of the profit tax, Lithuanian companies include companies formed in Lithuania and companies incorporated in foreign countries that are registered in Lithuania as branches or permanent establishments.

Foreign (nonresident) companies, which are defined as companies not incorporated in Lithuania, are subject to profit tax on their Lithuanian-source income only.

A foreign enterprise is deemed to have a permanent establishment in Lithuania if it satisfies any of the following conditions:
- It has a place of activity in Lithuania through which it carries out activities in Lithuania;
- It carries out activities in Lithuania through an individual, legal entity or other person that is authorized to enter into contracts on behalf of the foreign enterprise and habitually exercises such authorization;
- It engages in construction activities in Lithuania; or
- It engages in the exploration or extraction of natural resources in Lithuania.

Tax Rates. The standard profit tax rate is 15%. A 13% rate applies to small companies with annual income not exceeding LTL 500,000 and an average number of employees that does not exceed 10 for the tax year.

Enterprises registered and operating in a free-economic zone benefit from an 80% reduction in profit tax for five years beginning with the date of registration and from a 50% reduction in profit tax for the following five years. If foreign investors own at least 30% of the authorized capital of an enterprise registered and operating in a free-economic zone and have invested capital of foreign origin in excess of US$1 million (or the equivalent in another foreign currency) in the enterprise, such enterprise is exempt from profit tax for 5 years beginning with the date of registration and benefits from a 50% reduction in profit tax for the following 10 years. Currently, the only free-economic zones are the Kaunas and Klaipėda Free-Economic Zones.

Capital Gains. Capital gains are included in taxable profit and are subject to tax at the regular profit tax rate, except for gains and losses derived from disposals of securities and derivatives. Gains and losses on securities and derivatives are included in a separate tax base that is subject to tax at the regular profit tax rate.

Administration. The tax year is the calendar year. Companies may request permission to use a different 12-month tax year, which must be used continuously.

Companies must file annual financial statements and profit tax returns with the tax inspectorate by the 1st day of the 10th month following the end of the tax year. They also must file two preliminary corporate tax advance payment returns. The first return covers the first nine months of the tax year and must be filed by the last day of the first month of the tax year. The second return covers the last 3 months of the tax year and must be filed by the last day of the 10th month of the tax year.

Companies must make quarterly advance payments of profit tax by the last day of the first three quarters and by the 25th day of the last quarter. Companies may calculate advance profit tax based on either of the following:

- The results of prior financial years. Under this base, the advance payments for the first three quarters of the tax year are each equal to one-quarter of the profit tax calculated for the tax year two years before the current tax year. For the 10th through 12th months of the tax year, the advance payments are each equal to one-quarter of the profit tax calculated for the preceding tax year.
- The forecasted profit tax of the current year. However, the total of the advance profit tax payments made during the tax year must total at least 80% of annual profit tax.

Newly registered enterprises in their first tax year and enterprises with annual sales of less than LTL 100,000 in the preceding tax year are not required to make advance payments of profit tax.

Any balance of tax due for a tax year must be paid by the 1st day of the 10th month following the tax year. If the total of the advance payments exceeds the tax due for the tax year, a company may obtain a refund or apply the excess to future taxes. Taxes must be paid in litas.

Withholding taxes together with returns for such taxes must be submitted to the tax inspectorate by the 15th day of the month following the month in which the taxes are withheld.

Withholding Taxes. A 10% withholding tax is imposed on the following types of payments to nonresident companies: interest on all types of debt; all types of royalties; know-how; payments with respect to the sale, rent or other transfer of real estate located in Lithuania; compensation for violations of copyrights or ancillary rights. Dividends are generally subject to a 15% withholding tax (for an exception, see *Dividends* below).

Dividends. Dividends received from Lithuanian and foreign companies are subject to corporate profit tax at a rate of 15%. The 15% tax on dividends paid by Lithuanian companies is withheld at source.

For dividends paid by Lithuanian companies to other Lithuanian companies, profit tax for the preceding tax year is reduced by the withholding tax calculated on the dividends paid to Lithuanian companies and paid to the tax authorities. However, the amount of the reduction may not exceed the amount of profit tax for the preceding tax year. The amount of the withholding tax not set off in the first year may be carried forward for five years and set off against profit tax payable for those years. Payers of dividends must pay the withholding tax on the dividends to the tax authorities by the 10th day of the month following the month of payment of the dividends.

Lithuanian resident companies receiving dividends from foreign companies must pay the tax on the dividends to the tax authorities by the 10th day of the month following the month of receipt of the dividends.

Under the participation exemption, dividends paid by Lithuanian resident and foreign companies are not subject to profit tax if the recipient is a company (not located in a tax haven) that holds more than 10% of the shares of the payer of the dividends for a period of at least 12 months.

Foreign Tax Relief. In general, a foreign tax credit may be claimed in an amount not exceeding the amount of Lithuanian profit tax payable on the foreign income. Special rules apply to particular types of income, unless a double tax treaty provides otherwise.

C. Determination of Taxable Income

General. Taxable profit is equal to gross revenue, less expenses incurred in earning such revenue.

Certain items are not included in taxable profit, such as the following:
- Taxed dividends, and dividends not taxed as a result of the participation exemption (see Section B);
- Compensation received from Lithuanian insurance companies that does not exceed the amount of the loss incurred;
- Damages, fines and penalties received; and
- Gains on revaluation of fixed assets under certain circumstances.

Payments to tax havens are allowed as deductions only if the Lithuanian payer can prove that certain conditions, which confirm the economic substance of the transaction, are met.

The income and expenses of enterprises must be converted to litas using the official rate of the Bank of Lithuania (Lietuvos Bankas).

Inventories. Inventories must be valued at actual cost, which is calculated using the first-in, first-out (FIFO) method. On approval of the tax authorities, a taxpayer may apply the average cost or last-in, first-out (LIFO) method.

Tax Depreciation. Companies may select the straight-line depreciation method or the semi-annual depreciation method. Under the semi-annual depreciation method, assets purchased in the first half of the year are depreciated for a full year in the year of acquisition and are not depreciated in the year of retirement, while assets purchased in the second half of the year are not depreciated in the year of acquisition and are depreciated for a full year in the year of retirement. If the semi-annual depreciation method is chosen, additional accelerated depreciation (see below) may be applied, but only to certain assets, such as machinery and equipment, computer equipment and networks, new buildings and software.

The selected depreciation method must be applied for all assets of the same type and may not be changed. Under the straight-line method, depreciation is claimed each year in equal portions. To calculate accelerated depreciation, the net book value of long-term assets is depreciated each year by applying a rate that is double the normal depreciation rate. The law sets the maximum depreciation rates. These rates determine the minimum number of years over which assets may be depreciated. The following are some of the minimum periods.

Assets	Minimum Period for Depreciation (Years)
Intangible assets	3 to 15
Buildings and premises	
Constructed or reconstructed on or after 1 January 2002	8
Constructed or reconstructed before 1 January 2002	15 to 20
Plant and machinery	5 to 15
Computers	3
Vehicles	4 to 10
Other assets	4

Relief for Losses. Tax losses from disposals of securities and derivative financial instruments may be carried forward for three years to offset gains derived from disposals of such items. Other tax losses may be carried forward for five years. Losses may not be carried back.

Groups of Enterprises. Corporations are taxed separately in Lithuania. Consolidated returns are not allowed.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; exports are zero-rated	5/9/18
Real estate tax, on the taxable value of real estate (the value is calculated by real estate registry institutions using methodology established by the government)	1

Nature of Tax	Rate (%)
Social security tax; paid by	
Employer	31
Employee	3
Road tax; imposed primarily on turnover; rate depends on activity of company	0.1 to 1

Other significant taxes include excise duty, stamp duties, land and land lease tax, tax on the use of Lithuanian natural resources and pollution tax.

E. Miscellaneous Matters

Foreign-Exchange Controls. The Lithuanian currency is the litas (LTL).

Foreign currency may be used for payments between business entities if this is agreed to by the parties. Commercial operations involving foreign currency, such as purchasing, selling and exchanging, may be performed only by banks that have obtained a license from the Bank of Lithuania.

Controlled Foreign Companies. Certain income of controlled entities located in countries or zones included in the special list approved by the Minister of Finance is added to taxable income of Lithuanian entities and taxed at the standard profit tax rate.

F. Treaty Withholding Tax Rates

The table below lists the maximum withholding rates under Lithuania's tax treaties.

	Dividends %	Interest %	Royalties %
Armenia	5/15 (a)	10	10
Belarus	10	10	10
Canada	5/15 (a)	10	10
China	5/15 (a)	10	10
Croatia	5/15 (d)	10	10
Czech Republic	5/15 (a)	10	10
Denmark	5/15 (a)	10	5/10 (b)
Estonia	0/15 (c)	0	0
Finland	5/15 (a)	10	5/10 (b)
France	5/15 (d)	10	5/10 (b)
Germany	5/15 (a)	10	5/10 (b)
Iceland	5/15 (a)	10	5/10 (b)
Ireland	5/15 (a)	10	5/10 (b)
Italy	5/15 (d)	10	5/10 (b)
Kazakhstan	5/15 (a)	10	10
Latvia	0/15 (c)	0	0
Moldova	10	10	10
Netherlands	5/15 (a)	10	5/10 (b)
Norway	5/15 (a)	10	5/10 (b)
Poland	5/15 (a)	10	10
Romania	10	10	10
Slovak Republic	10	10	10
Slovenia	5/15 (a)	10	10
Sweden	5/15 (a)	10	5/10 (b)
Switzerland	5/15 (e)	10	5/10 (b)
Turkey	10	10	5/10 (b)
Ukraine	5/15 (a)	10	10

	Dividends %	Interest %	Royalties %
United Kingdom	5/15 (a)	10	5/10 (b)
United States	5/15 (d)	10	5/10 (b)
Uzbekistan	10	10	10
Nontreaty countries	15	10	10

(a) The 5% rate applies if the recipient owns more than 25% of the authorized capital of the payer.
(b) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
(c) The 0% rate applies if the recipient owns more than 25% of the authorized capital of the payer.
(d) The 5% rate applies if the recipient owns at least 10% of the authorized capital of the payer.
(e) The 5% rate applies if the recipient owns at least 20% of the authorized capital of the payer.

LUXEMBOURG

(Country Code 352)

The e-mail addresses for the persons listed below are in the following standard format:
firstname.surname@lu.ey.com

LUXEMBOURG CITY **GMT +1**

Ernst & Young Tax Advisory Services Sàrl **42 124-1**
Fax: 42 124-421
Mail Address:
P.O. Box 780
L-2017 Luxembourg

Street Address:
7, Parc d'activités Syrdall
L-5365 Munsbach
Luxembourg

International Tax

Jean-Bernard Caumont	**42 124-1 (528)**
Steven Claes *(resident in New York)*	**[1] (212) 773-7907** **E-mail: steven.claes@ey.com**
Raymond Krawczykowski *(resident in London)*	**[44] (20) 7951-0198** **E-mail: rkrawczykow@uk.ey.com**
Frank Muntendam	**42 124-1 (258)**
Marc Schmitz	**42 124-1 (352)**

Global Financial Services

Paul Chambers	**42 124-1 (364)**
Keith O'Donnell	**42-124-1 (257)**
Aidan Stokes	**42 124-1 (255)**

Human Capital

Brigitte Andre	**42 124-1 (269)**
Jacqueline Guérinel	**42 124-1 (336)**
★ Alex Sulkowski	**42 124-1 (200)**

Indirect Taxes

Jean-Bernard Caumont	**42 124-1 (528)**
Laurent Grençon	**42 124-1 (300)**
Ulrike Schrenk	**42 124-1 (578)**
Yannick Zeippen	**42 124-1 (362)**

A. At a Glance

Corporate Income Tax Rate (%)	22 (a)
Capital Gains Tax Rate (%)	22 (a)
Branch Tax Rate (%)	22 (a)
Withholding Tax (%)	
Dividends	20 (b)
Interest	0
Royalties	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) This is the maximum rate. In addition, a municipal business tax and an additional unemployment fund contribution (unemployment fund surcharge) are levied on income (see Section B).

(b) Imposed on payments to both residents and nonresidents. For nonresidents, this is a final tax. The rate may be reduced by a tax treaty. Also, see Section B for details concerning exceptions to the dividend withholding tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. Companies whose registered office or principal place of management is in Luxembourg are considered resident companies.

Taxation in Luxembourg of foreign-source income is mitigated through several double tax treaties. In addition, if no tax treaty applies, a foreign tax credit is available under domestic law.

Nonresident corporations whose registered office and place of management are located outside Luxembourg are subject to corporate income tax only on their income derived from Luxembourg sources.

Companies that qualify as holding companies under the law of 31 July 1929 (1929 holding companies) are not subject to corporate income tax.

Tax Rates. Corporate income tax rates range from 20% to 22%, depending on the income level. In addition, a surcharge of 4% is payable to the unemployment fund. A local income tax (municipal business tax) is also levied by the different municipalities. The rate varies depending on the municipality, with an average rate of 7.5%. As shown below, the total maximum effective tax rate applicable to corporate taxpayers is 30.38%.

Profit	€100.00
Corporate income tax at 22%	(22.00)
Unemployment fund surcharge at 4%	(0.88)
Municipal business tax	(7.50)
	€69.62
Total income taxes	€30.38
As percentage of profit	30.38%

The 1929 holding companies are exempt from all income taxes. Dividends paid by these companies are not subject to withholding tax, and nonresident beneficiaries are not subject to income tax in

Luxembourg on the dividend income. These companies are subject to the taxe d'abonnement levied at a rate of 0.2% on total net asset value (in practice, the capital and share premium).

Investment funds organized in Luxembourg are only subject to the €1,250 registration duty on incorporation and to the *taxe d'abonnement* levied on total net asset value. (For the rates of the *taxe d'abonnement*, see Section D.) Distributions made by these organizations are not subject to withholding tax.

Capital Gains. The capital gains taxation rules described below apply to a fully taxable resident company.

Capital gains are generally regarded as ordinary business income and are taxed at the standard rates. Capital gains on the sale of shares, however, may be exempt from tax if all of the following conditions apply:

- The recipient is one of the following:
  - A resident capital company fully subject to tax in Luxembourg;
  - A Luxembourg branch of a company that is resident in another European Union (EU) state and is covered by Article 2 of the European Community (EC) Parent-Subsidiary Directive; or
  - A Luxembourg branch of a capital company resident in a state with which Luxembourg has entered into a tax treaty.
- The shares have been held for 12 months or the shareholder commits itself to hold its remaining shares that fulfill the minimum shareholding requirement for at least 12 months.
- The holding represents at least 10% of the capital of the subsidiary throughout that period, or the acquisition cost is at least €6 million.
- The subsidiary is a resident capital company fully subject to tax, a nonresident capital company fully subject to a tax comparable to Luxembourg corporate income tax or a company resident in an EU member state that is covered by Article 2 of the EC Parent-Subsidiary Directive.

The exemption is also granted to capital gains on participations held through qualifying fiscally transparent entities.

However, capital gains qualifying for the exemption are taxable to the extent that related expenses deducted in the current year and in prior years exceed the dividends received. These related expenses include interest on loans used to finance the purchase of such shares and write-offs.

Administration. In general, the tax year coincides with the calendar year unless otherwise provided in the articles of incorporation. Tax returns must be filed before 31 May in the year following the fiscal year. The date may be extended on request by the taxpayer. Late filing is subject to a penalty of up to 10% of the tax due.

Taxes are payable within one month after receipt of the tax assessment notice. However, advance payments must be made quarterly by 10 March, 10 June, 10 September and 10 December for corporate income tax, and by 10 February, 10 May, 10 August and 10 November for municipal business tax and net worth tax. In general, every payment is equal to one-quarter of the tax assessed for the preceding year. If payments are not made within the designated time limit, an interest charge of 0.6% per month may be assessed.

Dividends. Dividends received by resident companies are generally taxable. In addition, dividends received from resident taxable companies are fully exempt from corporate income tax if the following conditions are fulfilled:

- The recipient is one of the following:
  - A resident capital company fully subject to tax in Luxembourg;
  - A Luxembourg branch of a company that is resident in another EU state and is covered by Article 2 of the EC Parent-Subsidiary Directive; or
  - A Luxembourg branch of a capital company resident in a state with which Luxembourg has entered into a tax treaty.
- The recipient owns at least 10% of the share capital of the distributing company or the acquisition cost of the shareholding is at least €1.2 million.
- The recipient holds the minimum participation in the distributing company for at least 12 months. The 12-month period does not need to be completed at the time of the distribution of the dividends if the recipient commits itself to eventually hold the participation for the required period.

Dividends received from nonresident companies are fully exempt from tax if the above conditions are satisfied and if either of the following applies:

- The distributing capital company was subject to a tax similar to Luxembourg corporate income tax; or
- The distributing company is resident in another EU member state and is covered by Article 2 of the EC Parent-Subsidiary Directive.

The exemption for dividends also applies to dividends on participations held through qualifying fiscally transparent entities.

Expenses related to dividends that are exempt under Luxembourg domestic law are deductible. However, the amount of exempt dividends is reduced by the following: expenses that are directly economically related to such dividends and deducted in the same tax year; and the amount of depreciation of a shareholding following the dividend distribution.

If the minimum holding period or the minimum shareholding required for the dividend exemption granted under Luxembourg domestic law is not met, the recipient can still benefit from an exemption for 50% of the dividends under certain conditions.

In addition, dividends received may be exempt under tax treaties.

On distribution of dividends, 20% of the gross amount must be withheld at source unless one of the following conditions applies:

- The recipient holds directly, or through a qualifying fiscally transparent entity, for at least 12 months (the holding period requirement does not need to be completed at the time of the distribution if the recipient commits itself to eventually hold the participation for the required 12-month period) at least 10% of the share capital of the payer, which must be a fully taxable

resident company, or shares of the payer that had an acquisition cost of at least €1.2 million, and the recipient satisfies one of the following additional requirements:
- — It is a fully taxable resident capital company;
- — It is a company resident in another EU member state and is covered by Article 2 of the EC Parent-Subsidiary Directive;
- — It is a Luxembourg permanent establishment of a company that is resident in another EU member state and that is covered by Article 2 of the EC Parent-Subsidiary Directive; or
- — It is a Luxembourg permanent establishment of a capital company resident in a state with which Luxembourg has entered into a tax treaty.

- A different rate is provided by a tax treaty.
- The distributing company is a 1929 holding company or an investment fund.

Foreign Tax Relief. A tax credit is available to Luxembourg resident companies for foreign-source income that has been subject to an equivalent income tax abroad. The maximum tax credit corresponds to the Luxembourg income tax that is payable on the net foreign-source income.

C. Determination of Trading Income

General. The taxable income of corporations is based on the annual financial statements prepared in accordance with generally accepted accounting principles. Profits disclosed are adjusted for exempt profits, nondeductible expenses, special deductions and losses carried forward.

Expenses incurred exclusively for the purposes of the business are deductible. Expenses incurred with respect to exempt income are disallowed (see Section B for a description of the tax treatment of expenses related to tax-exempt dividends).

Inventories. Inventory must be valued at the lower of acquisition (or production) cost or fair market value. The cost may be calculated either on the basis of weighted-average prices, first-in, first-out (FIFO), last-in, first-out (LIFO) or a similar method, provided the business situation justifies such a method. The method chosen should be applied consistently.

Provisions. Provisions for losses and uncertain liabilities may be deductible for tax purposes if they are based on objective facts and if the corresponding charge is deductible and economically connected to the relevant tax year.

Tax Depreciation. The straight-line depreciation method and the declining-balance method (except for buildings) are allowed.

Commercial buildings are depreciated at straight-line rates ranging from 1.5% to 4%. The straight-line rate for industrial buildings is 4%. Land may not be depreciated.

The depreciation rates under both the declining-balance method and straight-line method are 10% for plant and machinery, 20% for office equipment and 25% for motor vehicles.

Depreciable assets with a useful life of one year or less and those with a value not exceeding €870 may be deducted in full from business income in the year of acquisition.

Investment Tax Credit. A tax credit of 10% is granted for additional investments in depreciable tangible fixed assets other than buildings and motor vehicles, if they have a useful life of at least three years. In addition, a 6% credit is granted for qualifying new investments up to €150,000 and a 2% credit is granted for investments over that amount. For investments in ecological equipment and projects, these rates are increased to 8% and 4%, respectively. Investments may qualify for both credits. The credits reduce corporate income tax. Unused credits may be carried forward for 10 years.

Relief for Losses. Trading losses, adjusted for tax purposes, incurred in or after 1991 may be carried forward without a time limitation. A carryback of losses is not allowed.

Groups of Companies. A Luxembourg company and its wholly owned (at least 95% of the capital, which may be reduced to 75% in exceptional situations) Luxembourg subsidiaries may form a "fiscal unity." The fiscal unity allows the affiliated subsidiaries to combine their respective tax results with the tax result of the parent company of the consolidated group. To qualify for group taxation, both the parent and its wholly owned subsidiaries must be resident capital companies that are fully subject to tax. A permanent establishment of a nonresident capital company fully subject to a tax comparable to Luxembourg corporate income tax also qualifies as a parent company of the group.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on the supply of goods and services within Luxembourg and on the import of goods and services into Luxembourg	
General rate	15
Other rates	3/6/12
Net worth tax, on net asset value as of 1 January, reduced by the value of substantial participations (at least 10% of the capital of qualifying domestic or foreign subsidiaries) that are held directly or through a qualifying fiscally transparent entity	0.5
Subscription tax *(taxe d'abonnement)*, annual tax on the value of a company's shares; rate depends on type of company	
Financial holding companies	0.2
Investment funds	
Funds of funds	0
Dedicated funds (funds owned exclusively by institutional investors), institutional compartments of funds, monetary funds and cash funds	0.01
Other funds	0.05
Social security contributions on salaries (2003 rates); paid by	
Employer (including health at work contribution)	
For blue-collar workers	13.01
For white-collar workers	10.76

Nature of Tax	Rate (%)
Employees	
Blue-collar workers	12.90
White-collar workers	10.65
Payroll taxes, for accident insurance, paid by employer; rate varies depending on activities of employees (2003 rates)	0.666
Health at work contribution, on salaries; paid by employer (2003 rate)	0.11
Care insurance on gross employment income (2003 rate)	1

E. Miscellaneous Matters

Foreign-Exchange Controls. Luxembourg monitors the monetary flow into and out of the country by an institution called the Institut Belgo-Luxembourgeois du Change (IBLC). All transfers of funds over a certain amount entering or leaving the country must be supported by the appropriate documentation. However, the control has no real impact on the free circulation and is merely a formality.

Debt-to-Equity Rules. There is no thin-capitalization concept in Luxembourg. In principle, borrowed money necessary for financing an operation is not limited to a percentage of paid-in capital. However, based on the abuse of law doctrine, the authorities tend to challenge debt-to-equity ratios of companies engaged in holding activities that are greater than 85:15. Under the abuse of law doctrine, the tax authorities may challenge fictitious or abnormal transactions and schemes that are entered into for the sole purpose of avoiding taxes.

Antiavoidance Legislation. No specific antiavoidance rules are contained in the law. However, the tax authorities can substitute an arm's length price if transactions with a related party are entered into at an artificial price or if transactions are entered into in an abnormal manner and are solely tax-motivated.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under Luxembourg domestic tax law.

	Dividends %	Interest %	Royalties %
Austria	0/5/15 (a)(e)	0	0/10 (c)
Belgium	0/10/15 (d)(e)	0	0
Brazil	15 (k)	0	10
Bulgaria	5/15 (a)	0	5
Canada	0/5/15 (l)	0	0/10 (m)
China	5/10 (a)	0	6/10 (i)
Czechoslovakia (g)	5/15 (a)	0	0/10 (f)
Denmark	0/5/15 (a)(e)	0	0
Finland	0/5/15 (a)(e)	0	0/5 (f)
France	0/5/15 (a)(e)	0	0
Germany	0/10/15 (a)(e)	0	5
Greece	0/7.5 (e)	0	5/7 (p)
Hungary	5/15 (a)	0	0
Iceland	5/15 (a)	0	0
Indonesia	10/15 (a)	0	10
Ireland	0/5/15 (a)(e)	0	0

	Dividends %	Interest %	Royalties %
Italy	0/15 (e)	0	10
Japan	5/15 (a)	0	10
Korea	10/15 (a)	0	10
Malta	5/15 (a)	0	10
Mauritius	5/10 (j)	0	0
Mexico	5/15 (a)	0	10
Morocco	10/15 (a)	0	10
Netherlands	0/2.5/15 (a)(e)	0	0
Norway	5/15 (a)	0	0
Poland	5/15 (a)	0	10
Portugal	0/15 (e)	0	10
Romania	5/15 (a)	0	10
Russian Federation	10/15 (k)	0	0
Singapore	5/10 (j)	0	10
Slovenia (r)	5/15 (a)	0	5
South Africa	5/15 (o)	0	0
Spain	0/5/15 (a)(e)	0	10
Sweden	0/5/15 (a)(e)	0	0
Switzerland	0/5/15 (h)	0	0
Thailand	5/15 (a)	0	10
Tunisia	10	0	10 (q)
United Kingdom	0/5/15 (a)(e)	0	5
United States	0/5/15 (b)	0	0
Uzbekistan	5/15 (p)	0	5
Vietnam	5/10/15 (n)	0	10
Nontreaty countries	20	0	10

(a) The 5% (Netherlands, 2.5%; Belgium, Germany, Indonesia, Korea and Morocco, 10%) rate applies if the recipient company holds at least 25% (Mexico, 10%) of the distributing company.

(b) The 0% rate applies if the recipient of the dividends is a company that, on the date of payment of the dividends, has owned directly at least 25% of the voting shares of the payer for an uninterrupted period of at least two years and if such dividends are derived from an industrial or commercial activity effectively operated in Luxembourg. The 5% rate applies if the recipient of the dividends is a company that owns directly at least 10% of the voting shares of the payer. The 15% rate applies to other dividends.

(c) The 10% rate applies if the recipient company owns more than 50% of the payer's share capital.

(d) The 10% rate applies if, from the beginning of its accounting year, the recipient company owns at least 25% of the distributing company's share capital or if the price paid by the recipient company for its direct holding was at least □6,197,338.

(e) Under an EU directive, withholding tax is not imposed on dividends distributed to a parent company resident in another EU state if the recipient of the dividends holds directly at least 10% of the distributing company or shares in the distributing company that it acquired for a price of at least □1.2 million for at least one year. This holding period does not need to be completed at the time of the distribution if the recipient commits itself to eventually holding the participation for the required period.

(f) Royalties for literary, artistic or scientific works, including motion picture films and films or tapes for radio or television broadcasting, are exempt from tax in the state of source.

(g) Luxembourg honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.

(h) The 5% rate applies if the recipient owns at least 25% of the share capital of the distributing company. The 0% rate applies if, at the time of the distribution, the recipient has held at least 25% of the share capital of the payer for an uninterrupted period of at least two years. The 15% rate applies to other dividends.

(i) The 6% rate applies to royalties for the use of industrial, commercial and scientific equipment. The 10% rate applies to other royalties.

(j) The lower rate (the 15% rate for Brazil) applies if the recipient company holds at least 10% of the distributing company.

(k) The lower rate applies if the recipient company holds at least 30% of the distributing company or if the value of its investment in the distributing company is at least €75,000.
(l) The 0% rate applies in Luxembourg if the following conditions are satisfied: at the date of distribution of the dividends, the Canadian beneficial owner of the dividends has held a direct shareholding in the payer of at least 25% for an uninterrupted period of at least two years; the dividends are paid out of profits derived from the active conduct of a trade or business in Luxembourg, other than the business of making or managing investments, unless such business is carried on by a bank or insurance company; and the dividends are exempt in Canada. The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the voting power of the payer of the dividends. The 15% rate applies to other dividends.
(m) The 0% rate applies if the recipient is subject to tax in the recipient's state of residence and if the royalties are for the following: literary, artistic or scientific works, excluding motion picture films, and films or tapes for radio or television broadcasting; the use of, or right to use, computer software; or information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
(n) The 5% applies if the beneficial owner of the dividends is a company that meets either of the following conditions: it holds directly or indirectly at least 50% of the capital of the payer; or it has invested in the payer more than US$10 million or the equivalent in Luxembourg or Vietnamese currency. The 10% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 25%, but less than 50%, of the capital of the payer and if such beneficial owner's investment in the payer does not exceed US$10 million or the equivalent in Luxembourg or Vietnamese currency. The 15% rate applies to other dividends.
(o) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
(p) The 5% rate applies to royalties for authors' rights. The 7% rate applies to other royalties.
(q) The domestic rate of 10% applies because it is less than the treaty rate.
(r) This treaty is effective from 1 January 2003.

Luxembourg has signed tax treaties with Malaysia, Mongolia, Trinidad and Tobago, and Ukraine. As of 15 September 2003, Luxembourg has ratified only the treaties with Mongolia and Ukraine.

Tax treaty negotiations have been announced or are under way with Chile, Estonia, India, Israel, Latvia, Lithuania, the United Arab Emirates and Yugoslavia.

MACAU

(Country Code 853)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@hk.ey.com

MACAU **GMT +8**

Ernst & Young Auditores **788-017**
Rua de Xangai No. 175 **Fax: 787-768**
14 Andar "F"
Edificio Da Associacao Comercial de Macau
Macau

Corporate Tax

Owen Chan *(resident in Hong Kong)* **[852] 2629-3388**
Fax: [852] 2956-0122

May Leung *(resident in Hong Kong)* **[852] 2629-3089**
Fax: [852] 2956-0561

A. At a Glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	15 (a)
Withholding Tax (%) (b)	
Dividends	0
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) Applicable to taxpayers with taxable profits exceeding MOP 300,000. See Section B.
(b) Macau law does not contain any specific measures imposing withholding taxes.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies and individuals carrying on commercial or industrial activities in Macau are subject to complementary tax on their income derived from Macau. No distinction is made between residents and nonresidents for tax purposes.

Rates of Corporate Income Tax. The same complementary tax rates apply to companies and individuals. Taxable profits below MOP 300,000 are taxed at marginal rates ranging from 2% to 28%. Taxpayers with taxable profits exceeding MOP 300,000 are taxed at a flat rate of 15%.The following are the complementary tax rates.

Taxable Profits Exceeding MOP	Taxable Profits Not Exceeding MOP	Marginal Tax Rate %	Average Tax Rate %
0	20,000	2	2
20,000	40,000	3	2.5
40,000	60,000	4	3
60,000	80,000	6	3.75
80,000	100,000	8	4.6
100,000	120,000	10	5.5
120,000	140,000	12	6.5
140,000	160,000	14	7.3
160,000	180,000	16	8.3
180,000	200,000	18	9.3
200,000	220,000	20	10.3
220,000	240,000	22	11.3
240,000	260,000	24	12.3
260,000	280,000	26	13.3
280,000	300,000	28	14.3
300,000	–	–	15

Offshore Companies. Macau Offshore Companies (MOCs) are exempt from Macau taxes. A company qualifies as an MOC if it is established under Macau's offshore law and if it meets certain criteria. In general, MOCs must use non-Macau currencies in its activities, target only non-Macau residents as customers and concentrate only on non-Macau markets. MOCs may engage only in the 20 categories of services contained in a list published by the government.

Capital Gains. Capital gains are not taxed in Macau.

Administration. The tax year is the calendar year.

For tax purposes, companies are divided into Groups A and B. These groups are described below.

Group A. Group A companies are companies with capital of over MOP 1 million (US$125,000) or average annual taxable profits over the preceding three years of more than MOP 500,000 (US$62,500). Other companies maintaining appropriate accounting books and records may also elect to be assessed in this category by filing an application with the Macau Finance Department before the end of the tax year.

Income of Group A companies is assessed based on their financial accounts submitted for tax purposes. These companies are required to file between April and June of each year complementary tax returns together with detailed financial accounts with respect to the preceding year. The tax returns must be certified by local accountants or auditors registered with the Macau Finance Department.

Group A companies may carry forward losses to offset taxable profits in the following three years.

Group B. Group B companies are companies that do not meet the capital or average annual taxable profits thresholds for Group A companies and do not elect to be assessed in the Group A category.

For Group B companies, tax is levied on a deemed profit basis. Financial information in tax returns submitted by Group B companies normally serves only as a reference for tax assessment. Group B companies are deemed to earn profits for each year of assessment, regardless of whether the taxpayers have earned no income or incurred losses for the year.

Group B companies are required to file annual tax return forms together with summary profit-and-loss accounts for the preceding year between February and March. Certification of the tax return forms by registered accountants or auditors is not required.

Group B companies may not carry forward tax losses.

Dividends. Dividends are normally paid out of after-tax profits. Consequently, no tax is imposed on dividends.

Foreign Tax Relief. Macau does not grant relief for foreign taxes paid.

C. Determination of Trading Income

General. As discussed in Section B, companies are divided for tax purposes into Groups A and B. For Group A companies, taxable profits are based on the profits shown in the financial statements, subject to adjustments required by the tax law. Group B companies are taxed on a deemed profit basis.

All expenses wholly and exclusively incurred in the production of taxable profits are deductible for complementary tax purposes.

Inventories. Inventories are valued using the historical cost or first-in, first-out (FIFO) methods.

Provisions. The following are the rules for the tax-deductibility of provisions in Macau:

- Provision for bad debts: deductible up to 2% of trade debtor's year-end balance;
- Provision for inventory loss: deductible up to 3% of the value of the closing inventory at the end of the year;
- Provision for taxes: not deductible; and
- Other provisions: subject to approval by the tax authorities.

Tax Depreciation. Tax depreciation allowances are granted for capital expenditure incurred in producing taxable profits. These allowances are calculated based on the actual cost of purchase or construction, or, if the amount of the cost is not available, the book value accepted by the Macau Finance Department. The following are the applicable straight-line depreciation rates in Macau.

Asset	Rate (%)
Industrial buildings (including hotels)	
First year	20
Subsequent years	4
Commercial and residential buildings	
First year	20
Subsequent years	2
Central air-conditioning plant	14.29
Central telecommunication, telephone and telex systems	10
Elevators and escalators	10
Vessels, dredgers and floating cranes	10
Transport equipment	
Light vehicles	20
Heavy vehicles	16.66
Furniture	
Office	20
Residential	16.66
Computers, minicomputers and word processors	25
Other office equipment	20
Nonelectronic equipment	14.29
Machinery	20
Computer software	33.33
Molds	33.33

Intangible assets, such as patents, may be amortized at an annual rate of 10%. Organizational expenses, fixtures with a life of at least one year and major repairs may be written off at an annual rate of 33.33%.

Relief for Losses. Group A companies (see Section B) may carry forward losses for three years. Loss carrybacks are not allowed.

Groups of Companies. Macau does not allow consolidated returns or provide other relief for groups of companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Property tax, levied annually on owners of real property in Macau; the tax is applied to the actual rental income for leased property and to the deemed rental value for other property as determined by the Macau Finance Department; up to 10% of the rent or rental value may be deducted to cover repairs and maintenance, and other expenses related to the property; certain buildings are exempt including industrial buildings occupied by their owners for industrial purposes, new residential or commercial buildings for the first 6 years on the islands of Coloane and Taipa and for the first 4 years in other parts of Macau, and new industrial buildings for the first 10 years on Coloane and Taipa and for the first 5 years in other parts of Macau	
Rental property	16%
Other property	10%
Stamp duty, on selling price or assessable value of transferred property; payable by purchaser	3%
Excise tax, on imported value and/or volume of certain items, such as beer, wine, spirits, and tobacco	
Beer, wine and spirits	
On imported value	10% to 15%
On volume	MOP 1 to MOP 20 per liter
Tobacco	
Cigarettes	MOP 0.05 per cigarette
Other tobacco	MOP 20 to MOP 70 per kilogram
Vehicles tax, on tax value determined by relevant authorities	30% to 55%
Social security contributions; payable monthly by	
Employer for	
Resident employees	MOP 30
Nonresident employees	MOP 45
Employee (residents only)	MOP 15
Tourism tax, on the invoice amount for services provided in the tourist trade, such as hotels and restaurants	5%

E. Miscellaneous Matters

Foreign-Exchange Controls. The currency in Macau is the pataca (MOP). Since 1977, the pataca has been closely aligned with the Hong Kong dollar (HK$), moving within a narrow band around an exchange rate of MOP 103 to HK$100. Because the Hong Kong dollar is officially pegged to the U.S. dollar, the value of the pataca is closely associated with the value of the U.S. dollar. The current exchange rate is approximately MOP 8:US$1.

Macau does not impose foreign-exchange controls.

Debt-to-Equity Rules. Except for the banking and financial services sector, no statutory debt-to-equity requirements or capitalization rules are imposed in Macau.

F. Tax Treaty

Macau has entered into a tax treaty with Portugal.

MACEDONIA, FORMER YUGOSLAV REPUBLIC OF

(Country Code 389)

Copies of all correspondence should be sent to Christos Seferis, Ernst & Young, 11th km National Road Athens-Lamia, GR-144 51 Metamorfosi, Athens, Greece (telephone: [30] (210) 288-6000; fax: [30] (210) 288-6905).

SKOPJE **GMT +1**

Ernst & Young (Skopje) DOO
Marshal Tito 19
1000 Skopje
Macedonia

(2) 311-1637
Fax: (2) 311-3438
E-mail: eyskopje@mt.net.mk

Corporate Tax

Prof. Tito Belicanec	**(2) 311-3310** **E-mail: tito.belicanec@mk.ey.com**
Krsto Nestorov	**(2) 311-3310** **E-mail: krsto.nestorov@mk.ey.com**

Macedonia, which was a republic of the former Yugoslavia, gained its independence in 1991. It was admitted to the United Nations in 1993 as the "Former Yugoslav Republic of Macedonia." Because of the rapidly changing economic situation in Macedonia, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	15
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	15
Withholding Tax (%)	
Dividends	0 (a)
Interest	0 (b)
Royalties from Patents, Know-how, etc.	0 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) See Section B.
(b) Interest and royalties are included in taxable income and are subject to tax at the regular corporate income tax rate of 15%.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in the Former Yugoslav Republic of Macedonia (RM) that perform registered activities (activities described in the documents submitted to the court with respect to the registration of companies) are subject to corporate income tax on their worldwide income. A company is resident in

Macedonia if it is incorporated in Macedonia and if its head office is located in Macedonia. Nonresident companies are subject to tax on their income derived from performing activities in the RM.

Rate of Corporate Income Tax. The corporate income tax rate is 15%.

Tax Incentives. Companies are entitled to a reduction of taxable income equal to the amount of expenditures on fixed assets, up to a maximum of €100,000. If a company has invested up to €100,000 in fixed assets and if its taxable income for the year is lower than the amount invested, the difference may be carried forward to offset taxable income in future years.

For investments in fixed assets exceeding €100,000, after claiming the deduction described in the preceding paragraph, companies may claim an additional deduction of up to 30% of taxable income, but the total of the two deductions may not exceed the amount of the investment in fixed assets.

Companies must pay the tax saved as a result of the incentives described in the preceding two paragraphs if they sell the fixed assets within the three tax years following the year of purchase.

Taxable income is reduced by the amount invested during the year in economically undeveloped regions and in specified regions (mountainous areas, border belts and undeveloped regions), subject to a maximum reduction of 50% of taxable income.

Expenditure on environmental protection may be deducted from taxable income, up to the amount of taxable income.

Companies with foreign investment amounting to at least 20% of their share capital qualify for a tax reduction for three years, beginning with the first year in which the company generates a profit. The tax of these companies is reduced by a percentage equal to the percentage of the share capital represented by the foreign investment. To benefit from the incentive, a company must obtain approval in writing from the Public Revenue Office. If a company stops operating its business before the end of the tax-incentive period and an additional three-year period, it loses the tax reduction for the tax-incentive period and must pay tax, adjusted for inflation by applying the retail price index published by the State Statistics Bureau. This incentive applies through 2006.

A company established with domestic capital is entitled to a 50% reduction of the computed tax in the first year in which it makes a profit. The incentive applies only if the company continues to operate its business for three years after the year of the tax reduction. To benefit from the incentive, a company must obtain approval in writing from the Public Revenue Office. If a company stops operating its business before the end of the three-year period, it loses the tax reduction and must pay tax, adjusted for inflation by applying the retail price index published by the State Statistics Bureau. The incentive is not available to companies established by transactions involving changes of status, such as mergers, acquisitions, split-ups and ownership transformations.

Companies listed on the official markets of the stock exchange benefit from a reduction of 50% of corporate income tax for their first three years of operations. To benefit from the incentive, a company must obtain approval in writing from the Public Revenue Office. If the stock exchange removes the listing of the company during the three-year period, the company losses the reduction for the entire period and must pay tax, adjusted for inflation by applying the retail price index published by the State Statistics Bureau. This incentive applies through 2006.

Companies are exempt from income tax for the first 10 years of its activities in a free-economic zone, subject to the conditions and procedures established in the Law on Free Economic Zone.

Capital Gains and Losses. Capital gains are included in taxable income and are subject to tax at the regular corporate income tax rate of 15%.

Capital losses resulting from sales of securities may offset capital gains derived from such sales in the same year or carried forward to offset capital gains from such sales in the following three years.

Administration. The tax year is the calendar year.

Companies must make advance monthly payments of corporate income tax by the 15th day of the month following the month for which tax is due. For newly established companies, this rule applies after they file their first annual tax return. The monthly advance payment is calculated in accordance with rules contained in the law. Companies must file annual tax returns. If the tax determined in an annual tax return is less than the amount of advance tax paid, a company must pay the difference within 30 days after the due date for filing the return.

Dividends. Dividends paid by Macedonian companies to other companies are paid net of the 15% corporate income tax. Companies do not include dividends received from Macedonian companies in taxable income if proof is submitted that the payer of the dividends has paid its corporate income tax. Dividends paid by Macedonian companies to individuals are subject to withholding tax at a rate of 15%, which is applied to 50% of the gross dividends (the net dividends received plus the tax withheld). Individuals report 50% of gross dividends received in their annual tax returns, and the dividends are subject to personal income tax at progressive rates ranging from 15% to 18%.

Foreign Tax Relief. Resident companies may claim a tax credit for foreign income tax paid, but the amount of the credit may not exceed the 15% income tax imposed in the RM on the foreign-source income.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements, subject to certain adjustments as required by law.

Inventories. Inventories are valued at cost, but the value for tax purposes may not exceed the sales value on the date when taxable income is determined.

Provisions. Provisions for bad debts are not allowed for corporate income tax purposes.

Tax Depreciation. In general, assets may be depreciated using the straight-line method. The book of rules for the calculation of depreciation specifies the following maximum depreciation rates for major categories of assets, which may be used for tax purposes.

Assets	Rates (%)
Buildings and structures	2.5 to 10
Plant and equipment	5 to 25
Motor vehicles	25
Orchards and vineyards	10
Cattle, birds and chickens	20
Intangible assets	20
Other assets	10

The above rates may be increased by 10% for tax purposes (for example, the 10% rate may be increased to 11%).

If a company determines the useful life of a depreciable asset according to the actual output expected to be derived from the use of the asset and if the depreciation rate in such a case exceeds 10% of the prescribed rate, approval of the Internal Revenue Administration must be obtained.

Relief for Losses. Losses may be carried forward three years. Losses may not be carried back.

Groups of Companies. On application, the Public Revenue Office may approve tax consolidation for resident companies if a resident company owns, directly or indirectly, at least 90% of the shares of other resident companies. An approved tax consolidation applies for a minimum of five years.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax; imposed on goods sold and services rendered in the RM, on sales of real property in the RM and on imports; certain items are exempt, including banking, insurance and other financial activities	
Standard rate	18%
Reduced rate (for food products for human use, drinking water from public water supply systems, books, brochures and newspapers)	5%
Exports	0%
Excise tax on sales in the RM and on imports of various items; tax is imposed at ad valorem rates, which are applied to the sales or import price, or at specific rates, which are expressed in Macedonian denars per unit of goods; for petrol, Diesel D-1 and gas, the rates are subject to change every two weeks	
Petrol	MKD 21.808 to MKD 24.462 per liter

Nature of Tax	Rate
Diesel D-1 (petrol for use in motor cars)	MKD 12.461 per liter
Gas	MKD 4.876 to MKD 4.900 per kilogram
Alcoholic beverages	MKD 30 per liter
Beer	MKD 3 per percentage of alcohol in a liter
Domestic tobacco products	33% of the retail price
Imported cigarettes and cigars	MKD 1.35 per piece
Other tobacco products	MKD 1,350 per kilogram
Property tax; annual tax on owners of immovable property, including nonarable land, residential buildings or apartments, administrative buildings, garages and other structures, and on owners of movable property, such as cars, buses and tractors; tax base is the market value of the real estate or movable property; tax return must be filed by 31 January	0.1%
Tax on sales and other transfers of real estate and rights to real estate; tax base is the market value of the real estate or right at the time of the sale; for exchanges, the tax base is the difference between the market values of the items being exchanged; tax payable by transferor	3%
Inheritance and endowment tax, on the inheritance or endowment of real estate or rights to real estate; tax applies regardless of whether inheritance or endowment is granted in a will or is acquired under the inheritance law or under an endowment agreement; tax base is the market value of the inheritance and endowment, reduced by debts and expenses; tax is paid by resident and nonresident recipients, including companies	
Individuals in first line of heritage	0%
Individuals in second line of heritage	3%
All others	5%
Payroll contributions; paid by employers for all employees, with certain exceptions; imposed on wages paid to employees	
Pension fund	21.2%
Health fund	9.2%
Additional contribution for health fund	0.5%
Employment	1.6%
Republic Chamber of Commerce (not mandatory)	0.12%
Skopje Chamber of Commerce; payable only by companies located in Skopje (not mandatory)	0.07%

E. Foreign-Exchange Controls

The currency in the RM is the denar (MKD). All transactions in the RM must be made in denars.

The National Bank of the Republic of Macedonia, which is the central bank, is exempt from income tax.

Residents and nonresidents may maintain foreign-currency accounts at commercial banks.

Registration with the central bank is required for the following transactions: obtaining or granting loans; paying or receiving cash; or opening bank accounts abroad.

F. Treaty Withholding Tax Rates

Under its domestic tax law, Macedonia does not impose withholding tax on payments of dividends, interest and royalties to nonresident companies (see Section B regarding dividends). Consequently, the treaty withholding tax rates listed in the table below do not apply to such payments. Under Macedonian domestic law, Macedonian companies must withhold 7.5% from dividends and 15% or 18% from interest, royalties and other income paid to individuals resident in nontreaty countries. For payments to individuals resident in treaty countries, the applicable rates are the lower of the treaty rates listed in the table below or the domestic rates.

	Dividends %	Interest %	Royalties %
Albania	10	10	10
Bulgaria	5/15 (a)	10	10
China	5	10	10
Croatia	5/15 (a)	10	10
Czech Republic	5/15 (a)	0	10
Denmark	0/5/15 (b)	0	10
Egypt	10	10	10
Finland	15	10	0
France	15	0	0
Hungary	5/15 (a)	0	0
Iran	10	10	10
Italy	5/15 (a)	10	0
Netherlands	15	0	0
Poland	5/15 (a)	10	10
Romania	5	10	10
Russian Federation	10	10	10
Slovenia	5/15 (a)	10	10
Sweden	0/15 (a)	10	0
Switzerland	5/15 (a)	10	0
Turkey	5/10 (a)	10	10
Ukraine	5/15 (a)	10	10
Yugoslavia	5/15 (a)	10	10
Nontreaty countries (c)	0	0	0

(a) The lower rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 25% of the equity of the payer of the dividends.

(b) The 0% rate applies if the beneficial owner of the dividends is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits. The 5% rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 25% of the equity of the payer of the dividends.

(c) See the paragraph preceding the table above.

MALAYSIA

(Country Code 60)

KUALA LUMPUR — GMT +8

Ernst & Young
Mail Address:
P.O. Box 11040
50734 Kuala Lumpur
Malaysia

(3) 2087-7000
Fax: (3) 2095-7043 (Tax)
E-mail: ey.my@my.ey.com

Street Address:
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Malaysia

International Tax

★ Lee Hock Khoon	**(3) 2087-4518** **Mobile: 12-289-2548** **E-mail: hock-khoon.lee@my.ey.com**
Lee Choong San	**(3) 2087-4417** **Mobile: 12-268-6706** **E-mail: choong-san.lee@my.ey.com**

Corporate Tax

Kenneth Lim	**(3) 2087-4448** **Mobile: 17-338-0088** **E-mail: kenneth.lim@my.ey.com**
Azhar Robert Lee	**(3) 2087-4652** **Mobile: 19-351-8347** **E-mail: azhar.robert-lee@my.ey.com**
Janice Wong	**(3) 2087-4423** **Mobile: 12-310-3696** **E-mail: janice.wong@my.ey.com**
Noor Rida Hamzah	**(3) 2087-4468** **Mobile: 19-383-4566** **E-mail: noor-rida.hamzah@my.ey.com**
Lim Kah Fan	**(3) 2087-4418** **Mobile: 17-885-1188** **E-mail: kah-fan.lim@my.ey.com**

Transfer Pricing

Yvonne Chan	**(3) 2087-4511** **Mobile: 19-310-0043** **E-mail: yvonne.chan@my.ey.com**

Human Capital

★ Tan Lay Keng	**(3) 2087-4441** **Mobile: 12-652-4322** **E-mail: lay-keng.tan@my.ey.com**

Indirect Tax

★ Bhupinder Singh	**(3) 2087-4405** **Mobile: 19-316-4133** **E-mail: bhupinder.singh@my.ey.com**

LABUAN — GMT +8

Ernst & Young
Mail Address:
P.O. Box 80123
87011 Federal Territory of Labuan
Malaysia

(87) 413-524
Fax: (87) 414-526

Street Address:
Level 9F, Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 Federal Territory of Labuan
Malaysia

Corporate Tax

Kevin How *(resident in Kota Kinabalu)*	**(88) 238-451** **E-mail: kevin.how@my.ey.com**
Goh Chee San *(resident in Kota Kinabalu)*	**(88) 244-804** **E-mail: chee-san.goh@my.ey.com**
Joyce Ng *(resident in Kota Kinabalu)*	**(88) 236-091** **E-mail: joyce.ng@my.ey.com**

PENANG **GMT +8**

Ernst & Young **(4) 264-1878**
Mail Address: **Fax: (4) 262-1812**
P.O. Box 148 **E-mail: ey.my@my.ey.com**
10710 Penang
Malaysia

Street Address:
22nd Floor, MWE Plaza
8 Lebuh Farquhar
10200 Penang
Malaysia

Corporate Tax

Soon Yean Sun	**(4) 263-0033** **E-mail: yean-sun.soon@my.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	28 (a)
Capital Gains Tax Rate (%)	0 (b)
Branch Tax Rate (%)	28 (a)
Withholding Tax (%)	
Dividends	0 (c)
Interest	15 (d)(e)
Royalties from Patents, Know-how, etc.	10 (d)
Payments for Specified Services and for Use of Movable Property	10 (f)
Payments to Nonresident Contractors	13 (g)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) Effective from the 2004 year of assessment, companies with paid-up ordinary capital of RM 2.5 million or less are taxed at 20% on the first RM 500,000 of chargeable income. The balance is taxed at 28%. However, these rates do not apply to petroleum companies, which are taxed at a rate of 38%.
(b) A tax is imposed on gains derived from the disposal of real property or shares in a real property company (see Section B).
(c) See Section B.
(d) This is a final tax applicable only to payments to nonresidents.
(e) Interest on approved loans is exempt from tax (see footnote (b) to Section F). Bank interest paid to nonresidents without a place of business in Malaysia is exempt from tax.
(f) This is a final tax applicable to payments to nonresidents for specified services rendered in Malaysia and to payments for the use of movable property. In certain circumstances, a tax treaty may reduce the rate to 0%.
(g) This withholding tax is treated as a prepayment of tax on account of the final tax liability.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident and nonresident companies are taxed only on income accruing in or derived from Malaysia. Resident companies engaged in banking, insurance, shipping or air transport are taxable on their worldwide income. A company is resident in Malaysia if its management and control is exercised in Malaysia; the place of incorporation is irrelevant.

Rates of Corporate Tax. Resident and nonresident companies are subject to income tax at a rate of 28%. Effective from the 2004 year of assessment, resident companies with paid-up ordinary capital of RM 2.5 million or less are taxed at a rate of 20% on the first RM 500,000 of chargeable income. The balance is taxed at 28%.

Special rates apply to nonresident companies on income from interest (15%) and from royalties, know-how payments, specified services rendered in Malaysia and payments for the use of movable property (10%).

For resident and nonresident companies carrying on petroleum operations, petroleum income tax is charged at 38% instead of the above.

Tax holidays or tax reductions are granted for participation in promoted activities or products, research and development activities, and capital expenditure on expansion projects and some other investments.

Offshore Financial Center. In 1990, the Malaysian government enacted legislation that created an offshore financial center on the island of Labuan.

Except for companies intending to engage in banking, insurance or the provision of fund management services, government approval is not required to establish an offshore company. An offshore company is required to have one director that may be a foreign corporation and at least one secretary who must be an officer of a Labuan trust company. It may not carry on business transactions with Malaysian residents, except for certain approved transactions. It may not transact business in the Malaysian ringgit, except to pay administrative and statutory expenses.

Offshore companies, including foreign offshore companies, may hold shares, debt obligations or other securities in domestic companies other than trust companies if such holding is not a controlling interest in the domestic company and if the holding is approved by the Registrar of Offshore Companies.

Offshore companies are subject to tax at a rate of 3% on their net audited profits derived from their offshore trading activities. Offshore trading activities include banking, insurance, trading, management, licensing and other business activities. Income derived from nontrading activities, such as dividends, interest and rent, is exempt from tax. Instead of paying tax at the 3% rate, offshore companies may elect to pay a fixed annual tax of RM 20,000.

Offshore companies may open and maintain bank accounts in foreign currency in Malaysia or abroad. No restrictions are imposed on the movement of funds through these accounts.

Real Property Gains Tax. Real property gains tax is levied on gains derived from the disposal of either real property situated in Malaysia or shares in closely controlled companies with substantial real property interests. The applicable rates for companies are set forth in the following table.

Number of Years Held		Rate
Exceeding	Not Exceeding	%
0	2	30
2	3	20
3	4	15
4	–	5

Gains arising from transactions relating to the issuance of asset-backed securities are exempt from real property gains tax and stamp duty.

Administration. The year of assessment is the calendar year, but companies may adopt their accounting year as their year of assessment for all sources of income. Income tax is chargeable on income earned in the year of assessment.

Malaysia provides a self-assessment regime under which companies must file their tax returns within seven months after the end of their accounting period. A tax return is deemed to be an assessment made on the date of filing the return.

Companies must provide an estimate of their tax payable no later than 30 days before the beginning of their accounting period. The estimated tax is payable in equal monthly installments by the 10th day of each month beginning in the second month of the accounting period. Companies that begin their operations during a year of assessment may provide their estimate of tax payable within three months after the commencement of their operations. All companies may revise their estimate of tax payable in the sixth and ninth months of their accounting period.

Companies must pay any balance of tax due by the tax filing deadline.

Dividends. All resident companies must deduct income tax at a rate of 28% from dividends paid. If the company has paid sufficient income tax on its own income, past or present, it may retain the tax deducted. Otherwise, the tax deducted must be paid over to the government. A nonresident company may distribute the after-tax profits without incurring any additional liability. The tax deducted by the company satisfies the Malaysian tax liability of a nonresident shareholder; in the case of a resident shareholder, the credit is applied toward the shareholder's tax liability. Dividends paid out of tax-exempt foreign-source income may be paid without deduction of tax. The tax authorities may recover from shareholders tax imputed on dividends paid if the payer of the dividends has not paid its income tax in full.

Foreign Tax Relief. Malaysian law allows both bilateral and unilateral foreign tax relief. However, as mentioned in *Corporate Income Tax* above, Malaysia generally does not tax foreign-source income, unless such income is derived by companies engaged in banking, insurance, shipping or air transport. These companies are taxed on their worldwide income and may claim foreign tax relief with respect to foreign taxes imposed on their foreign-source income.

C. Determination of Trading Income

General. The assessment is based on the audited financial statements, subject to certain adjustments. In practice, a nonresident company trading in Malaysia prepares the financial statements of its Malaysian branch in accordance with the Malaysian Companies Act. This act sets out disclosure requirements for financial statements, but does not prescribe the accounting treatment for specific transactions. Malaysian Accounting Standards, which are substantially similar to International Accounting Standards (IAS), govern the accounting treatment for transactions.

Deductions are allowed for expenses incurred wholly and exclusively in the production of income and for bad debts. No deduction is allowed for the book depreciation of fixed assets, but statutory depreciation (capital allowances) is granted. In general, the cost of leave passages is not deductible. However, to boost domestic tourism, a double deduction is allowed for the granting of leave passages to employees for travel within Malaysia if the expenditure is incurred between 1 June 2003 and 31 May 2004. The deductibility of entertainment expenses is generally limited to 50% of the costs incurred. However, a full deduction for entertainment expenses may be claimed in specified circumstances.

Inventory. Trading inventory is valued at the lower of cost or net realizable value. Cost must be determined under the first-in, first-out (FIFO) method; the last-in, first-out (LIFO) method is not accepted.

Provisions. General provisions and reserves for anticipated losses or contingent liabilities are not deductible.

Capital Allowances

Plant and Machinery. Depreciation allowances are given on capital expenditure incurred on the acquisition of plant and machinery used for the purposes of trade or business. An initial allowance of 20% and an annual allowance ranging from 10% to 20% are granted for qualifying expenditure.

Industrial Buildings. Effective from the 2002 year of assessment, an initial allowance of 10% and an annual allowance of 3% are granted for qualifying expenditure on the construction or purchase of industrial buildings. As a result of these allowances, qualifying expenditure will be fully written off in the thirtieth year after the year of construction or purchase.

Child Care Centers. An annual allowance of 10% is granted for expenditure incurred for the construction or purchase of buildings used as child care facilities for employees.

Employee Housing. An annual allowance of 10% is granted for expenditure incurred by manufacturers and certain approved service companies for the purchase or construction of buildings for the accommodation of employees. Buildings occupied by management or administrative staff do not qualify for this allowance.

Educational Institutions. An annual allowance of 10% is granted for expenditure on the construction or purchase of buildings used as schools or educational institutions or for industrial, technical or vocational training.

Motor Vehicles. Capital expenditure incurred on motor vehicles qualifies for an annual allowance of 20%. Allowances on non-commercial vehicles are restricted to RM 100,000 per vehicle if the vehicle has not been used prior to purchase and if the total cost of the vehicle does not exceed RM 150,000.

Allowances are restricted to RM 50,000 per vehicle if the vehicle costs more than RM 150,000.

Office Equipment. An initial allowance of 20% and an annual allowance of 10% are granted for capital expenditure on office equipment.

Computer Equipment. An initial allowance of 20% and an annual allowance of 40% are granted for capital expenditure on computer hardware and software.

Agriculture. Annual allowances are given on capital expenditure incurred on new planting (50%), roads or bridges (50%), farm buildings (10%) and buildings for accommodation of farm workers (20%). Allowances may also be granted for other capital expenditure for agriculture at the discretion of the Minister of Finance.

Forestry. Annual allowances are given on capital expenditure incurred for purposes of extraction of timber from a forest. The rates are 10% for a road or building and 20% for a building for accommodation of employees.

Other Matters. Capital allowances are generally subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. To the extent sales proceeds are less than the depreciated value, an additional allowance is given.

Relief for Trading Losses. Trading losses may offset all other chargeable income of the same year. Unused losses may be carried forward indefinitely for offset against chargeable income from business sources. Excess capital allowances may not be offset against other chargeable income of the same year, but may be carried forward indefinitely for offset against income from the trade that generated the capital allowances.

D. Sales Tax

A sales tax is imposed on certain imported goods and on certain locally manufactured goods sold or otherwise disposed of by the manufacturer. The rates are 25% on cigarettes, 20% on liquor and 5% or 10% on other goods.

E. Miscellaneous Matters

Foreign-Exchange Controls. The ringgit may not be traded overseas, and its exchange rate is fixed at RM 3.80:US$1.

Payments within the country must be made in ringgits, and payments outside Malaysia must be made in foreign currency only. The prior approval of Bank Negara Malaysia (the Malaysian Central Bank) is required for certain payments in excess of the foreign-currency equivalent of RM 10,000. Export proceeds must be repatriated to Malaysia within six months from the earlier of the date of export or the payment period specified in the contract.

Nonresidents are free to make direct and portfolio investments in Malaysia.

To regulate the use of domestic credit facilities for foreign investments, Bank Negara Malaysia approval is required for remittances to invest in securities or immovable properties abroad, to extend credit to nonresidents or to make deposits in foreign countries if the remitters have obtained Malaysian credit facilities.

A company that is controlled by nonresidents may borrow up to RM 50 million from sources within Malaysia. For amounts exceeding RM 50 million, the prior approval of Bank Negara Malaysia is required.

Foreign borrowings by residents in excess of the foreign-currency equivalent of RM 5 million require Bank Negara Malaysia approval.

Foreign-Equity Restrictions. The general policy guidelines provide that foreign companies are allowed to hold up to 30% equity in Malaysian companies. Depending on the industry, government approval may be required for foreign equity in excess of 30%. For new investments in the manufacturing sector, up to 100% foreign equity may be allowed.

Antiavoidance Legislation. Legislation permits the Revenue Authority to disregard or vary any transaction that is believed to have the effect of tax avoidance.

Transfer Pricing. The tax authorities have issued transfer-pricing guidelines, which apply to cross-border transactions and local transactions between associated enterprises. The guidelines are based on the arm's length principle set forth in the Organization for Economic Cooperation and Development (OECD) transfer-pricing guidelines and provide several methods for determining an arm's length price. The guidelines also provide a detailed list of information, documentation and records that need to be maintained with respect to related-party transactions.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties %
Albania (c)	–	10	10
Argentina	–	15	10
Australia	–	15	10 (d)
Austria	–	15	10
Bahrain	–	5	8 (d)
Bangladesh	–	15	10 (d)
Belgium	–	10	10
Canada	–	15	10 (d)
China	–	10	10
Czech Republic	–	12	10
Denmark	–	15	10 (d)
Egypt (c)	–	15	10
Fiji	–	15	10
Finland	–	15	10 (d)
France	–	15	10 (d)
Germany	–	15	10 (d)
Hungary	–	15	10
India	–	15	10 (d)
Indonesia	–	15	10
Ireland	–	10	8

	Dividends (a) %	Interest (b) %	Royalties %
Italy	–	15	10
Japan	–	10	10
Jordan	–	15	10
Korea	–	15	10
Kyrgyzstan (c)	–	10	10
Malta	–	15	10
Mauritius	–	15	10
Mongolia	–	10	10
Myanmar (c)	–	10	10
Namibia (c)	–	10	5 (d)
Netherlands	–	10	8 (d)
New Zealand	–	15	10 (d)
Norway	–	15	10 (d)
Pakistan	–	15	10 (d)
Papua New Guinea	–	15	10
Philippines	–	15	10 (d)
Poland	–	15	10 (d)
Romania	–	15	10 (d)
Saudi Arabia	–	15	10
Singapore	–	15	10
Sri Lanka	–	10	10 (e)
Sudan (c)	–	10	10
Sweden	–	15	10 (d)
Switzerland	–	10	10 (d)
Taiwan (g)	–	10	10
Thailand	–	15	10 (d)
Turkey	–	15	10
USSR (f)	–	15	10 (d)
United Arab Emirates	–	5	10
United Kingdom	–	10	8 (d)
Uzbekistan	–	10	10
Vietnam	–	10	10
Zimbabwe (c)	–	10	10
Nontreaty countries	–	15	10

(a) In general, income tax at a rate of 28% must be deducted at source. However, for companies with paid-up capital of RM 250,00 or less, see the discussion of dividends in Section B.
(b) Interest on approved loans is exempt from Malaysian tax. An approved loan is a loan or credit made by a nonresident to the government, state government, local authority or a statutory body, or guaranteed by the government or state government.
(c) These treaties have not yet been ratified.
(d) Approved royalties are exempt from Malaysian tax.
(e) Approved royalties are taxed at half the domestic rate, that is, 5%.
(f) Malaysia is honoring the USSR treaty with respect to the republics of the former USSR, including the Baltic states.
(g) This is the income tax treaty between the Taipei Economic and Cultural Office (TECO) in Malaysia and the Malaysian Friendship and Trade Centre (MFTC) in Taipei.

MALDIVES

(Country Code 960)

MALE **GMT +5**

Ernst & Young **320-742, 326-799**
Asrafee Building **Fax: 320-748**
Third Floor **E-mail: eymld@eymaldives.com.mv**
1/44 Chandhanee Magu
Male 20-03
Maldives

Corporate Tax
Ahamed Isham Mohamed Fawzy **320-742**
E-mail: isham.fawzy@lk.ey.com
Muthukrishnan Rengaraj **326-799**
E-mail: krishna.rengaraj@lk.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

B. Taxes on Corporate Income and Gains

Except for the bank profit tax, the Maldives does not impose taxes on income or capital gains.

Bank profit tax is imposed at a rate of 25% on the net profits of resident and nonresident banks.

C. Other Taxes

Stamp Duty. Stamp duty is imposed at a rate of 0.01% on all imports and exports.

Customs Duties. Customs duties on imports vary according to the type of import. The following are some of the rates of the duties: petrol, kerosene and diesel oil, 10%; lubricating oil, 25%; generators, 20%; and textiles, 25%.

D. Foreign-Exchange Controls

The Maldivian currency is the Maldivian rufiyaa (Mrf).

The Maldives does not impose any strict foreign-exchange controls. Foreign investors may remit all of their net profits after payment of royalties, which are payments made to the government. The amount of the royalties varies according to the type of business and size of operations.

MALTA

(Country Code 356)

Please direct all inquiries regarding tax matters to the Valletta office.

VALLETTA **GMT +1**

Ernst & Young **2124-3258**
Valletta Buildings **Fax: 2122-5528**
Lower Ground Floor
South Street
Valletta VLT 11
Malta

Corporate Tax

Walter Cutajar	**2124-3258, 2124-6328** **Mobile: 9947-8786**
Chris Naudi	**2124-3258** **Mobile: 9942-5892**

SLIEMA **GMT +1**

Ernst & Young
Regent House
55, Fifth Floor
Bisazza Street
Sliema SLM 15
Malta

2134-2134
Fax: 2133-0280
E-mail: ey.malta@mt.ey.com

Corporate Tax

Walter Cutajar *(resident in Valletta)*	**2124-3258, 2124-6328** **Mobile: 9947-8786**
Chris Naudi *(resident in Valletta)*	**2124-3258** **Mobile: 9942-5892**

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35 (a)
Branch Tax Rate (%)	35
Withholding Tax (%)	0 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) See Section B.
(b) See Section F.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in Malta are subject to income tax on their worldwide income. Companies registered in Malta are considered resident in Malta. In addition, companies registered outside Malta are considered to be resident in Malta if management and control is exercised in Malta.

Rates of Corporate Tax. Income tax is the only tax imposed on the profits of companies. The standard rate of income tax is 35%.

Tax Incentives. Malta offers several tax incentives. These incentives are contained in the Business Promotion Act and in regulations to the act, as well as in the Income Tax Act.

Business Promotion Act. The Business Promotion Act, which amended the Industrial Development Act in 2001, introduced greater scope and flexibility to the incentives that were already available for the promotion of business and significantly broadened the range of qualifying sectors and activities. The act provides several fiscal and nonfiscal incentives, including the following:
- Reduced rates of income tax;
- Investment tax credits;
- Value added incentive scheme;
- Investment allowances;
- Reduced tax rate for reinvested profits; and
- Incentives for job creation.

Details regarding these incentives are provided below.

Under the reduced rates incentive, qualifying companies may benefit from reduced income tax rates of 5% or 10%, up to 31 December 2008.

The act provides investment tax credits, which are calculated as the higher of 50% of the amount invested or 50% of the first two years' wage cost for new jobs created. For small and medium-sized enterprises, the above percentages are increased to 65%. Any unused investment tax credits may be carried forward and increased by 7% each year.

Under the value added incentive scheme, companies may benefit from reduced rates of income tax according to the increase in the value added of their activities. The reduced rates of income tax are identical to those under the reduced rates incentive (see above).

The act provides for investment allowances, which are tax deductions allowed in addition to the normal tax depreciation. These allowances are 50% of the investment in plant and machinery and 20% of the investment in industrial buildings or structures.

Income tax on profits reinvested in projects, which are approved by the Malta Development Corporation, is reduced by 19.25%.

Income Tax Act. The Income Tax Act provides for a deduction of 150% of research and development expenditure incurred.

Offshore Activities. The regime for offshore companies has been phased out as a result of legislative changes implemented in 1994.

International Trading Companies. An international trading company (ITC) is a Malta-registered company that engages only in carrying out trading activities from Malta with persons who are not resident in Malta.

A nonresident shareholder receiving a dividend from an ITC is taxed at a rate of 27.5% and is given full credit of 35% under Malta's full imputation system (see *Dividends* below). The nonresident shareholder is also entitled to a tax refund amounting to 2/3 of the Maltese tax paid by the company and, accordingly, receives a total tax refund of 30.83% of the tax paid by the company. As a result, the effective tax rate on distributed profits is 4.17%. Maltese law provides that any refunds of tax due must be paid to a nonresident shareholder within 14 days after the end of the month in which it becomes due. Tax refunds are paid to the nonresident shareholders in the same currency in which the company has paid its tax liability thereby avoiding exchange risks.

The status of an ITC may be confirmed through an Advance Revenue Ruling (see *Administration* below).

Holding Companies. Holding companies are normal Maltese-registered companies that hold assets, shares or investments. The income of a holding company is taxed at the normal income tax rate of 35%.

However, when the profits of a holding company are distributed as dividends to a nonresident shareholder (or to a Maltese company that is 100% owned by nonresidents), the nonresident shareholder is subject to Malta's full imputation system and, accordingly, receives a full credit of the 35% tax paid by the company. If the distribution is made from the company's Foreign Income Account

(see *Dividends* below), the nonresident shareholder is also entitled to claim certain tax refunds depending on whether the income derives from a participating holding. An investment constitutes a participating holding if any of the following apply:
- The Maltese company holds at least 10% of the equity shares of the overseas company;
- The Maltese company is entitled to purchase the balance of the equity shares of the overseas company, or it has the first right of refusal to purchase such shares;
- The Maltese company is entitled to be represented on a seat on the board of the overseas company;
- The value of the shareholding exceeds Lm 500,000 (or equivalent in foreign currency); or
- The shares are held in the overseas company for the furtherance of the business of the Maltese company.

If the overseas investment constitutes a participating holding, the nonresident shareholder is entitled to claim a full refund of the Maltese tax paid by the company. If the overseas investment is not considered to be a participating holding, the nonresident shareholder is entitled to claim a two-thirds refund of the Maltese tax paid by the company.

An Advance Revenue Ruling (see *Administration* below) as to whether an overseas investment is considered to be a participating holding may be obtained from the International Tax Unit of the Inland Revenue Department.

The income tax law also provides that any income tax due on the profits allocated to the Foreign Income Account (that is, foreign-source income) is not payable until the earlier of distribution of such profits or 18 months after the end of the accounting period. Any claims for tax refunds must be made within four years from the date from which the amount of tax is eligible for refund.

Shipping. The registration of ships in Malta is governed by the Merchant Shipping Act. This act grants tax benefits to nonresident owners and charterers of ships registered in Malta that weigh at least 1,000 net tons and are engaged in the transportation of goods and passengers. These benefits may be extended to ships of lesser tonnage. The major benefits include the following tax exemptions:
- Profits derived from the ownership and operation of ships and dividends paid out of such profits are exempt from tax;
- Sales or transfers of ships or shares in shipping companies are exempt from capital gains tax;
- No duty on documents is payable with respect to instruments connected with or involving the registration of ships, allotments (new issues and distributions) or transfers of shares in shipping companies, transfers of ships or charges (financial liabilities, such as mortgages) with respect to ships; and
- Interest paid to nonresidents on loans obtained for the purpose of owning or operating ships is exempt from income tax.

Freeport System. The Malta Freeport is a customs-free zone located around a developed harbor at Marsaxlokk in southern Malta. Companies licensed under The Malta Freeports Act qualify for several incentives contained in the Business Promotion

Act. Companies and individuals who are not ordinarily resident or are not domiciled in Malta are exempt from income tax on interest and royalties arising in Malta.

No customs and excise duties are levied on commodities stored in the Freeport area. Other exemptions are available with respect to customs and excise duties, exchange controls and stamp duties.

Collective Investment Schemes or Funds. Collective Investment Schemes or Funds must be licensed under the Investment Services Act, 1994. Collective Investment Schemes usually take the form of corporate funds, including open-ended (SICAVs) and close-ended funds, or noncorporate funds, such as unit trusts.

In general, income received by Collective Investment Schemes is exempt from income tax. However, resident prescribed funds are subject to withholding tax on their local investment income. These funds are subject to a 15% final withholding tax on bank interest received and to a 10% final withholding tax on other investment income received, such as interest on bonds and government stocks (units issued by the government to which the general public is invited to subscribe). Under regulations issued by the Inland Revenue Department, prescribed funds are funds whose assets in Malta amount to 85% or more of their total assets. Capital gains derived by funds from disposals of investments and assets are also exempt from tax. Funds cannot benefit from any treaty provisions.

Capital gains derived by unit holders on disposals of their units in prescribed funds listed on the Malta Stock Exchange are exempt from tax. Unit holders in unlisted prescribed funds are subject to tax on their gains. Tax at 15% is withheld on the capital gains realized by resident investors on the disposal of listed shares in accumulator nonprescribed funds. For nonresident Collective Investment Schemes, the withholding tax provisions apply only if the disposal of the shares is effected through an authorized financial intermediary. If the disposal of shares in nonresident nonprescribed funds is not effected through an authorized financial intermediary, no withholding tax is due and any capital gains must be disclosed by the resident investor in the individual's tax return and taxed at the normal rates of income tax, up to a maximum of 35%.

Capital Gains. Income tax is imposed on capital gains derived from the transfer of ownership of the following assets only:
- Immovable property;
- Securities (company shares that do not provide for a fixed rate of return, units in Collective Investment Schemes and units relating to linked long-term business of insurance [life insurance contracts under which benefits are wholly or partially determined by reference to the value of, or income from, property]);
- Business goodwill; and
- Copyrights, patents, trademarks and tradenames.

For purposes of the capital gains rules, "transfer" has a broad definition that is not restricted to sale. It also includes any assignment or cession of any rights, reduction of share capital, liquidation or cancellation of units or shares in Collective Investment Schemes and other types of transactions. The definition does not include inheritance.

Transfers that are exempt from tax include the following:

- Donations to philanthropic institutions;
- Leases of real property for a period of less than 50 years;
- Transfers of chargeable assets between companies belonging to the same group of companies;
- Transfers by nonresidents of securities in Maltese companies that are not primarily engaged in holding immovable property in Malta;
- Transfers of securities listed on the Malta Stock Exchange as well as transfers of units relating to linked long-term business of insurance if the benefits derived by the units are wholly determined by reference to the value of, or income from, securities listed on the Malta Stock Exchange; and
- Transfers by nonresidents of units in Collective Investment Schemes.

Rollover relief for assets used in business is also available if the asset has been used in the business for at least three years and if it is replaced within one year by an asset used only for a similar purpose.

Taxable capital gains are included in chargeable income and are subject to income tax at the normal income tax rates. Capital losses may be set off only against capital gains. Trading losses may be carried forward to offset capital gains in future years.

Provisional tax of 7% of the consideration must be paid by a seller on the transfer of the property or of the value of the donation. The Commissioner of Inland Revenue may authorize a reduction in the rate of provisional tax if it can be proved that the capital gain derived from the transaction is less than 20% of the consideration. Provisional tax paid is allowed as a credit against the income tax charge.

Administration. The year of assessment is the calendar year. Income tax for a year of assessment is chargeable on income earned in the corresponding basis year, which is generally the preceding calendar year. A company may adopt an accounting period other than the calendar year, subject to approval by the Inland Revenue Department.

Companies with a January to June accounting year-end must file their income tax returns by 31 March of the year of assessment. Companies with other accounting year-ends must file their income tax returns within nine months after the end of their accounting year.

A self-assessment system applies in Malta. The Inland Revenue Department issues an assessment only if it determines that a greater amount of income should have been declared or that the company omitted chargeable income from its tax return.

Companies must make three provisional payments of tax, generally on 30 April, 31 August and 21 December. The provisional payments are equal to specified percentages of the tax due as reported in the last income tax return filed with the Commissioner of Inland Revenue on or before 1 January of the year in which the first provisional tax payment is due. The percentages are 20% for the first payment, 30% for the second and 50% for the third. Companies must pay any balance of tax payable on the due date for submission of the income tax return for that year of assessment.

Penalties are imposed for omissions of income, and interest is charged for late payments of tax. The Inland Revenue Department pays interest on certain late refunds.

Advance Revenue Rulings. Advance Revenue Rulings may be obtained from the Inland Revenue on certain transactions, activities and structures. Rulings survive any change in legislation for a period of two years. In all other circumstances, rulings are binding for five years. Renewals may be requested.

Dividends. Malta operates a full imputation system. Under this system, the tax paid by the company is imputed as a credit to the shareholder receiving the dividends. The tax system distinguishes between taxed income and untaxed income. Taxed income is further segregated between Malta-source income, which is allocated to the Maltese Taxed Account, and foreign-source income, which is allocated to the Foreign Income Account. Foreign-source income includes dividends, capital gains, interest, rents and royalties derived from assets situated outside Malta; profits of a branch or permanent establishment situated outside Malta; dividends received from another company resident in Malta if the dividends are paid out of profits allocated to the payer's Foreign Income Account. The foreign-source income of companies forming a banking group, however, is allocated to the Foreign Income Account only if certain conditions are fulfilled.

Persons receiving dividends paid out of taxed profits do not suffer any further tax. Dividends paid out of company profits that have suffered tax at a rate of tax lower than the present normal tax rate of 35% are subject to a further tax equal to the difference between the current rate and the lower rate. This rule applies only if the distribution is made to a resident person who is not a company.

A final withholding tax of 15% is imposed on dividends paid out of untaxed income to Maltese resident individuals and bodies of persons other than companies.

As a result of the rules described above (known as the investment income provisions), dividends paid by Maltese companies suffer tax at source, and shareholders receiving the dividends are not required to disclose the dividends in their tax returns. Disclosure of dividends received is beneficial only if an individual shareholder is subject to tax at a rate lower than the rate of the tax at source.

Dividends paid to nonresidents are not subject to withholding tax regardless of whether they are paid out of taxed or untaxed profits.

Dividends paid by petroleum companies are exempt from tax, and no tax credit is granted to shareholders receiving such dividends.

Dividends received from foreign companies are included in chargeable income, but double tax relief is available.

Refunds on Dividends Paid to Nonresidents. If a nonresident shareholder receives dividends that are paid out of profits allocated to the Foreign Income Account of a Maltese company, the shareholder is entitled to a refund of two-thirds of the Maltese tax paid by the distributing company on the profits or income out of which the dividends are paid. This refund is increased to 100% if the foreign income is derived from a qualifying participation (see *Holding Companies* above). The refund is exempt from Maltese income tax.

As described in *International Trading Companies* above, nonresidents who receive dividends from an International Trading Companies (ITCs) are subject to tax on such dividends at a rate of 27.5%. ITCs are subject to tax at the normal income tax rate of 35%. Consequently, under Malta's full imputation system, nonresident recipients of dividends from ITCs are entitled to a refund of 7.5% of the gross amount of the dividends, which is the difference between the 27.5% tax and the tax at source. In addition, nonresident shareholders are entitled to a refund of two-thirds of the Maltese tax paid by the ITC on the profits out of which the dividends are paid.

Maltese resident companies wholly owned by nonresidents are also entitled to the same refunds described in the two preceding paragraphs.

Foreign Tax Relief. Under tax treaty provisions and the domestic law, a tax credit against Maltese tax is granted for foreign tax suffered. The amount of the credit is the lower of Maltese tax on the foreign income and the foreign tax paid.

Maltese companies may also reduce their tax payable in Malta by claiming double tax relief with respect to British Commonwealth income tax.

Unilateral tax relief, which is another form of double tax relief, applies if treaty relief is not available and if the taxpayer has proof of the foreign tax suffered. The unilateral relief is also available for underlying tax.

Another form of double tax relief is a flat-rate foreign tax credit. This credit, which is equivalent to 25% of the net income received (before any allowable expenses), applies to all foreign-source income. An auditor's certificate stating that the relevant income is foreign-source income is sufficient. The flat-rate foreign tax credit is added to chargeable income and credited against the Maltese tax charge. The credit is limited to 85% of the Maltese tax due before deducting the credit.

The interaction of the four types of double tax relief not only ensures that tax is not paid twice on the same income, it also reduces the overall effective rate of the Maltese tax.

C. Determination of Trading Income

General. Chargeable income is the net profit reported in the companies' audited financial statements, subject to certain adjustments. Expenses incurred wholly and exclusively in the production of income are deductible.

Expenses that are not deductible include the following: amortization of goodwill; all types of provisions, voluntary payments; expenses recoverable under insurance, pretrading expenses, except for expenditure incurred with respect to staff training, salaries or wages and advertising within the eighteen months preceding the date on which the company begins to carry on its trading activities; unrealized exchange differences; and other expenses that are not incurred in the production of income.

Inventories. Inventories are normally valued at the lower of cost or net realizable value in accordance with generally accepted accounting principles.

Tax Depreciation (Capital Allowances). Tax depreciation allowances include initial allowances and annual wear-and-tear allowances.

Initial allowances are granted at a rate of 10% with respect to new industrial buildings and structures.

Effective from the 2002 year of assessment, wear-and-tear allowances for plant and machinery are calculated using the straight-line method. Industrial buildings and structures are also depreciated using the straight-line method.

The following are the minimum number of years over which the principal categories of plant and machinery may be depreciated.

Asset	Years
Computers and electronic equipment	4
Computer software	4
Motor vehicles	5*
Furniture, fitting and soft furnishings	10
Other machinery	5
Other plant	10

* The cost of noncommercial motor vehicles is limited to Lm 3,000.

The annual straight-line rate for industrial buildings and structures, including hotels, is 2%. Commercial buildings may not be depreciated.

Capital allowances are generally subject to recapture on the sale of an asset to the extent the sale proceeds exceed the tax value after depreciation. Any amounts recaptured are added to taxable income for the year of sale or are used to reduce the cost of a replacement asset. To the extent sales proceeds are less than the asset's depreciated value, an additional allowance is granted. Capital allowances on assets for which investment allowances have been granted are not recaptured, and no additional allowances described in the preceding sentence are granted.

Groups of Companies. A company that is part of a group of companies may surrender losses to another member of the group. Two companies are deemed to be members of a group of companies for tax purposes if they are resident in Malta and not resident in any other country for tax purposes, and if one of the companies is a 51% subsidiary of the other or both are 51% subsidiaries of a third company that is resident in Malta. A company is considered to be a 51% subsidiary of another company if all of the following conditions exist:
- More than 50% of the subsidiary's ordinary shares and more than 50% of its voting rights are owned directly or indirectly by the parent company;
- The parent company is beneficially entitled to receive directly or indirectly more than 50% of profits available for distribution to the ordinary shareholders of the subsidiary; and
- The parent company is beneficially entitled to receive directly or indirectly more than 50% of the assets of the subsidiary available for distribution to the ordinary shareholders of the subsidiary in the event of a liquidation.

The group company surrendering the losses and the group company receiving the losses must have accounting periods that begin and end on the same dates, except for newly incorporated companies and companies in the process of liquidation.

Relief for Losses. Tax losses incurred in a trade or business may be carried forward indefinitely to offset all future income. Unabsorbed tax depreciation may also be carried forward indefinitely, but may offset only income derived from the same source. A carry-back of losses is not allowed.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; standard rate	15
Stamp duty on various documents and transfers of ownership	
Sales of real property	5
Transfers of marketable securities	2
Life insurance policies	0.1
Other insurance policies	10
Excise duty, on various commodities including cigarettes, soft drinks and beer; although levied on producers or importers when they distribute the products for general consumption, the duty is ultimately borne by consumers because it is included in the price of the products	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. The Central Bank of Malta exercises some control over exchange-control matters. All payments received from abroad are subject to monitoring by the central bank. All borrowings by foreign-owned or foreign-controlled companies require the approval of the central bank.

Profits of foreign-owned companies may be transferred to any country in any currency, subject to central bank approval. Such approval may generally be obtained on submission of a tax clearance certificate. Payments out of Malta for goods and services are allowed without limitation on presentation of the required documents.

Companies that carry on all of their activities outside Malta and are wholly owned by nonresidents are exempt from all exchange-control regulations.

Antiavoidance Legislation. Maltese law includes no specific transfer-pricing rules. However, it does contain general antiavoidance provisions to prevent the evasion of tax through arrangements that are solely tax-motivated. Under these provisions, the Inland Revenue Department may ignore an arrangement and add an amount to chargeable income if it establishes that a transaction has the effect of avoiding or postponing tax liability.

Debt-to-Equity Rules. Malta does not impose any debt-to-equity requirements.

F. Tax Treaties

Malta has entered into tax treaties with Albania, Australia, Austria, Barbados, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Hungary, India, Italy, Korea, Latvia, Lebanon, Libya, Luxembourg, Malaysia, the Netherlands, Norway, Pakistan, Poland, Portugal, Romania, the Slovak Republic, Slovenia, South Africa, Sweden, Syria, Tunisia and the United Kingdom.

Under Maltese domestic tax law, dividends, interest and royalties paid to nonresidents are not subject to withholding tax. Interest and royalties paid to nonresidents are exempt from income tax in Malta if they are not effectively connected with a permanent establishment in Malta through which the nonresidents engage in a trade or business.

Under Malta's tax treaties, the maximum tax rates applicable to dividends paid by Maltese companies to persons resident in the other treaty countries do not exceed the tax rate payable by the recipient companies in Malta.

Malta has signed agreements with Switzerland and the United States that relate to international shipping and air transport.

Malta has initialed or signed tax treaties with Iceland, Ireland, Jordan, Kuwait, Lithuania, Morocco, the Russian Federation, Singapore, Thailand, Turkey and Ukraine, but these treaties have not yet been ratified.

MAURITANIA

Please direct all inquiries regarding Mauritania to the following persons in the Senegal office: Mouhamadou Moctar Faye (telephone [221] 849-22-17; e-mail: mouhamadou-moctar.faye@sn.ey.com) for international tax; and Daniel Gauthier (telephone: [221] 849-22-03; e-mail: daniel.gauthier@sn.eylaw.com) for legal services. The fax number for the Senegal office is [221] 823-80-32.

A. At a Glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (b)
Branch Tax Rate (%)	20 (a)
Withholding Tax (%)	
Dividends	16
Interest	16
Royalties from Patents, Know-how, etc.	14 (c)
Directors' Fees	16
Payments for Services	14 (c)
Branch Remittance Tax	16 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

(a) The minimum tax is MRO 240,000 or 4% of turnover, whichever is greater.
(b) The tax may be deferred (see Section B).
(c) Applicable to payments by residents to nonresidents. A tax treaty may reduce the rate applicable to nonresidents.
(d) See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Mauritanian companies are taxed on the territoriality principle. As a result, Mauritanian companies carrying on a trade or business outside Mauritania are not taxed in

Mauritania on the related profits. Foreign companies with activities in Mauritania are subject to Mauritanian corporate tax on Mauritanian-source profits only.

Tax Rates. The regular corporate income tax rate is 20%. The minimum tax (Impôt Minimum Forfaitaire, or IMF) is MRO 240,000 or 4% of turnover, whichever is greater.

Profits realized in Mauritania by branches of foreign companies are deemed to be distributed and, consequently, are subject to a branch withholding tax of 16% on after-tax income.

Companies may apply for various categories of priority status and corresponding tax exemptions. The priority status varies, depending on the type of project, the level of investment and the number of the jobs created as a result of the investment in the project.

Capital Gains. Capital gains are taxed at the regular corporate income tax rate. However, the tax may be deferred if the proceeds are used to acquire new fixed assets in Mauritania in the following three fiscal years.

Administration. The fiscal year is the calendar year. Tax returns must be filed by 31 March of the year following the fiscal year.

Companies must pay the IMF (see *Tax Rates* above) in two equal installments, which are due on 31 March and 30 June of the year following the tax year. Companies must pay any balance of tax due by 30 April.

Dividends. Dividends are subject to a 16% withholding tax, which may be credited by the recipient against corporate income tax.

Foreign Tax Relief. Foreign tax credits are not allowed. Income subject to foreign tax that is not exempt from Mauritanian tax under the territoriality principle is taxable net of the foreign tax.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the National General Accounting Plan.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:
- Interest paid on loans from shareholders to the extent that the rate exceeds the current rate of the central bank and all of the interest on shareholder loans if the capital of the company is not fully paid;
- Corporate income tax and IMF (see Section B);
- Certain specified charges; and
- Taxes, penalties, gifts and most liberalities (payments exceeding 0.5% of trading income that do not produce a compensatory benefit).

Inventories. Inventory is normally valued at the lower of cost or market value.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at maximum rates specified by the tax law. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Commercial and industrial buildings	5
Office equipment	10
Motor vehicles	25
Plant and machinery	25

Certain industrial assets may be depreciated using the declining-balance method. The Mauritanian tax law does not allow accelerated depreciation methods.

Relief for Tax Losses. Losses may be carried forward for four years. Losses may not be carried back.

Groups of Companies. Fiscal integration of Mauritanian companies equivalent to a consolidated filing position is not allowed.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on sales of goods and services, and on imports and exports	
Standard rate	14
Business activity tax (*patente*); calculated based on the turnover of the business	Various
Registration duties, on transfers of real property or businesses	4 to 15
Social security contributions, on an employee's annual gross salary up to MRO 600,000; paid by	
Employer	15
Employee	1

E. Foreign-Exchange Controls

The Mauritanian currency is the ouguiya (MRO).

Exchange-control regulations exist in Mauritania for foreign financial transactions.

F. Tax Treaties

Mauritania has entered into double tax treaties with France and Senegal. It has signed a double tax treaty with Tunisia, but the treaty has not yet been ratified.

MAURITIUS

(Country Code 230)

PORT LOUIS	GMT +4

Ernst & Young **202-4777**
Anglo Mauritius House – 2nd Floor **Fax: 202-4700**
Intendance Street
Port Louis
Mauritius

Corporate Tax
Ryaad Owodally **202-4777, Ext. 4717**
Mobile: 727-0285
E-mail: ryaad.owodally@ey.intnet.mu

A. At a Glance

Corporate Income Tax Rate (%)	25*
Capital Gains Tax Rate (%)	0*
Branch Tax Rate (%)	25*
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

* See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in Mauritius are subject to income tax on their worldwide income. Resident companies are companies incorporated in Mauritius and companies with their central management and control in Mauritius. If a nonresident company has a branch carrying on business in Mauritius, the nonresident company is subject to tax on the income of the branch.

Rates of Corporate Income Tax. For the year ending 30 June 2004, the corporate income tax rate is 25% of the annual taxable net profits. Special rates apply, however, to certain types of enterprises.

A 15% rate applies to tax-incentive companies, which include the following:

- Companies holding a valid certificate with respect to the export services zone, export enterprise zone, hotel development and industrial buildings;
- Clinics;
- Companies holding a valid certificate under the Housing Construction and Housing Development Incentive Schemes with respect to projects approved by the government;
- Unit trusts and approved investment trust companies listed on the Mauritius Stock Exchange;
- Companies licensed to conduct business activities, other than insurance business, in the financial services sector; and
- Information and Communication Technology (ICT) companies (see *Information and Communication Technology Companies* below).

Tax Advantages for Certain Companies. Freeport companies, ICT companies, companies engaged in offshore activities and companies engaged in spinning may qualify for tax advantages.

Freeport Companies. The following special tax rules apply to Freeport companies:

- A private Freeport developer or Freeport operator engaged in specified manufacturing or processing activities is taxed at the rate of 15%. A private Freeport developer may build, develop and manage infrastructure for its own use.

- A private Freeport developer or Freeport operator that was licensed before 1 June 2002 and is engaged in specified manufacturing or processing activities is exempt from tax on sales made to persons outside Mauritius.
- A private Freeport developer or Freeport operator that has obtained a license to carry out Freeport activities other than specified manufacturing or processing activities is exempt from tax. For sales made to export enterprise and non-export enterprise companies, the applicable tax rates are 15% and 25%, respectively.
- An occasional Freeport operator (a Freeport licensee engaged in organizing and holding international exhibitions and trade fairs) is taxable at a rate of 25%.
- A third-party Freeport developer is taxable at a rate of 15%. A third-party Freeport developer may build, develop and manage infrastructure for rental to licensees.

Information and Communication Technology Companies. Information and Communication Technology (ICT) companies are classified as tax-incentive companies. If the investment certificate of an ICT company is issued before 1 July 2008 and if the ICT company is engaged in business-process outsourcing and back-office operations or in the operation of call centers or contact centers, the ICT company may elect within 60 days of the date of the issuance of its investment certificate to have two-thirds of its net income exempted from tax for an unlimited period. This reduces the effective tax rate to 5% of taxable income. The income of other ICT companies is exempt from tax through the income year ending 30 June 2008. Any losses incurred during the exemption period may be carried forward to years following the expiration of the exemption period.

Companies Engaging in Offshore Activities. Offshore business activities may be conducted through companies holding a Global Business License 1 (GBL1 Companies) or a Global Business License 2 (GBL2 Companies). These activities must be conducted with nonresidents of Mauritius and in currencies other than the Mauritian rupee.

GBL1 Companies are taxed at the tax-incentive rate of 15%. However, the tax law grants various tax credits to GBL1 Companies, including a foreign tax credit, underlying tax credit and tax-sparing credit. The foreign tax credit is generally the lower of the Mauritian tax and the foreign tax. However, the Foreign Tax Credit Regulation provides for a presumed foreign tax credit equal to 80% of the Mauritian tax chargeable on foreign-source income if no written evidence is produced in support of the payment of foreign tax. This reduces the effective tax rate to 3% of the gross chargeable income, which equals the chargeable income grossed up by the amount of the presumed foreign tax credit. GBL1 Companies are exempt from all other taxes and duties. Dividends, interest and royalties paid by GBL1 Companies to nonresidents are exempt from tax. GBL1 Companies may be considered residents of Mauritius for purposes of double tax treaties.

GBL2 Companies are regulated by the Companies Act, 2001 and the Financial Services Development Act, 2001. To qualify as a GBL2 Company, the company must be beneficially owned by nonresidents, operate exclusively outside Mauritius and meet certain other requirements. GBL2 Companies are exempt from corporate income tax and all other taxes and duties. Dividends, interest and royalties paid by GBL2 Companies to nonresidents are exempt from income tax. GBL2 Companies are subject to a more flexible regime than GBL1 Companies, but they do not benefit from double tax treaties.

Companies Engaged in Spinning Activities. Companies engaged in spinning activities that begin their operations before 30 June 2006 are exempt from income tax for a period of up to 10 income years. Any losses incurred during the exemption period may be carried forward to years following the expiration of the exemption period. A company that subscribes to the stated capital of a spinning company for an amount of Rs. 60 million or more is granted a tax credit equal to 60% of the investment in share capital over a period of either four or six income years. The credit is available beginning in the income year preceding the income year in which the shares are acquired and is spread equally over the four- or six-year period. Any unused portion of the tax credit may be carried forward to the following income year, subject to a maximum period of five consecutive income years beginning with the income year of the investment. If the spinning company does not begin its operations by 30 June 2006, the tax credit is withdrawn and the amount claimed as a tax credit is added to income tax for the income year ending 30 June 2007.

Capital Gains. Capital gains are not subject to income tax. However, in some cases, a separate tax is imposed on capital gains derived from disposals of land.

Administration. The normal income year is 1 July to 30 June of the year preceding the year of assessment. The tax authorities may allow companies with financial year-ends other than 30 June to adopt their financial year as their income year.

Companies with a financial year-end of 30 June must file their tax returns by 31 January following the year-end. Companies with other financial year-ends must file their tax returns by 30 September following the year-end.

Any tax payable in accordance with the annual return must be paid at the time of filing the return. Advance payments of tax are not required in Mauritius.

If a payment is late or an incorrect return is filed, a penalty of 2% of the tax payable is imposed for each month or part of a month the tax remains unpaid. The maximum total penalty is the amount of unpaid tax. In addition, a penalty of Rs. 5,000 is imposed for each month or part of a month that the annual tax return is late. The penalty is limited to a maximum amount of Rs. 50,000.

Dividends. Dividends paid to residents and nonresidents are exempt from tax.

Foreign Tax Relief. Residents of Mauritius may claim a foreign tax credit (FTC), regardless of whether they may claim other tax credits. The FTC equals the lower of the Mauritian tax liability and the amount of the foreign taxes. In computing the FTC, all foreign-source income may be pooled and expenses may be freely allocated between local and foreign-source income. An underlying FTC is also available if the residents, including individuals and trusts, own directly or indirectly at least 5% of the share capital of the foreign company. The underlying FTC is extended to all tiers above the recipient of the foreign dividends.

C. Determination of Trading Income

General. Taxable income of resident companies and foreign branches comprises gross income less cost of goods sold and expenses incurred wholly and exclusively in the production of income, unless specifically excluded by law. Income and expenses are determined in accordance with generally accepted accounting principles.

Inventories. Inventories may be valued according to accounting standards. However, the income tax rules provide that the last-in, first-out (LIFO) method of valuation may not be used.

Provisions. No provisions are allowed for tax purposes.

Tax Depreciation. No deduction is allowed for book depreciation of fixed assets, but statutory depreciation (capital allowances) is granted. The following capital allowances are provided.

Allowance	Rate (%)
Investment allowance on certain new assets, including industrial buildings, office equipment, plant and machinery, and buses with a seating capacity of at least 30	25
Additional investment allowance for a manufacturing company that has incurred capital expenditure on the acquisition of state-of-the art technological equipment, or for an ICT company that has incurred capital expenditure on the acquisition of new plant and machinery or computer software	25
Annual allowance	
Industrial buildings	5
Plant and machinery	20
Heavy equipment (such as agricultural tractors or excavators)	20
Computer and high precision equipment	$33\frac{1}{3}$
Motor vehicles	20
Aircraft and aircraft simulators leased by aircraft leasing companies	100
Setting up of golf courses	10

The investment allowance and the annual allowance are both available in the first year.

Investment allowances are not deducted from the cost of new assets, but they must be added back to income if the assets are sold or cease to be used within five years of their purchase. The straight-line method is used for annual allowances.

Capital allowances are subject to recapture on the sale of an asset to the extent the sales price exceeds the tax value after depreciation. Amounts recaptured are included in ordinary income and are subject to tax at the normal tax rate. To the extent the sales price is lower than the depreciated value, an additional allowance is given.

Relief for Losses. Losses can be offset against future corporate income over an indefinite period of time, and no monetary limit exists. Losses may not be carried back.

If a company takes over a company engaged in manufacturing activities, any unrelieved losses of the acquired company may be transferred to the acquirer in the income year of the takeover, subject to certain conditions relating to the safeguard of employment that may be established by the Minister of Finance. The loss transferred is withdrawn if, within three years from the date of the takeover, more than 50% of the employees are made redundant.

Groups of Companies. The unrelieved losses (the amount by which allowable deductions exceed gross income) of a wholly owned subsidiary incorporated after 1 July 1993 that is a tax-incentive company (see Section B) may be used to offset profits of its parent company.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	15
National pension fund, a statutory savings plan for employees' old-age retirement; monthly contribution imposed on gross salary; paid by	
Employer, limited to Rs. 406	6
Employee, limited to Rs. 203	3

E. Miscellaneous Matters

Foreign-Exchange Controls. The Exchange Control Act was suspended in 1993. Consequently, approval of the Bank of Mauritius is no longer required for transactions involving foreign exchange.

Antiavoidance Legislation. Antiavoidance provisions apply to interest on debentures issued by reference to shares, excessive remuneration to shareholders or directors, benefits to shareholders, excessive management expenses, leases with inadequate rent, rights over income retained and other transactions designed to avoid tax liability. Certain of these items are discussed below.

Interest on Debentures Issued by Reference to Shares. If a company issues debentures in the proportion of shares held by each shareholder, the interest on the debentures may not be deducted and is treated as a dividend.

Benefits to Shareholders. If a benefit of any nature, whether in money or money's worth, is granted by a company to a shareholder or a party related to the shareholder, the value of the benefit is deemed to be a taxable benefit in the hands of the shareholder or the related party.

Rights Over Income Retained. If a person transfers property or any right to income to a related party and retains or obtains power to enjoy income from the property or the right, the income is deemed to be derived by the transferor.

F. Treaty Tax Rates

Mauritius does not impose withholding taxes. Under Mauritian domestic law, dividends paid to residents and nonresidents and royalties paid by GBL1 Companies (see Section B) to nonresidents are exempt from tax. Interest payments are exempt from tax if they are paid by Mauritian banks to nonresident banks or if they are paid by GBL1 Companies to nonresidents. The table below lists the tax rates for dividends, interest and royalties under the tax treaties entered into by Mauritius. However, Mauritian domestic law prevails if it exempts the payments from tax.

Recipient's Country of Residence	Dividends %	Interest %	Royalties %
Belgium	5 (i)	0/10	0
Botswana	5 (j)	12	12.5
China	5	10 (f)	10
Croatia	0	0	0
Cyprus	0	0	0
France	5 (a)	25 (f)	15 (g)
Germany	5 (b)	25 (f)	15
India	5 (a)	25 (f)	15
Indonesia	5/10	10	10
Italy	5 (b)	25 (f)	15
Kuwait	0	0	10
Lesotho (l)	10	10	10
Luxembourg	5 (a)	0	0
Madagascar	5 (h)	10	5
Malaysia	5 (a)	15 (f)	15
Mozambique	8/10/15	8 (f)	5
Namibia	5/10	10 (f)	5
Nepal	5/10/15 (o)	10/15 (p)	15
Oman	0	0	0
Pakistan	10	10	12.5
Russian Federation (l)	5 (k)	0	0
Rwanda	0	0	0
Singapore	0	0	0
South Africa	5 (a)	0	0
Sri Lanka	10 (a)	10	10
Swaziland	7.5	5	7.5
Sweden	5 (a)	15 (f)	15
Thailand	10	10/15	5/15
United Kingdom	10 (c)	25 (f)	15 (d)
Zimbabwe	10 (e)	10 (f)	15
Nontreaty countries	0	0/25 (m)	0/25 (n)

(a) Applicable if the recipient has a direct shareholding of at least 10% of the capital of the Mauritian company; otherwise, the rate is 15%.
(b) Applicable if the recipient has a direct shareholding of at least 25% of the capital of the Mauritian company; otherwise, the rate is 15%.
(c) Applicable if the recipient has a direct or indirect shareholding of at least 10% of the capital of the Mauritian company; otherwise, the rate is 15%.
(d) The reduced rate applies only if the royalties are subject to tax in the United Kingdom.
(e) Applicable if the recipient controls directly or indirectly 25% of the voting power of the Mauritian company; otherwise, the rate is 20%.
(f) The rate is 0% if the interest is paid to a bank resident in the treaty country (subject to additional conditions) and, under the France treaty, if the loan is made or guaranteed by the Banque Française du Commerce Extérieur.
(g) The rate is 0% for literary, artistic or scientific copyright royalties and for royalties for the use of motion picture films or works recorded for broadcasting or television.
(h) Applicable if the recipient is the beneficial owner of the dividends and if the payer of the dividends is a venture capital company; otherwise, the rate is 10%.
(i) Applicable if the recipient has a direct or indirect shareholding of at least 10% of the capital of the Mauritian company; otherwise, the rate is 10%.
(j) Applicable if the recipient has a direct or indirect shareholding of at least 25% of the capital of the Mauritian company; otherwise, the rate is 10%.
(k) Applicable if the recipient has invested at least US$500,000 in the authorized capital of the payer of the dividends; otherwise, the rate is 10%.
(l) This treaty has been signed, but it has not yet been ratified.

(m) Interest paid by GBL1 Companies to nonresidents or by Mauritian banks to nonresident banks is exempt. Interest paid by other resident companies to nonresidents is taxed at a rate of 25% if the recipient is a company and at progressive rates ranging from 15% to 25% if the recipient is an individual.
(n) Royalties paid by GBL1 Companies to nonresidents are exempt from tax. Royalties paid by other companies to nonresident companies are subject to tax at a rate of 25%.
(o) The 5% rate applies if the recipient of the dividends holds directly at least 15% of the capital of the payer. The 10% rate applies if the recipient of the dividends holds directly at least 10%, but less than 15%, of the capital of the payer. The 15% rate applies to other dividends.
(p) The 10% rate applies if the recipient of the interest is a financial institution or an insurance company. The 15% rate applies to other interest payments.

Mauritius has initialed tax treaties with Bangladesh, Malawi, Tunisia and Vietnam. It is currently negotiating tax treaties with Canada, the Czech Republic, Greece, Uganda and Zambia.

MEXICO

(Country Code 52)

The e-mail addresses for the persons listed below who are resident in Mexico are in the following standard format:

firstname.surname@mx.ey.com

The e-mail addresses for the persons not resident in Mexico are listed below the respective persons' names.

MEXICO CITY **GMT -6**

Mancera, S.C.
Plaza Polanco
Jaime Balmes No. 11, Torre D
Floors 4, 5 and 6
Col. Los Morales Polanco
11510 Mexico City
Mexico

(55) 5283-1300, 5283-1400
Fax: (55) 5283-1392, 4th Floor
(55) 5283-1390, 4th Floor
(55) 5283-1393, 5th Floor

International Tax

◆ Federico Aguilar	**(55) 5283-1447**
Jorge Garcia	**(55) 5283-8649**
Alberto Lopez	**(55) 2122-6438**
	New York: [1] (212) 773-0770
Koen van 't Hek	**(55) 2122-6439**

Corporate and Indirect Tax

Jesus Alvarado	**(55) 5283-8605**
Fernando Becerril	**(55) 5283-1349**
★ Carlos Cárdenas	**(55) 5283-1320**
◆ Jaime Rojas	**(55) 5283-1379**
José Luis Sánchez	**(55) 5283-1333**

Tax Operations – Compliance

Hector Reyes	**(55) 5283-8628**

Transfer Pricing

Emilio Angeles	**(55) 5283-8681**
Moises Curiel	**(55) 5283-8678**

Human Capital

Fabiola Diaz	**(55) 5283-1478**
German Vega	**(55) 5283-8636**

Legal Services

★ Herbert Bettinger Barrios	(55) 5283-1340
Pablo Puga	(55) 5283-1306
Eduardo Ramirez	(55) 5283-1425
Ricardo Villalobos	(55) 5283-8616

Customs

Juan Enrigue	(55) 5283-1357

Social Security Tax

Patricio Duron	(55) 5283-8606
Monterrey:	(81) 8152-1820

Latin American Business Center

★ Manuel Solano	[1] (212) 773-8114
(resident in New York)	E-mail: manuel.solano@ey.com
Mexico City:	(55) 2122-6437
Michael J. Becka	[1] (214) 969-8911
(resident in Dallas)	E-mail: michael.becka@ey.com
Terri Grosselin	[1] (305) 415-1344
(resident in Miami)	E-mail: terri.grosselin@ey.com
Alberto Lopez	(55) 2122-6438
New York:	[1] (212) 773-0770
Enrique Rios	[1] (312) 879-2228
(resident in Chicago)	E-mail: enrique.rios@ey.com

CHIHUAHUA, CHIHUAHUA — GMT -7

Mancera, S.C. — (614) 425-3570
Av. Universidad 1304A — Fax: (614) 425-3580
31000 Chihuahua, Chihuahua
Mexico

Corporate Tax

Luis Carlos Ramirez	(614) 425-3567

CIUDAD JUAREZ, CHIHUAHUA — GMT -7

Mancera, S.C. — (656) 629-3931
Ed. Atlantis — Fax: (656) 629-3938
Paseo Triunfo de la Rep. No 3340
Piso 2, Int. 203 y 204
32330 Ciudad Juarez, Chihuahua
Mexico

Corporate Tax

Julio Infante	(656) 629-3931 x2916

GUADALAJARA, JALISCO — GMT -6

Mancera, S.C. — (33) 3616-5459, 3616-5456
Av. Vallarta 1540-1er. Piso — (33) 3616-8194, 3616-5077
44140 Guadalajara, Jalisco — (33) 3615-1794, 3630-1535
Mexico — Fax: (33) 3630-2679

Corporate Tax

Ignacio Navarro	(33) 3616-8194 x105

HERMOSILLO, SONORA — GMT -7

Mancera, S.C. — (662) 260-8360
Complejo Negoplaza — Fax: (662) 260-8361
Edificio A, Piso 1
Blvd. Luis Donaldo Colosio
y Periferiro Poniente
83200 Hermosillo, Sonora
Mexico

Corporate Tax

Rodolfo Leon	(662) 260-8360 x2204

MERIDA, YUCATAN	GMT -6

Mancera, S.C.
Calle 20 No.99-A por 21
Col. Itzimmá
97100 Merida, Yucatan
Mexico

(999) 926-1450
Fax: (999) 926-1490

Corporate Tax
Henry Gonzalez — **(999) 926-1450 x2344**

MONTERREY, NUEVO LÉON	GMT -6

Mancera, S.C.
Rio de la Plata 449 Oriente
Second Floor
Colonia Del Valle
66220 Garza García, Monterrey
Nuevo Léon
Mexico

(81) 8152-1800
Fax: (81) 8152-1837, 8152-1839

Corporate Tax
◆ Patricio Duron — **(81) 8152-1820**
Froylan Robles — **(81) 8152-1829**

Social Security Tax
Patricio Duron — **(81) 8152-1820**
Mexico City: (55) 5283-8606

QUERÉTARO, QUERÉTARO	GMT -6

Mancera, S.C.
Av. Tecnológico 100-505
Col. San Angel
76030 Querétaro, Querétaro
Mexico

(442) 216-6429, 216-6446, 216-6631
(442) 216-6682, 216-6689
Fax: (442) 216-6749

Corporate Tax
Eladio A. Garcia — **(442) 216-6737**

TIJUANA, BAJA CALIFORNIA	GMT -8

Mancera, S.C.
Bvld. Agua Caliente 4558-704
Col. P. Torres de Agua Caliente
22420 Tijuana, Baja California
Mexico

(664) 681-7844, 686-4009
Fax: (664) 681-7876

Corporate Tax
Ignacio Valdes — **(664) 681-7844 x2011**

A. At a Glance

Corporate Income Tax Rate (%)	33 (a)
Capital Gains Tax Rate (%)	33 (a)
Branch Tax Rate (%)	33 (a)
Withholding Tax (%)	
Dividends	0
Interest	
Paid on Negotiable Instruments	10 (b)
Paid to Banks	10 (b)(c)
Paid to Machinery Suppliers	21 (b)
Paid to Others	33 (a)(b)

Royalties	
From Patents and Trademarks	33 (a)(b)
From Know-how and Technical Assistance	25 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

(a) The rate will be reduced to 32% for 2005 and future years.
(b) Final tax applicable to nonresidents.
(c) A reduced rate of 4.9% is granted each year to banks resident in treaty countries.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporations resident in Mexico are taxable on their worldwide income from all sources, including profits from business and property. A nonresident corporation in Mexico is subject to profits tax on income earned from carrying on business in Mexico. Corporations are considered residents of Mexico if they are established under Mexican law or if their principal place of management is located in Mexico.

Corporations are taxed in Mexico only by the federal government. Mexico has a general system for taxing corporate income, ensuring that all of a corporation's earnings are taxed only once, in the fiscal year in which the profits are obtained.

The income tax law recognizes the effects of inflation on the following items and transactions:
- Depreciation of fixed assets;
- Cost on sales of fixed assets;
- Sales of capital stock (shares);
- Monetary gains and losses; and
- Tax loss carryforwards.

Investment in capital stock may be indexed at the time of capital stock reductions or liquidation. Taxes are also indexed for inflation in certain circumstances.

Tax Rate. For 2004, corporations are subject to federal corporate income tax at a rate of 33%. The rate will be reduced to 32% for 2005 and future years.

Minimum Tax on Net Assets. A tax of 1.8% is levied on net assets (TNA) of resident corporations and nonresident corporations that have a permanent establishment in Mexico. The tax also applies to nonresident corporations without a permanent establishment in Mexico if they allow TNA taxpayers to use their assets or if they maintain inventories for processing in Mexico. However, an exemption applies if a maquiladora exports its production and if the parent company of the maquiladora observes arm's length principles in its transactions with the maquiladora.

If a company has taxable earnings for the year and subsequently pays income tax, the income tax can be credited against the final TNA. TNA is levied on the average value of a company's assets after deducting investments in shares of Mexican companies and debts owed to resident corporate entities other than financial institutions. TNA paid in excess of income tax for any tax year may be carried forward 10 years or carried back three years to offset income tax.

Capital Gains. Mexican tax law treats capital gains as normal income and taxes them at regular corporate tax rates. However, to determine the deductible basis for sales of real estate, fixed assets and shares, the law allows for indexation of the original cost for inflation.

Administration. The tax period always ends on 31 December and cannot exceed 12 months. The tax return must be filed by the end of the third month following the tax year-end. Monthly tax installments must be paid during the corporation's tax year.

Dividends. Dividends received by resident and nonresident shareholders from a Mexican corporation are not subject to corporate income tax if the earnings were already subject to corporate income tax and if the distributing corporation has sufficient accumulation in its "net tax profit" (CUFIN) account to cover the dividend. If the accumulated amount is not sufficient, the dividends are taxed at the corporate level at a rate of 33%. The following is an illustration of how to compute the net tax profit for the CUFIN account.

	Mex$
Corporate taxable income	1,000
Income tax (33%)	(330)
Nondeductible profit sharing to employees (estimated)	(150)
Nondeductible expenses	(20)
Net tax profit (not subject to corporate income tax on distribution)	500

Income tax paid on distributed profits may be credited against corporate income tax in the following three years.

Similar rules apply to remittances abroad by branches of foreign corporations.

C. Determination of Trading Income

General. Taxable profits are computed in accordance with generally accepted accounting principles, with the following exceptions:
- Nondeductibility of penalties and unauthorized donations;
- Nondeductibility of increases to reserves for bad debts, obsolescence, contingencies, indemnities and so forth; and
- Monetary gain on debts, and monetary loss on credits, to recognize the effect of inflation.

Employee profit sharing (see Section D) is not deductible.

Inventories. Instead of deducting the normal cost of sales, inventory purchases, labor costs and overhead expenses are deductible each fiscal year.

Depreciation. The straight-line method is used to depreciate tangible fixed assets and to amortize intangible assets. Depreciation must be computed using the annual percentages set by law. The depreciation of new assets must be computed on a proportional basis relating to the months in which the assets are used. Depreciation is computed on original cost of fixed assets, with the amount of depreciation indexed for inflation as measured by price indices.

The following are the maximum annual depreciation rates for certain types of assets.

Asset	Rate (%)
Buildings	5
Motor vehicles	25
Office equipment	10
Computers	
Mainframe equipment	30
Peripheral equipment	30
Plant and machinery	10
Environmental machinery and equipment	100

Companies may elect to claim an immediate deduction equal to a percentage of their original investments in assets rather than calculate depreciation based on the useful lives of the assets. However, this option is not available for certain assets and in certain geographical areas.

Relief for Losses. Business losses may be carried forward for 10 years.

Groups of Companies. A Mexican holding company has the option of filing a consolidated return including the tax results of its Mexican subsidiaries. This option is subject to several rules and limitations.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods or services, excluding exports, and on imports	
General rate	15
Border regions	10
Certain foods and medicines	0
Real estate acquisition tax; local or state tax on market value of real estate transferred (approximate rate)	3.3
State tax on salaries	Various
Residence tax, on each employee's salary (approximate rate)	5
Employee profit sharing, on taxable profits excluding the effect of inflation (loss carryforwards may not be deducted)	10
Social security contributions, on salaries up to a specified amount; paid by	
Employer (approximate rate)	15
Employee (approximate rate)	4

E. Miscellaneous Matters

Foreign-Exchange Controls. Mexico has no foreign-exchange controls.

Transfer Pricing. Mexico has transfer-pricing rules. Acceptable transfer-pricing methods include the comparable uncontrolled price method, the resale price method, the cost-plus method, the profit-split method, the residual profit-split method and the transactional net-margin method. In certain cases, specific appraisals are used. Transactions between related parties are subject to greater scrutiny. It may be possible to reach transfer-pricing agreements in advance with the tax authorities. These agreements may apply for a period of up to five years.

Debt-to-Equity Rules. No debt-to-equity requirements are imposed in Mexico.

F. Treaty Withholding Tax Rates

	Dividends (l) %	Interest %	Patent and Know-how Royalties %
Belgium	5/15 (a)	10/15 (t)	10
Canada	10/15 (a)	10/15 (b)	10/15 (b)(g)
Chile	5/10 (u)	15 (b)	15 (b)
Denmark	0/15 (a)	5/15 (n)	10
Ecuador	5	10/15 (m)	10
Finland	0	10/15 (h)	10
France	0/5 (c)	5/10/15 (b)(h)	10/15 (b)
Germany	5/15 (d)	10/15 (e)	10
Ireland	5/10 (d)	5/10 (n)	10
Israel	5/10 (f)	10	10
Italy	15	10/15 (b)	15
Japan	0/5/15 (o)	10/15 (e)	10
Korea	0/15 (k)	5/15 (n)	10
Luxembourg	5/15	10	10
Netherlands	0/5/15 (d)(s)	5/10/15 (p)	10
Norway	0/15 (a)	10/15 (t)	10
Poland	5/15 (a)	10/15 (e)	10
Portugal	10	10	10
Romania	10 (d)	15	15
Singapore	0	5/15 (n)	10
Spain	5/15 (a)	5/10/15 (b)(h)(t)	10 (b)(g)
Sweden	5/15 (d)	10/15 (q)	10
Switzerland	5/15 (a)	10/15 (t)	10
United Kingdom	0	5/10/15 (j)	10
United States	5/10 (d)	4.9/10/15 (r)	10
Nontreaty countries	0	4.9/10/21/33 (i)	25/33 (i)

(a) The lower rate applies if the recipient is a corporation owning at least 25% of the shares of the payer.

(b) These treaties have a most favorable nation (MFN) clause with respect to interest and/or royalties. Under the MFN clause in the Canada treaty, the 15% rate for interest or royalties may be reduced to as low as 10% if Mexico enters into a tax treaty with a member of the Organization for Economic Cooperation and Development (OECD) that provides for a withholding tax rate of less than 15% for interest or royalties. Under the MFN clause in the Chile treaty, the withholding tax rate for interest may be reduced to 5% for banks or 10% for other recipients and the withholding tax rate for royalties may be reduced to 10%, if Chile enters into a tax treaty with another country that provides for a lower withholding tax rate than 15% for such payments. Under the MFN clause in the France treaty, the withholding tax rate for interest and royalties is reduced if Mexico enters into a tax treaty with an OECD member that provides for withholding tax rates that are lower than the rates under the Mexico-France treaty. However, the rate may not be lower than 10% if the OECD member country is not a member of the European Union (EU). Under the Italy treaty, the MFN clause applies only to interest. It may reduce the withholding tax rate for interest to as low as 10% only if Mexico enters into a treaty with an EU country that provides for a withholding tax rate for interest of less than 15%. Under the MFN clause in the Spain treaty, the withholding tax rates for interest and royalties may be reduced if Mexico enters into a tax treaty with an EU country that provides for withholding tax rates that are lower than the rates under the Mexico-Spain treaty. The standard rate for interest and for patent and know-how royalties under all of the above treaties is generally 15%. However, as a result of the operation of the MFN clause, the lower rates listed in the table may apply in certain circumstances.

(c) The 0% rate applies if the recipient of the dividends is the effective beneficiary of the dividends. The 5% rate applies if the recipient is a company that is resident in France and if more than 50% of such recipient is owned by residents of countries other than France or Mexico.

(d) The 5% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer.

(e) The 10% rate applies to interest derived from loans granted by banks and insurance companies. Under the Germany treaty, the 10% rate also applies to interest paid to pension funds. Under the Japan treaty, the 10% rate also applies to interest paid on bonds or with respect to sales by suppliers of machinery and equipment. Under the Poland treaty, the 10% rate also applies to interest paid on publicly traded securities.

(f) The 5% rate applies if the recipient is a corporation that owns at least 10% of the shares of the payer and if the tax levied in Israel is not less than the corporate tax rate.

(g) The effective beneficiary of royalties is subject to withholding tax on the gross payments. Royalties on cultural works (literature, music and artistic works other than films for movies or television) are not subject to withholding tax if they are taxed in the recipient's country.

(h) A 10% rate applies to interest paid on bank loans or publicly traded bonds, as well as to interest paid with respect to sales by suppliers of machinery and equipment.

(i) See Section A.

(j) The 5% rate applies if the beneficial owner of the interest is a bank or insurance company or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to interest paid by a bank or by a purchaser with respect to a sale on credit of machinery if the seller is the beneficial owner of the interest. The 15% rate applies to other interest.

(k) The 0% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer.

(l) Dividends are not subject to withholding tax under Mexican domestic law.

(m) Beginning in the sixth year the treaty is in effect, the 15% rate is reduced to 10% if the beneficial owner of the interest is a bank. For the first five years, however, the 15% rate applies to such interest.

(n) The 5% rate applies if the beneficial owner of the interest is a bank.

(o) The 5% rate applies if the recipient is a corporation owning at least 25% of the shares of the payer. The 0% rate applies if the condition described in the preceding sentence is satisfied and if both of the following conditions are satisfied:
- The recipient's shares are regularly traded on a recognized stock exchange.
- More than 50% of the recipient's shares are owned by one or any combination of the following:
  - — The state of residence of the recipient;
  - — Individuals resident in the state of residence of the recipient; and
  - — Corporations resident in the state of residence of the recipient if their shares are traded on a recognized stock exchange or if more than 50% of their shares are owned by individuals resident in the state of residence of the recipient.

(p) The 5% rate applies if the interest is derived from loans granted by banks or insurance companies or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to interest paid by banks or by purchasers with respect to sales on credit of machinery or equipment. The 15% rate applies to other interest.

(q) The 10% rate applies to interest derived from loans granted by banks.

(r) The 4.9% rate applies if the beneficial owner of the interest is a bank or insurance company or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to interest paid by banks or by purchasers with respect to sales on credit of machinery and equipment. The 15% rate applies to other interest.

(s) Under a protocol to the treaty with the Netherlands, the 5% rate is reduced to 0% if the dividends are paid on a shareholding that qualifies for the participation exemption under the corporate tax law of the Netherlands.

(t) The 10% rate applies if the beneficial owner of the interest is a bank.

(u) The 5% rate applies if the recipient is a corporation owning at least 20% of the shares of the payer.

MOLDOVA

(Country Code 373)

CHISINAU **GMT +2**

Ernst & Young S.R.L.
QBE Asito Building
Str. Banulescu-Bodoni 57/1
2005 Chisinau
Moldova

(22) 214-040
Fax: (22) 214-044

Corporate Tax
Ala Burunsus **(22) 214-040**
E-mail: ala.burunsus@md.ey.com

Legal Services
Cristina Martin **(22) 214-040**
E-mail: cristina.martin@md.eylaw.com

A. At a Glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	10 (a)
Branch Tax Rate (%)	20
Withholding Tax (%)	
Dividends	10 (b)
Interest (c)(d)	
Payments to Residents	
Companies	0
Individuals	20
Payments to Nonresidents	10
Royalties	15/20 (d)(e)
Services	5/10 (f)
Insurance Premiums	10 (g)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (h)

(a) See Section B.
(b) This withholding tax applies to dividends paid to nonresidents.
(c) Interest on deposits of individuals and on state securities is not taxable until 1 January 2010.
(d) Recipients of interest and royalties include such payments in taxable income, which is subject to corporate income tax at the standard rate of 20%. They may credit the withholding tax against the tax shown in their annual tax return.
(e) The 15% rate applies to payments to nonresidents. The 20% applies to payments to residents.
(f) The 5% rate applies to certain types of services rendered by residents. The 10% rate applies to services rendered by nonresidents.
(g) This withholding tax applies to insurance premiums paid to nonresidents.
(h) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on income derived from Moldovian sources and on investment and financial income derived from sources located outside Moldova. Resident companies are companies with activities managed or organized in Moldova (an activity is organized in Moldova if it is carried out by a company that is registered as an economic entity in Moldova) and companies that carry out their business activities primarily in Moldova.

Permanent establishments of nonresident companies in Moldova are subject to tax on their income from Moldovan sources.

Rates of Corporate Income Tax. The standard corporate profits tax rate is 20%.

Tax Incentives

Companies with Foreign Participation. On filing their first tax return, companies with foreign participation qualify for a 50% reduction of their profits tax for their first five years of operation if they satisfy the following conditions:
- Their share capital is fully paid up;
- The foreign investment exceeds US$250,000; and
- At least 50% of the company's gross income is derived from sales of goods manufactured and services performed in Moldova.

Companies with fully paid-up direct foreign investment that was made before 1 January 2000 are exempt from corporate profits tax for a three-year period beginning with the date on which the official approval for the foreign investment is granted by the State Principal Tax Inspectorate of the Ministry of Finance. The following are the conditions for the exemption:
- The foreign investment exceeds US$1 million; and
- At least 80% of the corporate profits tax savings is reinvested in production development or in programs for development of the national economy.

Free-Trade Zones. For a five-year period, residents of free-trade zones benefit from the following incentives:
- A 50% reduction of the standard corporate profits tax rate for income derived from the exportation outside Moldova of goods originating in a free-trade zone;
- A 75% reduction of the standard corporate profits tax rate for income other than that indicated in the preceding bullet;
- A three-year exemption from corporate profits tax on income derived from the exportation of goods originating in a free-trade zone, beginning with the quarter following the quarter in which investments made in fixed assets or to develop the region reach US$1 million; and
- A five-year exemption from corporate profits tax on income derived from the exportation of goods originating in a free-trade zone, beginning with the quarter following the quarter in which investments made in fixed assets or to develop the region reach US$5 million.

Small and Medium-Sized Enterprises. Small and medium-sized enterprises (SMEs) that signed agreements with Territorial Tax Inspectorates before 1 January 1998 (the effective date of Titles I and II of the Tax Code) regarding tax incentives and exemptions may benefit from these incentives and exemptions during the entire term of the agreement. SMEs that did not enter into such agreements may benefit from a 35% reduction of the corporate profits tax rate for income derived from sales of goods produced or services rendered during a two-year period.

Commercial Banks. Incentives are granted to commercial banks that finance capital investments in the following:

- Designing, development, mastering and implementation of new techniques and technologies;
- Restructuring of production process technologies;
- Planting and renewal of perennial plantations; and
- Alcoholic aging of cognacs, raw material wine used to produce classic wines saturated with carbon dioxide and high-quality wines.

The following are the incentives granted to qualifying commercial banks:

- Exemption from corporate profits tax for income relating to loans granted for more than three years; and
- A 50% percent reduction in corporate profits tax for income arising from loans granted for a period of two to three years.

Entrepreneurs. Entrepreneurs, including enterprises with foreign investment that no longer benefit from the incentives described above, may qualify for reduction of their taxable income by 50% of the value of their investments in the acquisition of fixed assets and buildings, with the exception of private cars and office furniture. Assets acquired under leasing arrangements also qualify for the incentives. However, the reduction may not exceed the amount of taxable income or produce a loss. The reduction is normally granted in the year the assets are acquired. However, if the company is benefiting from another incentive, the reduction is not granted until the other incentive expires. To qualify for the reduction, the following conditions must be satisfied:

- The company may neither pay dividends to shareholders nor distribute income to its founding members;
- The company must retain the acquired assets for at least three years after the reduction is granted; and
- Acquired fixed assets may not be rented (leased).

Capital Gains. Capital gains and losses on sales, exchanges or other transfers of capital assets are equal to the difference between amounts received and the cost bases of the assets. Tax is payable at a rate of 20% on 50% of the excess of capital gains over capital losses, resulting in an effective rate of 10%. Net capital losses may be carried forward to offset capital gains in the following three years.

Administration. The tax year is the calendar year. A company may not elect a different tax year.

The corporate profits tax return must be filed by 31 March of the year following the tax year.

An amended tax return can be filed to correct errors contained in the original tax return. If the errors caused insufficient taxable income to be reported in the original return, the company must specify appropriate penalties and fines in the amended return. If the errors caused too much taxable income to be reported in the original return, the company must indicate in the amended return the extra tax paid.

Under the Moldovan Tax Code, companies may either obtain a refund of an overpayment of tax or offset the overpayment against existing or future tax liabilities.

All taxes in Moldova must be paid in Moldavian lei (MDL). To calculate the tax on income realized in foreign currency, the income must be converted to lei using the official exchange rate on the payment date.

Dividends. A 5% withholding tax is imposed on dividends paid to nonresidents.

Dividends received by residents from nonresident companies are normally included in taxable income. However, dividends received by residents from resident companies are not subject to tax in Moldova.

Foreign Tax Relief. Companies may claim a credit against corporate profits tax for foreign tax paid on investment income or financial income that is subject to tax in Moldova. The foreign tax credit is granted for the year in which the relevant income is subject to tax in Moldova.

C. Determination of Trading Income

General. Taxable income includes income from all sources, less deductible expenses allowed by the tax law.

In general, companies may deduct ordinary and necessary expenses that it accrues during the tax year in connection with its business activities. However, they may not deduct the following items:
- In general, private and family expenses of the founding member of the company or the company's employees;
- Amounts paid for the acquisition of land;
- Amounts paid for the acquisition of depreciable property or of fixed assets with useful lives exceeding one year;
- Losses resulting from sales or exchanges of property (for the treatment of capital losses, see Section B); and
- Unjustified expenses paid to related parties, including compensation, interest and rent.

Inventories. Moldova does not have tax rules for the valuation of inventories.

Provisions. After two calendar years have passed since the date of the incurrence of a debt, a company may obtain permission from the tax authorities to deduct the debt if the company has concluded that the debt has lost its value or will not be repaid.

Tax Depreciation. Fixed assets used in business activities may be depreciated using the declining-balance method. To calculate depreciation, fixed assets are classified into five categories. The following are the categories and the applicable depreciation rates.

Category		Rate (%)
1	Buildings, except those made out of wood, plastic or metal; other structures, except those made of wood or plastic or covered with tarpaulin; and transmitting installations	5
2	Perennial plantations and vineyards	8
3	Means of transportation, except for motor vehicles, buses, motorcycles, bicycles and scooters	10

Category		Rate (%)
4	Production inventory; livestock; zoo animals; certain buildings and structures not included in Category 1; and motor vehicles and buses	20
5	Machinery and equipment; tools; certain animals; certain structures not included in Categories 1 or 4; motorcycles, bicycles, scooters; and plantations not included in Category 2	30

The assets in Category 1 are depreciated individually. The assets in the other categories are depreciated as groups.

Relief for Losses. Companies incurring a tax loss may deduct one-third of the loss in each of the three subsequent tax years. Any portion of a loss that is not deducted because of this limitation may not be deducted in a later tax year. Losses may not be carried back.

Groups of Companies. The Moldovan tax law does not contain any measures regarding groups of companies in Moldova. Consequently, the filing of consolidated returns or the granting of relief for losses on a group basis is not permitted.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods and services delivered in or imported into Moldova	
Standard rate	20
Bread and bread products and milk and dairy products delivered in Moldova	8
Natural and liquefied gases delivered in or imported into Moldova	5
Exports of goods and services, international cargo and passenger transport, certain distributions of electric power, thermic energy and hot water, and other specified goods and services relating to diplomatic missions and international organizations	0
Excise taxes, on certain consumption goods and gambling activities; for consumption goods, tax is imposed at a fixed amount per unit of the good or by applying an ad valorem rate to the market value of the good; for gambling activities, an ad valorem rate is applied to the cost of the license for the gambling activity	Various
Social security contributions, on remuneration; paid by	
Employer	29
Employees	1
Customs duties; the annual budget law sets the rates	Various

Nature of Tax	Rate (%)
Local taxes on real estate; the rates of the taxes are set by the local authorities and may not be less than 50% of the maximum rate established by the Moldovan government; taxes are imposed on the value of the real estate set through directives of the local authorities; maximum rate	0.5

E. Foreign-Exchange Controls

The Moldovan leu (MDL) is the only currency that may be used to make payments in Moldova. The National Bank of Moldova (NBM) establishes the official exchange rate for the leu in relation to other foreign currencies. Both resident and nonresident companies may open leu or foreign currency accounts in authorized banks of Moldova.

Resident companies are not required to convert proceeds received in foreign currency into lei (plural of leu). However, they may not transfer foreign currency from their accounts to the accounts of other residents of Moldova, except for authorized banks.

Nonresidents may transfer abroad currency if the currency was registered in their account or if the funds were previously held in a leu deposit account with a Moldovan authorized bank.

Payments in currency by resident companies to nonresidents may be made only from foreign-currency accounts at authorized Moldovan banks (or at foreign banks that are authorized by NBM), and these payments may be made by bank transfer only.

For a distribution of profits during the year, a company should be ready to present to interested bodies the quarterly financial report, and the statutory act of the company that indicates the amount of the distribution. For a distribution of profits at the end of the fiscal year, the company should have ready for inspection a copy of the filed annual tax return and the statutory act of the company that indicates the amount of the distribution.

F. Treaty Withholding Tax Rates

The following table shows the applicable withholding rates under Moldova's bilateral tax treaties.

	Dividends A %	Dividends B %	Interest %	Royalties %
Albania (i)	10	5	5	10
Armenia	15	5	10	10
Austria (i)	15	5	5	5
Azerbaijan	15	8 (a)	10	10
Belarus	15	15	10	15
Bulgaria	15	5	10	10
Canada	15	5 (b)	10	10
China	10	5	10	10
Czech Republic	15	5	5	10
Estonia	10	10	10	10
France (i)	15	5 (c)	5	2
Georgia (i)	15	5 (d)	10	10
Germany	15	15	5	0

	Dividends A	Dividends B	Interest	Royalties
	%	%	%	%
Greece (i)	15	5	10	8
Hungary	15	5	10	0
Italy	15	5	5	5
Japan	15	15	10	10
Kazakhstan	15	10	10	10
Latvia	10	10	10	10
Lithuania	10	10	10	10
Netherlands	15	5 (e)	5	2
Poland	15	5	10	10
Romania	10	10	10	10/15 (f)
Russian Federation	10	10	0	10
Slovak Republic (i)	15	5	10	10
Switzerland	15	5	10 (g)	0
Turkey	15	10	10	10
Turkmenistan	10	10	10	10
Ukraine	15	5	10	10
Uzbekistan	15	5	10	15
Yugoslavia (i)	15	5	10	10
Nontreaty countries	10	10	10 (h)	15

A These are the general dividend withholding tax rates.

B In general, the rates apply if the beneficiary of the dividends is a company that holds directly at least 25% of the share capital of the payer.

(a) This rate applies if the effective beneficiary of the dividends is a company that has invested foreign capital of at least US$250,000 in the payer of the dividends.

(b) This rate apples if the beneficiary of the dividends is a company holding directly at least 10% of the capital of the payer.

(c) This rate applies if the beneficiary of the dividends is a company holding directly at least 10% of the payer of the dividends.

(d) This rate applies if the effective beneficiary of the dividends is a company (other than a society) that has invested more than US$300,000 in the capital of the payer of the dividends.

(e) No tax is withheld if the effective beneficiary of the dividends is a company that directly holds at least 50% of the capital of the payer of the dividends and has invested US$300,000 or an equivalent amount of national currency of an European Union (EU) member state in the capital of the payer of the dividends.

(f) The 10% rate applies to royalties paid for the use of patents, trademarks, drawings or patterns, plans, secret formulas or manufacturing procedures as well as for industrial, commercial or scientific information. The 15% rate applies to other royalties.

(g) No withholding tax is imposed on interest paid on bank loans or on interest paid in connection with the following: sales on credit of industrial, commercial or scientific equipment; or sales of goods between enterprises.

(h) Interest on deposits of individuals and on state securities is not taxable until 1 January 2010.

(i) This treaty has been signed, but it is not yet in effect.

MONACO

(Country Code 377)

MONTE CARLO **GMT +1**

Somodeco S.A.M
Immeuble Les Lys
3 rue Louis Auréglia
B.P. 449
M.C. 98011 Monaco Cedex
Monaco

93 25 00 52
Fax: 93 25 58 92, 93 25 79 58

International Tax

Francis Ferrari — 93 25 00 52
E-mail: francis.ferrari@fr.eylaw.com

A. At a Glance

Corporate Income Tax Rate (%)	33 1/3*
Capital Gains Tax Rate (%)	33 1/3*
Branch Tax Rate (%)	33 1/3*
Withholding Tax Rate (%)	
Dividends	0
Interest	0
Royalties	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	3
Carryforward	5

* 0% in certain circumstances. Reduced rates of tax apply to a new company. See Section B.

B. Taxes on Corporate Income and Gains

Profits Tax. Enterprises, including corporations carrying out industrial and commercial activities, are subject to profits tax on their worldwide income only if 25% or more of the gross income is directly or indirectly derived from outside Monaco. Monégasque enterprises trading through “a complete cycle of operations” or through an independent agent in a foreign country are not subject to profits tax on the income derived from those foreign operations. No profits tax is assessed if less than 25% of the gross income is derived from outside Monaco. However, corporations that sell or license patent rights, trademarks, copyrights and similar rights are subject to profits tax, regardless of the percentage or origin of the income.

Tax Rates. The tax rate is 33 1/3%. However, certain capital gains are exempt from tax (see *Capital Gains* below).

Reduced rates of tax apply to a qualifying new company during the five years following its date of incorporation. A company does not qualify for the reduced rates if more than 50% of its share capital or voting rights is held by corporations. The following are the reduced rates.

Year of Company’s Existence	Rate (%)
1	0
2	0
3	8 1/3
4	16 2/3
5	25

For the purposes of these special rates, the first two years actually correspond to 23 months.

Capital Gains. Capital gains are taxed at the same rate as ordinary income; however, they are not taxed if the sales proceeds are reinvested in new qualifying fixed assets within three years.

Administration. A corporation’s profits tax return and corresponding payment, if any, are due three months after the end of the corporation’s accounting period.

Dividends. Dividend income received by Monégasque companies is disregarded when calculating the 25% threshold of foreign activities.

If a corporation is subject to tax, local and foreign-source dividend income is subject to the 33 1/3% profits tax as if it were ordinary income. Although Monaco has no participation exemption system or affiliation privilege, Monégasque companies subject to the profits tax are taxed only on a portion of the dividends they receive from subsidiaries in which they hold 20% or more of the share capital. The taxable portion is determined in accordance with the following rules:

- 20% of the net dividend if the percentage shareholding is at least 20% and less than 35% (net dividend means the amount of the dividend after deduction of the foreign tax withheld at source, if any);
- 10% of the net dividend if the percentage shareholding is at least 35% and less than 50%; and
- 5% of the net dividend if the percentage shareholding is at least 50%.

If the corporation qualifies for one of the above reductions, the foreign tax credit associated with those dividends cannot be offset against the 33 1/3% tax.

Foreign Tax Relief. Foreign tax on income and gains of a Monégasque company may generally be credited against the profits tax paid in Monaco on the same profits (however, see the limitation on the withholding tax on dividends discussed in *Dividends* above). Foreign tax in excess of the Monégasque tax cannot be refunded or carried forward.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared in accordance with generally accepted accounting principles, subject to certain adjustments and provisions.

Directors' fees are deductible from taxable income up to a maximum amount based on the company's turnover and the social security ceiling. To be deductible, directors' fees must correspond to effective services performed for the company.

Inventory. Inventory is normally valued at the lower of cost or market value. Cost must be determined on a first-in, first-out (FIFO) or average price basis.

Reserves. Certain reserves are permitted as deductions in arriving at taxable income, such as reserves for decreases in the value of assets and reserves for the risk of loss or expenses of a specific nature.

Tax Depreciation. The French tax depreciation rules also apply in Monaco.

Tax Credit for Research Expenses. A tax credit is available to companies incurring research expenses. The amount of the credit is generally equal to one-half of the difference between the research expense in the current tax year and the average research expense for the two immediately preceding tax years, adjusted for increases in the cost-of-living index.

Relief for Losses. In general, trading losses are deductible in the year incurred and may be carried forward for up to five years. Losses attributable to depreciation, however, may be carried forward indefinitely. In addition, business enterprises subject to profits tax may carry back such losses against undistributed profits of the three preceding financial years. The carryback results in a credit equal to the loss multiplied by the current profits tax rate, limited to the amount of profits tax paid during the prior three years. The credit may be used to reduce profits tax payable during the following five years, any balance being refunded at the end of the five-year period. A significant change in the company's activity may jeopardize the loss carryover and carryback.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on sales and importation of goods and services, unless excluded by law	
General rate	19.6
Other rates	2.1/5.5
Social security contributions, calculated on salaries, wages and benefits-in-kind; paid by	
Employer (overall rates)	34 to 40
Employee (overall rates)	12 to 15

E. Miscellaneous Matters

Foreign-Exchange Controls. French exchange control regulations, which also apply to Monaco, have been eased. Direct Monégasque investments in foreign countries are now almost completely unrestricted. In general, direct foreign investments into Monaco, except in certain sensitive sectors, are subject to an administrative declaration only. For current operations, such as loans between residents and nonresidents and the opening of foreign bank accounts by French or Monégasque companies, the regulations have been almost totally eliminated.

Controlled Foreign Companies. Holding companies have not been permitted in Monaco since 1945. Monégasque companies can, however, invest or hold shares of other Monégasque or foreign companies if such companies actually carry out similar, or complementary, industrial or trading activities.

F. Treaty Withholding Tax Rates

Monaco has not concluded any tax treaties with other jurisdictions except France. The French treaty does not reduce withholding taxes on French-source income, and domestic law does not provide for withholdings on Monégasque-source income.

MOROCCO

(Country Code 212)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ma.ey.com

CASABLANCA	GMT

Ernst & Young **(22) 545-800**
44, rue Mohamed Smiha **Fax: (22) 317-688, 545-858**
Casablanca
Morocco

Corporate Tax

Abdelmajid Faiz	**(22) 545-800**
Hamad Jouahri	**(22) 545-800**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (a)(b)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	10 (c)
Interest	10/20/30 (d)
Royalties, Scientific Know-how Payments and Technical Assistance Fees	10 (e)
Wages and Indemnities Paid to Nonpermanent Employees	30 (f)
Rent on Equipment Used in Morocco	10 (e)
Branch Remittance Tax	10 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

(a) The corporate income tax rate is 39.6% for banks, financial institutions (excluding leasing companies) and insurance companies.
(b) See Section B.
(c) The dividend withholding tax is a final tax for nonresidents. Withholding tax is not imposed on dividends paid to Moroccan companies subject to Moroccan corporate tax.
(d) The 10% rate applies to interest paid to nonresidents on loans or other fixed-interest claims. The 10% tax is a final tax. The 20% rate applies to interest paid to resident companies and interest paid to resident self-employed individuals in connection with a business conducted by the recipient. The 20% tax may be credited by recipients against their total income tax. The 30% rate applies to interest payments made to resident individuals if the payments are unrelated to a business conducted by the recipient. The 30% tax is a final withholding tax.
(e) This is a final tax applicable only to nonresidents.
(f) This withholding tax applies only to payments to persons who are not salaried employees and do not hold a special function in the company paying the indemnities. The rate is 17% for teachers.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The following companies are subject to corporate income tax:

- Resident companies (those incorporated in Morocco);
- Nonresident companies deriving taxable income from activities carried out in Morocco; and
- Branches of foreign companies carrying on business activities independent of those performed by their head office.

In general, only Moroccan-source income is subject to tax.

Rates of Tax. The regular corporate tax rate is 35% of taxable income. Banks, financial institutions (excluding leasing companies) and insurance companies are subject to tax at a rate of 39.6%.

In general, the minimum tax is the greater of DH 1,500 or 0.5% of annual turnover (excluding capital gains and exceptional profits). However, this rate is reduced to 0.25% for sales of petroleum goods, gasoline, butter, oil, sugar, flour, water and electricity. The minimum tax is imposed if it exceeds the corporate income tax calculated using the 35% rate or if the company incurs a loss. New companies are exempt from minimum tax for 36 months after the commencement of business activities. The minimum tax paid may be subtracted from the corporate income tax due in the following three years.

Nonresident contractors may elect an optional method of taxation for engineering, construction or assembly work or for work on industrial or technical installations. Under the optional method, an 8% tax is withheld on the total contract price including the cost of materials, but excluding value-added tax.

If the remittance of branch profits can be directed by the head office, a 10% withholding tax is imposed on branch profits after deduction of the corporate tax.

Tax Incentives. Morocco offers the same tax incentives to domestic and foreign investors.

Tax Exemptions and Reductions. Various types of companies benefit from tax exemptions and tax reductions, which are summarized below.

Cattle-farming enterprises, cooperative enterprises and nonprofit organizations are exempt from tax. Agricultural enterprises are exempt from all taxes until the year 2020.

Mining companies, including those that sell products to export companies, benefit from a 50% reduction in corporate income tax.

Companies, other than permanent establishments of foreign companies, banks and insurance companies, benefit from a 50% reduction in corporate income tax for the first five years of operations if they are located in economic areas that are specified by decree as being in a development stage.

Companies established in the area of Tangier benefit from a 50% reduction in the following taxes: the corporate income tax, the professional training tax, and the urban tax (for details regarding the last two taxes, see Section D). This exemption may be combined with all other tax benefits.

Handicraft companies, private schools and educational institutes benefit from a 50% reduction in corporate income tax for their first five years of operations.

Companies that become listed on the Casablanca Stock Exchange between January 2001 and December 2003 benefit from a tax reduction for three years beginning with the year of listing. The tax reduction is 25% for companies selling existing shares and 50% for those seeking a capital increase of at least 20%. This tax reduction does not apply to financial institutions, insurance and reinsurance companies, utility companies and companies with capital totally or partially owned by the state or by local administrative units or by a company whose capital is at least 50% held by a local administrative entity.

Hotel companies benefit from a tax exemption and tax reduction with respect to their profits corresponding to their foreign-currency revenues that are generated by their hotels and are remitted to Morocco either directly or through travel agencies. The hotel companies are fully exempt from tax on such profits for the first five years following their first currency sale operation, and they benefit from a 50% reduction in tax on such profits in subsequent years.

Offshore Zones. In 1992, Morocco enacted Law 58-90 to regulate the establishment of offshore zones.

Banks and holding companies may conduct business in offshore zones. To conduct business in offshore zones, banks must receive authorization from the Ministry of Finance and must fulfill several conditions, including minimum capital of US$500,000 and payment of a license fee of US$25,000. Holding companies must notify the Exchange Control Office within one month of their establishment in offshore zones.

In addition to the ability to conduct unrestricted cash-exchange operations with nonresidents of Morocco, banks and holding companies operating in offshore zones may benefit from the following tax advantages:

- Exemption from value-added tax (VAT; see Section D) on transactions with offshore entities. Banks are also exempt from VAT on their purchases of equipment and office furniture.
- Exemption from customs duties on imports.
- Reductions in corporate income tax for the first 15 years of operation. Banks may elect to pay a minimum corporate income tax of US$25,000 or pay tax at a reduced rate of 10%. Holding companies pay a flat tax of US$5,000.
- For banks, exemption from registration and stamp duties on incorporation or capital increase deeds, and on the acquisition of property, as well as exemption from urban tax and business license tax.

In addition, wages of employees of offshore banking and holding companies are subject to a withholding tax of 18% instead of the normal income tax rates.

Exports. Export companies established in Moroccan free zones (*zones franches*) are exempt from corporate income tax for the first 5 years of activity and are subject to corporate income tax at a rate of 8.75% for the following 10 years.

Export companies are exempt from corporate income tax on their profits derived from their exporting activities for the first five years of operations, beginning with their first export transaction. These companies benefit from a 50% reduction in corporate income tax on such profits in subsequent years.

Capital Gains. Capital gains are taxed at regular corporate tax rates. If realized in the normal course of business, however, the net capital gain may be reduced by the following percentages:

- 25% if the asset was held more than two years but not more than four years before the date of transfer.
- 50% if the asset was held more than four years but not more than eight years before the date of transfer.
- 70% if the asset was held more than eight years before the date of transfer.

- 100% if the total net gain is reinvested in fixed assets. The reinvestment must occur in one financial year within three years following the year the gain is realized and must be maintained for at least five years.

From January 2002 through December 2005, capital gains on listed shares or on mutual funds that are permanently composed of at least 85% listed shares benefit from a 50% tax reduction.

Special rules apply to mergers and liquidations of companies.

Administration. Within three months after the end of their financial year, companies must file a financial statement with the inspector of direct taxes for the district in which their company headquarters are located.

Companies must make advance payments of tax. For companies with a 31 December year-end, the payments must be made by 31 March, 30 June, 30 September and 31 December. Each payment must be equal to 25% of the previous year's tax.

Dividends. Dividends are generally subject to a 10% withholding tax. However, withholding tax is not imposed on dividends paid to Moroccan companies subject to Moroccan corporate tax.

Moroccan companies do not include in their taxable income dividends received from other Moroccan companies if the payer of the dividends is subject to Moroccan corporate income tax.

Foreign Tax Relief. Because only Moroccan-source income is subject to tax, no foreign tax relief is provided.

C. Determination of Trading Income

General. Computation of taxable income is based on financial statements prepared according to generally accepted accounting principles.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:
- Interest paid on shareholder loans in excess of the interest rate determined annually by the Ministry of Finance (2.85% for 2003) or on the portion of a loan from a shareholder exceeding the amount of capital stock that is fully paid up. None of the interest on shareholder loans is deductible if the capital stock is not fully paid up.
- Certain specified charges, gifts, subsidies and penalties.

The tax base for coordination centers (*centers de coordination*) is equal to the sum of the following: 10% of their operating expenses; and their income derived from noncurrent operations, such as sales of goods and services, and investments in securities.

Inventories. Inventory is normally valued at the lower of cost or market value. For non-identifiable goods, cost must be determined by a weighted-average cost-price method or the first-in, first-out (FIFO) method.

Provisions. Provisions included in the financial statements are generally deductible for tax purposes if they are established for clearly specified losses or expenses that are probably going to occur.

Tax incentives allow companies to deduct certain provisions that do not cover actual risks. The most significant of these provisions, which are subject to detailed rules, are provisions for the mining industry (up to 50% of taxable income, but not exceeding 30% of sales), for the acquisition of staff housing (up to 3% of taxable income) and for investments (up to 20% of taxable income).

Depreciation. Land may be amortized only if it contributes to production (for example, mining lands). Other fixed assets may be depreciated using the straight-line method at rates generally used in the industry. The following are some of the applicable rates.

Asset	Rate (%)
Commercial and industrial buildings	4 or 5
Office equipment	10
Motor vehicles (for vehicles used in tourism, the maximum depreciable value is DH 200,000)	20
Plant and machinery	10

Certain intangible assets, such as goodwill, do not depreciate over time or by use and, consequently, are not amortizable.

Relief for Tax Losses. Losses may be carried forward for four years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. Moroccan law does not provide for the financial integration of Moroccan companies equivalent to a consolidated filing position.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods sold and services rendered in Morocco	
General rate	20
Real estate operations, transport of tourists and goods and certain foodstuffs such as tea, coffee, jam	14
Restaurants and hotels	10
Utilities (water, electric power, oil), pharmaceuticals, sugar, banking, leasing, credit transactions and exchange commissions	7
High-consumption goods (bread, milk, salt, meat, fish and books) and capital goods acquired by companies	0
Business license tax, on gross rental value of the business premises	Various
Urban tax, annual tax on the rental value of property that is part of business assets	13.5
Registration duties, on transfers of real property or businesses	0.25 to 10
Professional training tax, on gross remuneration including fringe benefits	1.6

Nature of Tax	Rate (%)
Social security contributions, paid by employer	
For family allowances, on gross monthly remuneration (no maximum limit of remuneration applies)	7.5
For illness and pregnancy, on gross monthly remuneration, up to a maximum remuneration of DH 6,000 a month	8.6

E. Foreign-Exchange Controls

Remittances of capital and related income to nonresidents are guaranteed. No limitations are imposed on the time or amount of profit remittances. The remittance of net profits on liquidation, up to the amount of capital contributions, is guaranteed through transfers of convertible currency to the Bank of Morocco.

As a result of the liberalization of foreign-exchange controls, foreign loans generally do not require an authorization from the exchange authorities. However, to obtain a guarantee for the remittance of principal and interest, notes are commonly filed at the exchange office, either through the bank or directly by the borrower. In general, if the loan's conditions are equivalent to those prevailing in foreign markets, the exchange office approves the loan agreement. The loan agreement must be filed with the exchange office as soon as it is established.

To promote exporting, Moroccan law allows exporters of goods or services to hold convertible dirhams amounting to 20% of repatriated currency. Exporters must spend these convertible dirhams on professional expenses incurred abroad. Such expenses must be paid through bank accounts of convertible dirhams, called "Convertible Accounts for the Promotion of Export" (Comptes Convertibles de Promotion des Exportations).

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Bahrain	5/10 (h)	10	10
Belgium	15 (e)	15 (e)	5/10
Bulgaria	7/10 (i)	10	10
Canada	15 (e)	15 (e)	5/10
Denmark	10/25 (e)	10	10
Egypt	10/12.5 (e)	20 (e)	10
Finland	15 (e)	10	10
France	15 (a)(e)	10/15 (e)	5/10
Germany	5/15 (e)	10	10
Hungary	12 (e)	10	10
India	10 (e)	10	10
Italy	10/15 (e)	10	5/10
Korea	5/10 (f)	10	10
Libya	– (d)	– (d)	– (d)
Luxembourg	10/15 (e)	10	10
Maghreb Arab Union	10	10	10
Netherlands	10/25 (e)	10/25 (e)	10
Norway	15 (e)	10	10

	Dividends %	Interest %	Royalties %
Poland	7/15 (e)(i)	10	10
Portugal	10/15 (e)	12 (e)	10
Romania	15 (e)	10	10
Russian Federation	5/10 (f)	10	10
Spain	10/15 (e)	10	5/10
Sweden	– (b)	– (c)	– (b)
Switzerland	7/15 (e)(i)	10	10
Tunisia (d)	– (j)	– (j)	– (j)
United Arab Emirates	5/10 (g)	10	10
United Kingdom	10/25 (e)	10	10
United States	10/15 (e)	15 (e)	10
Nontreaty countries	10	10	10

(a) No withholding tax is imposed in France if the recipient is subject to tax on the dividend in Morocco.
(b) Tax is payable in the country in which the recipient is domiciled.
(c) Tax is payable in the country in which the creditor is domiciled.
(d) The treaty has been suspended and is replaced by the multilateral treaty between the Maghreb Union countries (Morocco, Algeria, Libya, Mauritania and Tunisia).
(e) Under Moroccan domestic law, the withholding tax rate for dividends and interest is 10%. Consequently, for dividends and interest paid from Morocco, the treaty rates exceeding 10% do not apply.
(f) The 5% rate applies if the beneficiary of the dividends holds more than US$500,000 of the capital of the payer of the dividends. The 10% rate applies to other dividends.
(g) The 5% rate applies if the beneficiary of the dividends holds directly at least 10% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
(h) The 5% rate applies if the beneficiary of the dividends is a company that holds directly at least 10% of the capital of the payer of the dividends.
(i) The 7% rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 25% of the capital of the payer of the dividends. The higher rate applies to other dividends.

Morocco has signed a tax treaty with Gabon, but this treaty has not yet been ratified.

MOZAMBIQUE

(Country Code 258)

MAPUTO **GMT +2**

Ernst & Young Lda.
Rua de Imprensa, 256 – 5 Andar
(Prédio 33 Andares)
Maputo
Mozambique

(1) 324-043
Fax: (1) 321-984

Corporate Tax

Humberto Darsam — **(1) 324-043**
E-mail: humberto.darsam@mz.ey.com

Ibraimo Ibraimo — **(1) 324-043**
E-mail: ibraimo.ibraimo@mz.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	32 (a)
Capital Gains Tax Rate (%)	32 (a)
Branch Tax Rate (%)	32 (a)(b)

Withholding Tax (%)	
Dividends	20
Interest	20
Royalties	20
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) For 2003 through 2010, the rate is 10% for income derived in the agricultural and breeding sector.
(b) Income earned by nonresident companies or other entities without a head office, effective management control or a permanent establishment in Mozambique is generally subject to withholding tax at a rate of 20% (see Section B).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or IRPC) is levied on resident and nonresident entities.

Resident Entities. Resident entities are companies and other entities with their head office or effective management and control in Mozambique. Resident companies and other entities, including nonlegal entities, whose principal activity is commercial, industrial or agricultural, are subject to IRPC on their worldwide income, but a foreign tax credit may reduce the amount of IRPC payable.

Companies and other entities, including nonlegal entities, that do not carry out commercial, industrial or agricultural activities, are generally subject to tax on their worldwide income.

Nonresident Entities. Companies and other entities operating in Mozambique through a permanent establishment are subject to IRPC on the profits attributable to the permanent establishment.

Company and other entities without a permanent establishment in Mozambique are subject to IRPC on income deemed to be obtained in Mozambique.

Tax Rates. The standard corporate income tax rate is 32%. For 2003 through 2010, income derived in the agricultural and breeding sector is subject to tax at a rate of 10%.

Income earned by nonresident companies or other entities without a head office, effective management control or a permanent establishment in Mozambique is generally subject to withholding tax at a rate of 20%. However, the rate is reduced to 10% for income derived from the rendering of telecommunication or international transport services. Income that is subject to a 20% withholding tax includes, but is not limited to, the following:
- Income derived from allowing the use of intellectual or industrial property and the providing of information in the industrial, commercial or scientific sectors;
- Income derived from allowing the use of, or ceding the rights to, industrial, commercial or scientific equipment; and
- Revenues from the application of capital.

Tax Incentives. Mozambique offers various tax incentives, which are summarized below.

The tax incentives described in the following three paragraphs are available for five tax years beginning with the tax year in which the company begins a new project or in the tax year in which the company obtains approval for an existing project.

Companies may benefit from the reductions in IRPC equal to the following:
- 5% of the total investment in projects carried out in Manica, Maputo and Nampula provinces;
- 10% of the total investment in projects carried out in Gaza, Sofala, Tete and Zambezia provinces; and
- 15% of the total investment in projects carried out in Cabo Delgado, Inhambane and Niassa provinces.

Companies may claim the following additional tax deductions:
- Amounts invested in the acquisition of specialized high-technology equipment, with a maximum deduction of 15% of taxable income.
- Expenditure on the professional training of Mozambican workers, with a maximum deduction of 5% of taxable income. This percentage can be increased to 10% if the training involves the use of high technology.

Companies may also claim the following as tax deductions:
- 120% of the construction and rehabilitation expenses incurred on public infrastructure projects (for example, roads and water supply) carried out in the province of Maputo, and 150% of such expenses incurred in other provinces; and
- 50% of the expenditure on art objects and other objects representative of Mozambican culture.

Companies engaged in activities covered by the investment law may claim accelerated depreciation for new immovable property at double the normal rates.

Companies are exempt from import duties on equipment under Class K of the customs tariffs. For five tax years beginning with the tax year in which they begin their activities, companies are exempt from stamp duty relating to their incorporation procedures and to amendments to their articles of association. Property transfer tax is reduced by 50% with respect to acquisitions of property destined for industry, agro-industry and hotels.

In addition to the general tax incentives described above, specific tax incentives may be granted that are based on the following:
- Areas of economic activity (agriculture, hotel and tourism, mines and petroleum);
- Size of the project (investments greater than US$500 million); and
- Geographical location of the business (Areas of Rapid Development and Industrial Free Zones).

Administration. The tax year is the calendar year.

Companies are required to make advance payments of corporate income tax in three equal monthly installments in May, July and August of the current tax year. The total amount due is determined by applying the corporate income tax rate to 80% of the preceding year's tax. The total of the advance payments may not be less than the difference between 0.5% of the company's turnover and the total of advance payments made in the preceding tax year, with a minimum difference of MT 10 million and a maximum difference of MT 30 million. Some companies are required to make special advance payments of corporate income tax in three equal monthly installments in June, August and October of the current tax year.

Companies with a head office, effective management control or a permanent establishment in Mozambique that have adopted a financial year other than the calendar year must make estimated payments as outlined above, but in the sixth, eighth and tenth months of their financial year.

Dividends. Dividends declared or paid are subject to a final 20% withholding tax.

Foreign Tax Relief. Foreign-source income is taxable in Mozambique. However, direct foreign tax may be credited against the Mozambican tax liability up to the amount of IRPC attributable to the income taxed abroad. Foreign tax credits allowed, but not used because of insufficient tax liability, may be carried forward for five years.

C. Determination of Trading Income

General. Taxable income is determined according to the following rules:

- For companies with a head office or effective management control in Mozambique that are principally engaged in commercial, agricultural or industrial activities, taxable income is the net accounting profit calculated in accordance with Mozambican generally accepted accounting principles, as adjusted by the tax code.
- For companies with a head office or effective management control in Mozambique that do not principally engage in commercial, industrial or agricultural activities, taxable income is the net total of revenues from various categories of income as described in the Personal Tax (Imposto sobre o Rendimento das Pessoas Singulares, or IRPS) Code, less expenses.

Expenses that are considered essential for the generation or maintenance of profits are deductible. However, the following expenses are not deductible:

- Illegal expenses;
- Rent paid by a lessee that is intended to be applied towards the purchase price of the leased asset; and
- Health and personal accident insurance premiums, expenses relating to life insurance and contributions to pension funds and other complementary social security schemes, except for those required by law.

Inventories. Inventories must be valued consistently by any of the following criteria:

- Cost of acquisition or production;
- Standard costs in accordance with adequate technical and accounting principles;
- Cost of sales less the normal profit margin; and
- Any other special valuation that receives the prior authorization of the tax authorities.

Changes in the method of valuation must be justifiable and acceptable to the tax authorities. Any profits resulting from such a change are taxable.

Provisions. Provisions for the following items are deductible up to amounts considered reasonable by the tax authorities:
- Doubtful accounts as a percentage of accounts receivable;
- Inventory losses;
- Obligations and expenses that are subject to a judicial process; and
- Other provisions imposed by the central bank or General Insurance Inspection (the body that inspects insurance activities) for specific activities.

Depreciation. In general, depreciation is calculated using the straight-line method. Maximum depreciation rates are fixed by law for general purposes and for certain specific industries. If rates below 50% of the official rates are used, the company cannot claim total allowable depreciation over the life of the asset. The following are some of the maximum straight-line depreciation rates fixed by law.

Asset	Rate (%)
Commercial buildings	2
Industrial buildings	4
Motor vehicles	20 to 25
Plant and machinery	10 to 16.66

Relief for Losses. Tax losses may be carried forward for five years. No carryback is allowed.

Groups of Companies. Mozambican law does not contain any measures allowing the filing of consolidated returns.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	17
Tax on specific consumption; levied on specified goods at the production stage and on imports of such goods; specified goods include vehicles and luxury goods; maximum rate	75
Social security contributions, on monthly salaries and wages; paid by	
Employer	4
Employee	3
Import duties	Various
Property transfer tax (SISA); payable by purchaser of immovable property	
First transfer	5
Second transfer	10

E. Foreign-Exchange Controls

The central bank controls all transfers of capital (including direct investments) and payments into and out of Mozambique. An authorization from the central bank is not required for the maintenance of foreign-currency bank accounts.

In general, the repatriation of profits and of proceeds from the sale or liquidation of an investment is permitted for approved foreign investment projects.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Italy (c)	15	10	10
Mauritius (a)	8/10/15 (b)	8	5
Portugal (a)	15	10	10
Nontreaty countries	20	20	20

(a) These rates apply to the effective beneficiary of the income.
(b) The 8% rate applies if the effective beneficiary of the dividends is a company that holds at least 25% of the share capital of the payer of the dividends. The 10% rate applies if the effective beneficiary of the dividends is a company that holds less than 25% of the share capital of the payer of the dividends. The 15% rate applies to other dividends.
(c) This treaty is not yet in force.

MYANMAR

(Country Code 95)

YANGON **GMT +6½**

U Tin Win Group*
112 (First Floor)
49th Street
Pazundaung Township
Yangon
Myanmar

(1) 297-120, 299-782, 200-169
Fax: (1) 201-221, 200-884

* Technical Assistance firm

Corporate and Expatriate Tax
U Tin Win — **(1) 200-169**
Mobile: 09-99-25746
E-mail: utwgcon@mptmail.net.mm

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	10/40 (a)
Branch Tax Rate (%)	– (b)
Withholding Tax (%) (c)	
Dividends	0
Interest	
Payments to Residents	0
Payments to Nonresidents	15
Royalties from Patents, Know-how, etc.	
Payments to Residents	15
Payments to Nonresidents	20
Payments for Work Performed by Contractors	
Payments to Residents	2.5
Payments to Nonresidents	3
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The 10% rate applies to resident companies; the 40% rate applies to nonresident companies. Capital gains are taxed only if the value of assets disposed of in the fiscal year exceeds K 100,000.
(b) Nonresident companies are subject to tax at a flat rate of 35% or at progressive rates ranging from 5% to 40%, whichever results in the greater tax.
(c) These withholding taxes are generally considered prepayments of tax that may be credited against the tax shown on the annual income tax return. For nonresident construction companies that do not show the ratio of their Myanmar-source income to worldwide income, the 3% withholding tax is final.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. Companies incorporated and operating under the Union of Myanmar Foreign Investment Law (FIL) as well as nonresident companies are subject to tax only on their Myanmar-source income. Resident companies are those incorporated in Myanmar. Nonresident companies consist of companies incorporated overseas and branches registered in Myanmar.

Rates of Corporate Tax. Resident companies are subject to tax at a rate of 30%. However, with the exception of enterprises operating under the Myanmar Citizens Investment Law (MCIL), economic and service enterprises of local citizens (enterprises wholly owned by citizens of Myanmar) are subject to a final income tax at a rate of 2% on their gross foreign-currency earnings.

Nonresident companies are subject to tax at a flat rate of 35% or at progressive rates, whichever results in the greater tax. The following are the progressive rates.

Taxable Income		Tax on	Rate on
Exceeding K	Not Exceeding K	Lower Amount K	Excess %
0	5,000	0	5
5,000	10,000	250	10
10,000	20,000	750	11
20,000	30,000	1,850	12
30,000	40,000	3,050	14
40,000	50,000	4,450	15
50,000	80,000	5,950	16
80,000	110,000	10,750	17
110,000	150,000	15,850	18
150,000	200,000	23,050	19
200,000	300,000	32,550	20
300,000	400,000	52,550	22
400,000	10,000,000	74,550	25
10,000,000	20,000,000	224,550	35
20,000,000	–	574,550	40

Myanmar does not have special tax rates applicable to petroleum, mining and other particular types of companies. However, the following tax exemptions and reductions are available to companies incorporated and operating under the FIL and the MCIL that are engaged in the production of goods or the performance of services:

• A tax holiday for a period of three consecutive years, including the year when the production of goods or performance of services begins. This period may be extended if the Myanmar Investment Commission considers such extension to be in the interest of Myanmar.

- A tax exemption for profits transferred to a reserve fund and then reinvested in Myanmar by the end of the fiscal year following the year of transfer to the reserve fund.
- A tax exemption for 50% of profits derived from the export of goods manufactured in Myanmar.

By notification, the government may grant tax exemption or relief for any taxpayer or any class of goods or services, and for any type of goods produced in the country and exported abroad. In addition, for newly established enterprises, it may grant the following: tax exemption or relief for machinery, plant and other equipment imported for use in construction; and tax exemption or relief for the enterprise for three consecutive years, beginning with the year the production of goods or services starts.

The Myanmar Investment Commission may grant significant tax exemptions and reliefs to enterprises operating under a permit issued by the commission. These exemptions and reliefs relate to the following: imported machinery, equipment, instruments, machinery components, spare parts and materials used in the business, if these items are required for use during the period of construction; and raw materials imported for the first three years of commercial production following the completion of construction.

Capital Gains. Capital gains tax is levied on the sale, exchange or transfer of capital assets. Capital assets are defined in the income tax law as land, buildings, vehicles and other capital assets held by a business enterprise. To determine capital gains, the following amounts are deducted from the value of the proceeds received for the assets:

- The cost of the assets, minus tax depreciation claimed;
- Additional capital expenditure with respect to the asset; and
- Expenses incurred on the procurement and disposal of the asset.

The capital gains tax rate is 10% for resident companies and 40% for nonresident companies. Capital gains are subject to tax only if the value of assets disposed of in a fiscal year exceeds K 100,000.

Capital losses may offset capital gains in the same income year, but may not be carried forward or back.

Administration. The Myanmar fiscal year ends on 31 March. The fiscal year in which income is earned is known as the income year, and the following year is known as the year of assessment. Companies must file tax returns for the income year by 30 June of the year of assessment.

Companies may make advance tax payments in June, September, December and March, based on the estimated income for the year. Any balance of tax due on final assessment must be paid in accordance with a notice issued by the Internal Revenue Department. If tax liability exceeds the advance tax payments on final assessment, a penalty of up to 10% is imposed.

A capital gains return must be filed within one month of the date of disposal of a capital asset.

Dividends. Resident companies must pay dividends out of after-tax profits. Dividends paid are not subject to withholding tax and are not included in the taxable income of recipient companies or individuals. Dividends received from foreign companies are includible in taxable income unless a tax treaty provides otherwise.

Foreign Tax Relief. Foreign tax relief is available under Myanmar's tax treaties with Malaysia, Singapore and the United Kingdom. Myanmar domestic law does not grant foreign tax relief, such as a foreign tax credit.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements, prepared in accordance with generally accepted accounting principles and subject to certain adjustments required by the tax law. Nonresident companies trading in Myanmar generally prepare their financial statements in accordance with the Myanmar Companies Act; financial statements prepared in accordance with the act are deemed to be prepared in accordance with Myanmar generally accepted accounting principles.

To be deductible, expenses must be incurred wholly and exclusively in the production of income. Depreciation allowances are deductible (see *Depreciation and Amortization Allowances* below). Amounts donated to an approved institution or fund established for religious or charitable purposes is deductible, but the deduction may not exceed 25% of taxable income before the deduction.

Inventories. Inventory is valued at the lower of cost or net realizable value. In general, cost is determined using the first-in, first-out (FIFO) or average-cost method, but the method chosen must be applied consistently.

Provisions. Provisions for doubtful debts may be deducted for tax purposes, but only to the extent that the debts arise from the company's business activities and become bad, or are estimated to have become bad, during the income year. Other provisions are also deductible if they are accurately estimated.

General provisions are not deductible.

Depreciation and Amortization Allowances. The income tax regulations prescribe deductible straight-line depreciation allowances for capital assets. The following are the general straight-line depreciation rates.

Asset	Rate (%)
Plant and machinery	5
Buildings*	
First class	1.5
Second class	2.5
Buses and trucks for hire	20
Other vehicles	12.5
Office equipment	10
Office furniture	5

* These rates are doubled for factory buildings.

Under the income tax regulations, special depreciation rates of 15% for newly erected buildings and 20% for newly installed plant and machinery apply in the year of erection or installation. In subsequent years, the normal depreciation rates apply.

Enterprises incorporated and operating under the FIL may claim accelerated depreciation on machinery, equipment, buildings and other capital assets if they obtain the permission of the Myanmar Investment Commission.

A reasonable amount of research and development expenses and other deferred expenses may be written off each year.

Relief for Losses. Any loss, other than a capital loss, or a share of a loss may offset income from other sources in the same income year. Unabsorbed losses may be carried forward to offset income in the following three income years. Losses may not be carried back.

Groups of Companies. The income tax law does not provide for the consolidation of income for a group of companies. Each company, including a wholly owned subsidiary, is assessed separately.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Commercial tax, on goods manufactured in Myanmar, agricultural and forestry products produced in Myanmar, imported goods, trading sales in Myanmar, export sales and services performed in Myanmar	
Goods	
Schedule 1 (for example, paddy and wheat grain)	0
Schedule 2 (for example, urea fertilizer and salt)	5
Schedule 3 (for example, ice and condensed milk)	10
Schedule 4 (for example, lorries, trucks and trailers that weigh more than 1/4 ton)	20
Schedule 5 (for example, tinned provisions and pipe tobacco)	25
Schedule 6 (for example, cigarettes, fuel oil, liquor, pearls, jades and gems)	30 to 200
Trading sales	
In kyats	5
In foreign currency	8
Export sales in foreign currency, except cutting, making and packing (CMP) charges	8
Passenger transport fares	8
Hotels, restaurants and lodging	10
Entertainment	15/30
(For certain items, the tax rates are applied to the income less specified deductions. These deductions are K 240,000 for local sales of locally manufactured goods, K 300,000 for trading sales and K 180,000 for transport income. The commercial tax rates for imported television sets and refrigerators are reduced by 80%. The rates for other imported goods are reduced by 90%, with certain exceptions, such as galvanized iron sheets and raw materials to be used in production.)	

Nature of Tax	Rate (%)
Stamp duties, levied on specified documents and transactions, including property transfers	Various
Social security contributions, paid by employers for medical, employment-related injury or death insurance plans; paid on 10 categories of salary income	2.5

E. Miscellaneous Matters

Foreign-Exchange Controls. The unit of currency in Myanmar is the kyat (K), which is pegged to a Special Drawing Right (SDR) at K 8.50847 = SDR 1. The International Monetary Fund (IMF) established the SDR in 1970. Myanmar applies 2% margins to spot exchange transactions involving purchases and sales of U.S. dollars and other foreign currencies recognized by the Central Bank of Myanmar, based on a fixed kyat to SDR rate. As a result, for such transactions, the buying rate is the applicable exchange rate less 2%, and the selling rate is the applicable exchange rate plus 2%. The buying and selling rates of the kyat against the British pound, the French franc, the Japanese yen, the Swiss franc and the U.S. dollar are quoted by the Myanmar Foreign Trade Bank and are determined on the basis of daily calculations of the value of these currencies against SDR. Buying and selling rates for other currencies are determined on the basis of appropriate cross rates (exchange rates for the foreign currencies) in money markets in various geographical regions.

To conserve the available foreign-exchange reserve, foreign-exchange controls are administered by the Controller of the Foreign Exchange Management Department of the Central Bank of Myanmar and the Exchange Management Board.

For remittances of dividends, interest and services fees, repayments of foreign loans, repatriation of capital and other overseas payments, foreign currency must be derived from the bank account of the enterprise in Myanmar, and payment is subject to the approval of the Controller of Foreign Exchange. Expatriate personnel may freely remit their after-tax salaries and payments for reasonable living expenses.

Transfer Pricing. The tax authorities may determine profit based on a reasonable percentage of turnover if transactions with nonresidents are not carried out at arm's length.

Debt-to-Equity Rules. The domestic debt-to-equity ratio for enterprises incorporated in Myanmar may not exceed 1:2. Banks and financial institutions must comply with capital-adequacy norms prescribed by the Central Bank of Myanmar.

Antiavoidance Legislation. The tax law allows the Internal Revenue Department to disregard or adjust any transaction that may have the effect of tax avoidance.

F. Tax Treaties

Myanmar has entered into double tax treaties with Malaysia, Singapore and the United Kingdom. None of these treaties provides for reduced withholding tax rates for dividends, interest or royalties.

NAMIBIA

(Country Code 264)

WINDHOEK **GMT +2**

Ernst & Young **(61) 23-8260**
Mail Address: **Fax: (61) 23-4991**
P.O. Box 1857
Windhoek
Namibia

Street Address:
Metje Behnsen Geb.
Independence Avenue
Windhoek
Namibia

Corporate Tax

David J.M. Clegg *(resident in Cape Town)* — **[27] (21) 410-5561**, **E-mail: david.clegg@za.ey.com**

F. Cameron Kotzé — **(61) 23-8260**, **Mobile: (81) 127-1001**, **E-mail: cameron.kotze@za.ey.com**

Oil and Gas/Human Capital

David J.M. Clegg *(resident in Cape Town)* — **[27] (21) 410-5561**, **E-mail: david.clegg@za.ey.com**

F. Cameron Kotzé — **(61) 23-8260**, **Mobile: (81) 127-1001**, **E-mail: cameron.kotze@za.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	10 (a)
Interest	0
Royalties from Patents, Know-how, etc.	10.5 (b)
Branch Remittance Tax	0 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) Final tax applicable to nonresidents. Dividends paid out of oil and gas profits are exempt from withholding tax.
(b) Applicable to nonresidents. The rate is determined by applying the regular corporate tax rate of 35% to a deemed taxable profit of 30% of gross royalties.
(c) In the absence of treaty protection, the 10% dividend withholding tax may be imposed on branch profits when the parent company declares a dividend.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies subject to tax include companies registered in Namibia and branches of foreign companies in Namibia deriving income from a Namibian source. Other associations (such as close corporations) registered or incorporated outside Namibia that carry on business or have an office in Namibia are taxed as companies. Corporate income tax is levied primarily on income from Namibian sources.

Rates of Tax. The rate of tax for companies, other than those companies that have been awarded manufacturing status, is 35%. The tax rate for companies that have been awarded manufacturing status is 18% for their first ten years of registration as a manufacturer and 35% thereafter. The Receiver of Revenue, in consultation with the Ministry of Trade and Industry, reviews and approves applications to register as manufacturers. Approval is granted only if the company is engaged in manufacturing and if its activities economically benefit Namibia or its inhabitants (see Section C for information regarding special deductions available to registered manufacturers).

Mining companies and petroleum exploration and production companies are taxed according to special formulas.

Under the Export Processing Zone Act, an export processing zone has been established in Walvis Bay. Companies operating in the zone are exempt from corporate income tax. Value-added tax, transfer duty and stamp duty are not imposed in the zone.

Capital Gains. Capital gains tax is not imposed in Namibia.

Administration. Annual financial statements must be prepared as of the last day of February, unless another date is agreed to by the tax authorities. In practice, permission to use the company's financial year-end is always granted. A company is required to make two provisional tax payments, the first payment six months after the start of the financial year and the second at the end of the year. Payments are based either on the taxable income of the most recent year assessed or on an estimate of the current year's taxable income. Penalties are imposed if provisional taxes are less than 90% of the final tax assessment unless the prior year's tax assessment was used as the basis for estimating taxable income.

Companies must file an annual return within seven months after the tax year-end unless an extension is obtained. If the total provisional tax payments are less than the tax liability shown on the return, the balance of tax due must be paid within seven months after the end of the tax year, regardless of whether a company has obtained an extension to file its tax return. A company's tax year generally coincides with its financial year.

Dividends. Dividends received by a company are exempt from the regular company tax, and expenses incurred in the production of dividend income are not deductible in the determination of the company's taxable income. Dividends paid to nonresidents are subject to a final 10% withholding tax unless they are paid out of oil and gas profits. A tax treaty may reduce the rate of such tax.

Foreign Tax Relief. In the absence of treaty provisions, a unilateral tax credit is available for foreign direct and withholding taxes paid on dividends and royalties. The credit may not exceed the Namibian tax attributable to such income. The credit is denied to the extent that a refund of the foreign tax is possible.

C. Determination of Trading Income

General. Taxable income includes both trade and nontrade income (interest) not of a capital nature. Revenue amounts and realized foreign-exchange gains are subject to tax. Taxable income rarely coincides with profit calculated in accordance with accepted accounting practice.

To be eligible for deduction, expenditures must be incurred in the production of taxable income in Namibia, must be for purposes of trade and must not be of a capital nature. However, realized foreign-exchange losses are deductible even if they are of a capital nature.

Scientific research expenditures are deductible if the research is undertaken for the development of business or is contributed to an institution approved by the Council for Scientific and Industrial Research.

Special Deductions. The following special deductions are available to registered manufacturers:

- An additional deduction of 25% of the wages paid to their manufacturing staffs;
- An additional deduction of 25% of approved training expenses for their manufacturing staffs;
- An additional deduction of 25% of export marketing expenses, depending on the level of increase in export turnover; and
- An additional deduction of 25% of expenses incurred to transport by road or rail raw materials and equipment used in the manufacturing activity.

Losses resulting from these special deductions may not be used to offset other income.

Taxable income derived from exports of manufactured goods, excluding fish and meat products, is reduced by 80%. This allowance is available to trading houses and manufacturers. For manufacturers, this allowance applies in addition to the special deductions listed above. The combination of this allowance and the fourth special deduction listed above reduces the effective tax rate for manufacturers of exports to 0%.

Inventory. Trading stock includes all goods, materials or property acquired for manufacture or sale, including packaging but excluding consumables and machinery parts. The value of stock is based on original cost plus the costs of preparing stock for sale. The last-in, first-out (LIFO) method of stock valuation may be applied on approval by the Minister of Finance, subject to various conditions.

Provisions. Deductible expenses must be actually incurred, and consequently, provisions are not deductible. However, an allowance for doubtful accounts may be established equal to 25% of the debts that the Minister of Finance is satisfied are doubtful. The amount of irrecoverable debts written off is allowed as a deduction if the debts were once included as taxable income or if the write-off can be construed as an operating loss incurred in the production of income (for example, the write-off of casual loans to staff members who are unable to repay).

Tax Depreciation (Capital Allowances)

Machinery, Equipment and Vehicles. The cost of machinery, motor vehicles, utensils, articles, ships and aircraft may be deducted in three equal annual amounts, beginning in the year of acquisition.

Buildings. An initial allowance of 20% of construction cost is permitted for commercial buildings in the year the buildings are first used. An allowance of 4% is permitted in each of the following 20 years. For industrial buildings of a registered manufacturer, an initial allowance of 20% and an annual allowance of 8% are allowed. No allowance is granted for employee housing.

Patents, Designs, Trademarks and Copyrights. If used in the production of income, the cost of developing, purchasing or registering patents, designs, trademarks, copyrights and similar property is allowed in full if such cost is not more than N$200, or the cost can be amortized over the estimated useful life if more than N$200. The period of write-off may not exceed 25 years.

Mining Including Oil and Gas. Prospecting and development expenses incurred in mining operations are not subject to the tax depreciation rules described above. In general, prospecting expenses may be deducted in the year production begins. Costs incurred on infrastructure may be deducted over three years, beginning in the year production begins.

Recapture. Capital allowances are generally subject to recapture to the extent the sales proceeds exceed the tax value after depreciation. In addition, capital allowances are recaptured if assets are withdrawn from a business or removed from Namibia, regardless of whether the assets are sold. The market value of the assets is used to determine the amount recaptured if no proceeds are received.

Relief for Trading Losses. All companies may carry forward unused losses indefinitely to offset taxable income in future years. Losses may not be carried back. Companies that carry on mining operations may offset current-year and prior-year trading losses from mining against other trade income and vice versa. However, such losses must be apportioned on a pro rata basis between mining and other trade income to determine taxable income from each source in the current year. Oil and gas companies may not offset losses from oil and gas activities against other trade income, or vice versa, in any year.

Groups of Companies. A group of companies is not taxed as a single entity in Namibia, and an assessed loss of one company cannot be offset against the taxable income of another company in the group. An assessed loss of a branch of a foreign company may be transferred to a Namibian subsidiary under certain circumstances.

D. Value-Added Tax

Value-added tax (VAT) is levied on supplies of goods or services, other than exempt supplies, made in Namibia and on imports of goods and certain services.

The standard VAT rate is 15%. The following items are zero-rated: exports of goods; certain services rendered to nonresidents who are not registered for VAT; disposals of going concerns; and local supplies of fuel levy goods (petrol and diesel) and maize meal. Local public passenger transport, medical services, educational services and long-term residential rentals are exempt from VAT.

E. Miscellaneous Matters

Exchange Controls. Namibia is a member of the Common Monetary Area, which also includes Lesotho, South Africa and Swaziland. Consequently, it is subject to the exchange control regulations promulgated by the Reserve Bank of South Africa. If Namibia withdraws from the Common Monetary Area, it is likely to introduce its own exchange control restrictions along similar lines.

Exchange controls are administered by the Bank of Namibia, which has appointed various commercial banks to act as authorized foreign-exchange dealers.

The Namibian dollar (N$) is the Namibian currency. The Namibian dollar (N$) and the South African rand (R) are convertible one for one (that is, R1=N$1), and this rate does not fluctuate.

Antiavoidance Legislation. Namibian legislation contains no specific transfer-pricing, thin-capitalization or controlled foreign corporation provisions. It does, however, contain a general antiavoidance provision to attack arrangements that are primarily tax-motivated and, in certain respects, abnormal when considered in the context of surrounding circumstances. In general, the Bank of Namibia requires a debt-to-equity ratio of 3:1 when approving foreign investment into Namibia. Another antiavoidance provision deals with transactions involving companies (including changes in shareholdings) that are designed to use a company's assessed loss, usually by diverting income to, or generating income in, that company.

F. Treaty Withholding Tax Rates

Namibia has entered into double tax treaties with France, Germany, India, Mauritius, Romania, the Russian Federation, South Africa and Sweden. In addition, it has a treaty with the United Kingdom, which is the 1962 treaty between the United Kingdom and South Africa as extended to Namibia.

The treaties provide for withholding tax rates on dividends, interest and royalties paid to residents of the other treaty countries as indicated in the following table.

	Dividends %	Interest %	Royalties %
France	5/15 (a)	10	10
Germany	10/15 (b)	0	10
India	10	10	10
Mauritius	5/10 (c)	10	5
Romania	15	15	15
Russian Federation	5/10 (d)	10	5
South Africa	5/15 (a)	10	10
Sweden	5/15 (a)	10	5/15 (e)
United Kingdom	5/15 (f)	20	5
Nontreaty countries	10	0	10.5

(a) The 5% rate applies if the recipient is a company that owns at least 10% of the payer of the dividends. The 15% rate applies to other dividends.
(b) The 10% rate applies if the recipient is a company that owns at least 10% of the payer of the dividends. The 15% rate applies to other dividends.
(c) The 5% rate applies if the recipient owns at least 25% of the payer of the dividends. The 10% rate applies to other dividends.

(d) The 5% rate applies if the recipient is a company that owns at least 25% of the payer of the dividends and has invested at least US$100,000 in the share capital of the payer. The 10% rate applies to other dividends.
(e) The 5% rate applies to royalties paid for patents, secret formulas or information relating to industrial or scientific experience. The 15% rate applies to other royalties.
(f) The 5% rate applies if the recipient is a company that controls directly or indirectly more than 50% of the voting power of the payer of the dividends. The 15% rate applies to other dividends.

Namibia is negotiating tax treaties with Botswana, Malaysia, Poland, Singapore, Tunisia and Zimbabwe.

NEPAL

(Country Code 977)

KATHMANDU	GMT +5¾

Joshi & Bhandary*	**441-9364, 442-3550**
Kosi Compound	**Fax: 441-3038**
Dillibazar	
Kathmandu	
Nepal	

*Technical Assistance firm

Corporate and Indirect Taxes

Prabhu R. Bhandary	**442-3550** **E-mail: prbhandary@wlink.com.np**
Arvind D. Joshi	**441-9364** **E-mail: jrb@info.com.np**

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (b)	
Dividends	5/10 (c)
Interest	6/15 (d)
Royalties from Patents, Know-how, etc.	15
Rent	15
Technical Service and Consulting Fees	15
Insurance Premiums	1.5 (e)
Payments Under Contracts for Supply of Materials and Construction	1.5
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

(a) The rate is 30% for banks, financial institutions and insurance companies.
(b) The withholding taxes are imposed on payments to resident and nonresident companies and individuals. The taxes are treated as final taxes.
(c) The 5% rate applies to dividends paid out of income sourced in Nepal. The 10% rate applies to dividends paid out of foreign-source income.
(d) The 6% rate applies to interest paid to resident individuals. The 15% rate applies to interest paid to others.
(e) The withholding tax applies to insurance premiums exceeding NPR 50,000.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are taxed on their worldwide income. Nonresident companies are taxed on Nepalese-source income only. A resident company is a company that satisfies either of the following conditions:
- It is established in Nepal; or
- It has its effective management located in Nepal.

Rates of Corporate Tax. The standard rate of corporate income tax is 25%. A 30% rate applies to banks, financial institutions and insurance companies.

The minimum tax rate is 20%, except for companies manufacturing alcoholic beverages, beer or products in which tobacco is the major raw material.

For the 2003-04 fiscal year, companies are also subject to a special fee of 1.5% on their taxable income.

Capital Gains. Capital gains are taxed at a rate of 10%. Capital losses cannot offset ordinary income, and ordinary losses cannot offset capital gains.

Administration. The tax year runs from 16 July through 15 July.

Companies must file their annual income tax return by 15 October following the end of the tax year. Companies must make advance payments of tax by 15 January, 15 April and 15 July of the tax year and pay any balance of tax due by 15 October following the end of the tax year. Provisional tax returns must be filed together with the advance payments of tax by the deadlines mentioned above.

For late filings of tax returns, a penalty equal to 0.1% of taxable income or NPR 1,000 per year, whichever is higher, is imposed. A penalty at an annual rate of 15% is imposed for late payments of tax.

Dividends. A 5% withholding tax is imposed on dividends paid out of Nepalese-source income. A 10% withholding tax is imposed on dividends paid out of foreign-source income. The dividend withholding tax is considered to be a final withholding tax.

Foreign Tax Relief. A resident may claim a foreign tax credit for foreign income tax paid to the extent that the foreign tax is paid on income taxable in Nepal. A foreign tax credit may be claimed under an applicable double tax treaty.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements, subject to certain adjustments required by various sections of the Income Tax Act.

Expenses that are not for business purposes, as well as fines and penalties paid under the Income Tax Act, are not deductible for tax purposes.

Research and development deductions may not exceed 50% of taxable income.

Inventories. Inventories are valued at the lower of cost or market.

Provisions. Provisions for bonuses, loan losses and bad debts may be claimed as business deductions, subject to the rules contained in the Income Tax Act and Commercial Bank Act.

Tax Depreciation. Tangible assets may be depreciated using the written-down value method at rates ranging from 5% to 25%.

Intangible assets, including goodwill, are amortized using the straight-line method over the life of the asset.

Relief for Losses. Ordinary and capital losses may be carried forward four years. Ordinary losses may not offset capital gains, and capital losses may not offset ordinary income. Losses may not be carried back.

Groups of Companies. Nepalese law does not allow the filing of consolidated tax returns or provide any other tax relief for groups of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	10
Customs duties; imposed on raw materials and machinery used by industrial companies	5
Property tax on land and buildings; imposed at progressive rates	
Up to NPR 1 million	0
From NPR 1 million to NPR 2 million	0.03
From NPR 2 million to NPR 5 million	0.05
From NPR 5 million to NPR 10 million	0.25
From NPR 10 million to NPR 20 million	0.5
Amount exceeding NPR 20 million	1.5
Transfer taxes, such as stamp duties; imposed on transfer value	
Urban areas (municipalities)	6
Rural areas (villages)	3

E. Foreign-Exchange Controls

The Nepalese currency is the Nepalese rupee (NPR). However, major foreign currencies may be used to conduct business in Nepal.

The Nepal Rastra Bank (NRB), which is the central bank, imposes foreign-exchange controls. No person other than a license holder may buy, borrow, accept payment, sell, lend, pay or relinquish title unless either of the following applies: the other party to the transaction is a license holder; or the person obtains permission from the NRB. A person obtaining foreign exchange for importing goods must import goods corresponding to the value of the exchange. No person, including a license holder, may conduct transactions in foreign exchange by exchanging Nepalese currency for foreign currency or vice versa, at rates differing from those prescribed by the NRB. A person obtaining foreign currency for a specific purpose may not use it for any other purpose. If the person is unable to use the currency, the currency must be sold to a license holder within 30 days after the date the person becomes unable to use the foreign exchange.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
India	10/15	15	15
Mauritius	5/15	10/15	15
Norway	5/10	15	15
Sri Lanka	15	10/15	15
Thailand	15	10/15	15
Nontreaty countries	5/10*	6/15*	15

* See Section A.

NETHERLANDS

(Country Code 31)

The e-mail addresses for the persons listed below who are resident in the Netherlands, except for the persons listed under Legal Services, are in the following standard format:

firstname.surname@nl.ey.com

The e-mail addresses for persons who are not resident in the Netherlands or who have addresses varying from the standard format are listed below the respective persons' names.

The e-mail addresses for the persons listed under Legal Services are in the following standard format:

firstname.surname@hollandlaw.nl

The e-mail addresses for persons listed under Legal Services who have e-mail addresses varying from the standard format are listed below the respective persons' names.

AMSTERDAM **GMT +1**

Ernst & Young **(20) 549-7333**
Mail Address: **Fax: (20) 646-2553**
P.O. Box 7925
1008 AC Amsterdam
Netherlands

Street Address:
Drentestraat 20
1083 HK Amsterdam
Netherlands

Holland Van Gijzen **(20) 549-7373**
Attorneys at Law and **Fax: (20) 642-9013**
Civil Law Notaries
Mail Address:
P.O. Box 7925
1008 AB Amsterdam
Netherlands

Street Address:
Drentestraat 21
1083 HK Amsterdam
Netherlands

International Tax Services – Core

Gerrit Groen	**(20) 549-2167** **Mobile: (6) 21-25-20-59**
Ard Groot *(resident in London)*	**[44] (20) 7951-7925** **Mobile: [44] 7776-460-001** **E-mail: agroot@uk.ey.com**
Rik Lina	**(20) 549-7375** **Mobile: (6) 21-25-28-25**
Fleur Marcus-van Gunsteren	**(20) 549-7348** **Mobile: (6) 21-25-27-36** **E-mail: fleur.marcus@nl.ey.com**
Hans Marseille	**(20) 549-7478**
Chiel Smit	**(20) 546-6833** **Mobile: (6) 29-08-38-71**
Geeke Snater *(resident in New York)*	**[1] (212) 773-2420** **E-mail: geeke.snater@ey.com**
Johan B. van den Bos	**(20) 549-7324** **Mobile: (6) 21-25-12-02** **E-mail: johan.van.den.bos@nl.ey.com**
Peter Wamper	**(20) 549-7339** **Mobile: (6) 21-25-27-49**

International Tax Services – Real Estate

◆ Helmar J.D. Klink	**(20) 546-6731** **Mobile: (6) 21-25-20-75**
Bart Verhagen	**(20) 546-6276** **Mobile: (6) 21-25-28-13**

National Real Estate Services

Wiebe Brink *(resident in Utrecht)*	**(30) 259-2174** **Mobile: (6) 21-25-19-25**
Gérard van Onna *(resident in Apeldoorn)*	**(55) 529-1329** **Mobile: (6) 29-08-45-71** **E-mail: gerard.van.onna@nl.ey.com**
Henk Wilbrink *(resident in Amersfoort)*	**(33) 422-9369** **Mobile: (6) 21-25-15-85**

Strategic Business Solutions

Arno H.W. Panis	**(20) 549-7689** **Mobile: (6) 21-25-27-07**
Xander Wassink	**(20) 546-6345** **Mobile: (6) 29-08-43-99**

International Tax Services

◆ Helmar J.D. Klink	**(20) 546-6731** **Mobile: (6) 21-25-20-75**
Paulus Merks	**(20) 546-6459** **Mobile: (6) 29-08-37-40**

Mergers and Acquisitions

◆ Carl W.A. van Suchtelen	**(20) 546-6707** **Mobile: (6) 29-08-32-53** **E-mail: carl.van.suchtelen@nl.ey.com**
George L. Meij	**(20) 546-6452** **Mobile: (6) 21-25-25-35**
Marc A. Rademakers	**(20) 546-6388** **Mobile: (6) 29-08-31-85**
Joost Smallenbroek	**(20) 546-6462** **Mobile: (6) 21-25-17-74**
Ronald F. van de Merwe	**(20) 546-6385** **Mobile: (6) 29-08-36-49** **E-mail: ronald.van.de.merwe@nl.ey.com**

International Tax Services – Latin American Business Center

Javier Lasso Peña	**(20) 546-6074** **Mobile: (6) 29-08-41-08** **E-mail: javier.lasso.pena@nl.ey.com**
Sonia Zapata	**(20) 549-2199** **Mobile: (6) 21-25-28-92**

International Tax Services – Tax-Effective Supply Chain Management

★ H. Victor Bartels	**(20) 549-7378** **Mobile: (6) 21-25-26-58** **E-mail: victor.bartels@nl.ey.com**
Jeroen Kuppens	**(20) 549-7656** **Mobile: (6) 21-25-23-70**
Esmé Stevens	**(20) 546-6834** **Mobile: (6) 29-08-46-80**

International Tax Services – Transfer Pricing

Jean-Paul Donga *(resident in Melbourne)*	**[61] (3) 9288-8065** **E-mail: jean.paul.donga@au.ey.com**
★ Erik Kamphuis	**(20) 549-7327** **Mobile: (6) 21-25-21-46**
Danny Oosterhoff	**(20) 546-6007** **Mobile: (6) 21-25-27-54**
Martin Weenink	**(20) 546-6870** **Mobile: (6) 29-08-43-80**

International Tax Services – Marketing Coordinator

Laura Vermeulen	**(20) 546-6294** **Mobile: (6) 29-08-38-65**

International Tax Services – Business Development Manager

James Sitko	**(20) 549-7704** **Mobile: (6) 29-08-33-00**

Corporate Tax – Inbound

Arco P. Bakker	**(20) 546-6866** **Mobile: (6) 21-25-18-38**
Herman de Bruin	**(20) 549-7720** **Mobile: (6) 21-25-27-59** **E-mail: herman.de.bruin@nl.ey.com**
Gerwin de Wilde	**(20) 549-7481** **Mobile: (6) 29-08-33-71** **E-mail: gerwin.de.wilde@nl.ey.com**
Frans Hendrikx	**(20) 546-6510** **Mobile: (6) 29-08-35-02**
Emily Jansen	**(20) 549-7306** **Mobile: (6) 29-08-36-04**
Ernst F. Kraaij	**(20) 549-2159** **Mobile: (6) 29-08-36-61**
Avelien Schouten	**(20) 549-7332** **Mobile: (6) 29-08-37-19**
Erwin Sommeling	**(20) 549-7662** **Mobile: (6) 21-25-12-56**
Marc Stiebing	**(20) 546-6795** **Mobile: (6) 29-08-31-95**
Mart van de Ven	**(20) 549-7312** **Mobile: (6) 29-08-35-45** **E-mail: mart.van.de.ven@nl.ey.com**

Corporate Tax

Ton Daniels	**(20) 549-7253** **Mobile: (6) 21-25-22-21**
Jeroen Davidson	**(20) 549-7762** **Mobile: (6) 21-25-16-21**

Mark Goudsmit	**(20) 549-7370** **Mobile: (6) 29-08-34-20**
Dick Hoogenberg	**(20) 549-7419** **Mobile: (6) 21-25-26-90**
Annemiek Kale	**(20) 546-6496** **Mobile: (6) 29-08-40-74**
Harry Kleine	**(20) 546-6022** **Mobile: (6) 21-25-26-36**
Lex Maas	**(20) 549-7718** **Mobile: (6) 21-25-23-18**
Silvain Niekel	**(20) 546-6675** **Mobile: (6) 29-08-40-76**
Leontien Smink	**(20) 549-7355** **Mobile: (6) 29-08-35-86**
Jeroen Tangelder	**(20) 549-7537** **Mobile: (6) 29-08-36-93**
Margreet Teuben	**(20) 546-6269** **Mobile: (6) 21-25-28-59**
Richard van Dam	**(20) 549-7731** **Mobile: (6) 29-08-31-66** **E-mail: richard.van.dam@nl.ey.com**
Marianne van den Houten	**(20) 549-7738** **Mobile: (6) 29-08-31-03** **E-mail: marianne.van.den.houten@nl.ey.com**
Lenneke van Dijk	**(20) 549-7247** **Mobile: (6) 29-08-37-64** **E-mail: lenneke.van.dijk@nl.ey.com**
Olivia van Noort	**(20) 549-7523** **Mobile: (6) 29-08-37-05** **E-mail: olivia.van.noort@nl.ey.com**

Financial Services

Jeroen Davidson	**(20) 549-7762** **Mobile: (6) 21-25-16-21**
Silvain Niekel	**(20) 546-6675** **Mobile: (6) 29-08-40-76**
Jeroen Tangelder	**(20) 549-7537** **Mobile: (6) 29-08-36-93**

Insurance

Herman de Ruijter	**(20) 549-7717** **Mobile: (6) 21-25-15-97** **E-mail: herman.de.ruijter@nl.ey.com**

Foreign Tax Desks

Mark E. Bookman, *United States (Real Estate)*	**(20) 549-7431**
◆ Janette R. Cushman, *United States*	**(20) 549-7258** **Mobile: (6) 29-08-43-18**
Bruce K. Handa, *United States*	**(20) 546-6415** **Mobile: (6) 21-25-11-33**

Dutch Tax Desks Overseas

Jean-Paul Donga *(resident in Melbourne)*	**[61] (3) 9288-8065** **E-mail: jean.paul.donga@au.ey.com**
Ard Groot *(resident in London)*	**[44] (20) 7951-7925** **Mobile: [44] 7776-460-001** **E-mail: agroot@uk.ey.com**
Bas Leenders *(resident in New York)*	**[1] (212) 773-1974** **E-mail: bas.leenders@ey.com**
Roderik Rademakers *(resident in London)*	**[44] (20) 7951-8235** **Mobile: [44] 7766-422-383** **E-mail: rrademakers@uk.ey.com**
Erwin Sieders *(resident in London)*	**[44] (20) 7951-1481** **E-mail: esieders@uk.ey.com**

Geeke Snater *(resident in New York)*	**[1] (212) 773-2420** **E-mail: geeke.snater@ey.com**
Frank van Hulsen *(resident in New York)*	**[1] (212) 773-2006** **E-mail: frank.van.hulsen@ey.com**
Jurjan Wouda Kuipers *(resident in New York)*	**[1] (212) 773-6464** **E-mail: jurjan.woudakuipers@ey.com**

Indirect Taxes – European VAT

John H. E. Arnold	**(20) 549-7474**
Ben J.M. Terra	**(20) 549-7391**

Indirect Taxes – Customs

Wouter J. Benning	**(20) 549-7230** **Mobile: (6) 21-25-17-73**
Yvonne M. Hilst	**(20) 549-7615**
★ Jaap G. Olijve	**(20) 549-7330**
Peter Trouwborst	**(20) 549-7333**

Indirect Taxes – VAT General

Gijsbert C. Bulk	**(20) 549-7218** **Mobile: (6) 29-08-32-49**
Astrid van Dongen	**(20) 549-7207** **E-mail: astrid.van.dongen@nl.ey.com**
Kelvin Y. Hulsebos	**(20) 549-7225** **Mobile: (6) 29-08-45-74**

Indirect Taxes – Supply Chain

Hanne Jesca Bax	**(20) 549-7473** **Mobile: (6) 29-08-33-64** **E-mail: hanne.jesca.bax@nl.ey.com**
Erik J.J.M. van den Berg	**(20) 549-7341** **Mobile: (6) 29-08-32-15** **E-mail: erik.van.den.berg@nl.ey.com**
Jacek M. Buziewski	**(20) 546-6711** **Mobile: (6) 29-08-45-22**
Hugo J.M. Dams *(resident in Chicago)*	**[1] (312) 879-5742** **E-mail: hugo.dams@ey.com**
Bas J. de Koning	**(20) 549-7755** **Mobile: (6) 29-08-31-81** **E-mail: bas.de.koning@nl.ey.com**
John G. Sloot	**(20) 549-7772** **Mobile: (6) 21-25-27-63**

Indirect Taxes – VAT Compliance

Marcel H.J. Schellekens	**(20) 549-7752**

Indirect Taxes – Enterprise Resource Planning

Richard H. Cornelisse	**(20) 549-7219** **Mobile: (6) 29-08-43-62**
Kerstine L. Rencourt	**(20) 549-7234** **Mobile: (6) 29-08-36-33**

Human Capital

David Colvin, *U.S. Tax*	**(20) 549-7472** **Mobile: (6) 21-25-18-45**
Richard de Graaf, *Global Mobility*	**(20) 546-6458** **Mobile: (6) 29-08-34-59** **E-mail: richard.de.graaf@nl.ey.com**
Arnoud Driessen, *Global Mobility*	**(20) 549-7737** **Mobile: (6) 21-25-23-05**
Leen Gijzen, *Global Mobility*	**(20) 546-6319** **Mobile: (6) 29-08-30-68**
Harry Hofman	**(20) 549-7586** **Mobile: (6) 29-08-35-82**
Peter Janssen, *Global Mobility*	**(20) 549-7420** **Mobile: (6) 21-25-12-32**

Anne Kwint-Bijleveld, *Immigration*	**(20) 546-6254** **Mobile: (6) 29-08-36-85**
Lita Mannoe, *Performance and Reward*	**(20) 546-6579** **Mobile: (6) 29-08-39-49**

Technology, Communications and Entertainment (TCE)

Eugène Bartman	**(20) 549-7691** **Mobile: (6) 29-08-35-46**
Jan-Peter Dogge	**(20) 546-6652** **Mobile: (6) 29-08-42-39** **E-mail: jan-peter.dogge@nl.ey.com**
Frank van den Ende	**(20) 549-7730** **Mobile: (6) 21-25-13-78** **E-mail: frank.van.den.ende@nl.ey.com**
Jasper van Schaaik	**(20) 546-6673** **Mobile: (6) 52-46-59-78** **E-mail: jasper.van.schaaik@nl.ey.com**

Legal Services (Holland Van Gijzen, Attorneys at Law and Civil Law Notaries)

Kirsten Anderson	**(20) 546-6221** **Mobile: (6) 29-08-37-58**
Lilian de Roy van Zuidewijn-Minis *Candidate, Civil Law Notary*	**(20) 546-6662** **Mobile: (6) 29-08-47-08** **E-mail: lilian.minis@hollandlaw.nl**
◆ Frank Doornik	**(20) 546-6380** **Mobile: (6) 29-08-34-03**
Warren Ely	**(20) 549-7653** **Mobile: (6) 29-08-32-16**
◆ Alexander Filius	**(20) 546-6486** **Mobile: (6) 21-22-50-67**
◆ Stefano Francovich *(resident in New York)*	**[1] (212) 773-2392** **E-mail: stefano.francovich@dp.ey.com**
Frits van Hees	**(20) 546-6311** **Mobile: (6) 29-08-35-39** **E-mail: frits.van.hees@hollandlaw.nl**
Wiek Herben	**(20) 546-6705** **Mobile: (6) 29-08-40-11**
Carel Hilferink	**(20) 546-6014** **Mobile: (6) 29-08-33-99**
Hans Kleinsman	**(20) 546-6308** **Mobile: (6) 29-08-30-49**
Susanne Koot	**(20) 549-2164** **Mobile: (6) 21-25-17-03**
Iskandar Lalisang	**(20) 546-6695** **Mobile: (6) 29-08-46-71**
Susan Lambrechtsen	**(20) 549-2801** **Mobile: (6) 21-25-19-87**
Rutger Lambriex	**(20) 546-6383** **Mobile: (6) 21-08-30-53**
Jan Padberg	**(20) 546-6335** **Mobile: (6) 29-08-33-39**
Paul Rijnveld	**(20) 546-6661** **Mobile: (6) 29-08-45-65**
Ernst Rozelaar, *Candidate, Civil Law Notary*	**(20) 546-6851** **Mobile: (6) 52-46-59-47**
Bjorn Schutz	**(20) 546-6601** **Mobile: (6) 29-08-38-07**
◆ Reyn Snouckaert	**(20) 547-7753** **Mobile: (6) 21-25-15-17**
Irene Steltenpool	**(20) 549-2116** **Mobile: (6) 21-25-17-09**
◆ Stan Stewart	**(20) 549-7735** **Mobile: (6) 21-25-23-03**

◆ Jelle van der Beek	**(20) 549-2870** **Mobile: (6) 21-25-12-40** **E-mail: jelle.van.der.beek@hollandlaw.nl**
Camiel van der Heijden	**(20) 549-7492** **Mobile: (6) 21-25 23-06** **E-mail: camiel.van.der.heijden @hollandlaw.nl**
Els van Diepen-Salet	**(20) 549-7751** **Mobile: (6) 21-28-20-26** **E-mail: els.salet@hollandlaw.nl**
◆ Frits van Hees	**(20) 546-6311** **Mobile: (6) 29-08-35-39** **E-mail: frits.van.hees@hollandlaw.nl**
Sijbolt van Solkema	**(20) 549-7733** **Mobile: (6) 29-08-35-37** **E-mail: sijbolt.van.solkema @hollandlaw.nl**
◆ Mick van Waateringe, *Civil Law Notary*	**(20) 549-7373** **Mobile: (6) 21-25-12-51** **E-mail: mick.van.waateringe @hollandlaw.nl**
◆ Bob Wessels	**(20) 549-7346** **Mobile: (6) 29-08-32-73**
André Wiedijk	**(20) 546-6382** **Mobile: (6) 21-25-23-90**

Dutch Legal Desks Overseas

Diana Gunckel *(resident in Chicago)*	**[1] (312) 879-4573** **E-mail: diana.gunckel@ey.com**
Carl van der Zandt *(resident in New York)*	**[1] (212) 773-4320** **E-mail: carl.vanderzandt@ey.com**

EINDHOVEN — GMT +1

Ernst & Young
Mail Address:
P.O. Box 455
5600 AL Eindhoven
Netherlands

(40) 260-2206
Fax: (20) 260-2321

Street Address:
Prof. Dr. Dorgelolaan 12
5613 AM Eindhoven
Netherlands

Holland Van Gijzen
Attorneys at Law and
Civil Law Notaries
Mail Address:
P.O. Box 3
5600 AA Eindhoven
Netherlands

(40) 262-6600
Fax: (40) 262-6400
(Attorneys at Law)
(40) 262-6700
(Civil Law Notaries)

Street Address:
Prof. Dr. Dorgelolaan 14
5613 AM Eindhoven
Netherlands

Corporate Tax

Gert-Jan Hellemons	**(40) 260-2354** **E-mail: gert-jan.hellemons@nl.ey.com**
Wim Kurvers	**(40) 260-2225** **Mobile: (6) 21-25-18-17**
Ernstjan Rutten	**(40) 260-2318** **Mobile: (6) 21-25-26-04**

Marc Schoenmakers	**(40) 260-2359** **Mobile: (6) 29-08-31-43**
Ruud Stox	**(40) 260-2323** **Mobile: (6) 29-08-35-05**

Dutch Desk Overseas

Sandra van Loon *(resident in United Kingdom)*	**[44] (20) 7951-0350** **E-mail: svanloon@uk.ey.com**

Legal Services (Holland Van Gijzen, Attorneys at Law and Civil Law Notaries)

Jaap de Bruijn	**(40) 262-6554** **Mobile: (6) 53-74-22-19, (6) 21-25-10-91** **E-mail: jaap.de.bruijn@hollandlaw.nl**
Louis Deterink	**(40) 262-6565** **Mobile: (6) 53-21-84-58**
Taco Huizinga	**(40) 262-6427** **Mobile: (6) 29-08-40-57**
Frank Laagland	**(40) 262-6555** **Mobile: (6) 29-08-31-54**
◆ Toon Lips	**(40) 262-6404** **Mobile: (6) 53-14-48-31**
Gerrit-Jan van Meeteren	**(40) 262-6585** **Mobile: (6) 29-08-40-58** **E-mail: gerrit-jan.van.meeteren @hollandlaw.nl**
★ Hugo Nieuwenhuizen, *Employment Law*	**(40) 262-6495** **Mobile: (6) 29-08-39-20**
Reinoud van Oeijen	**(40) 262-6546** **Mobile: (6) 21-25-11-30** **E-mail: reinoud.van.oeijen@hollandlaw.nl**
Evert-Jan Osnabrugge	**(40) 262-6580** **Mobile: (6) 29-08-32-81** **E-mail: evert-jan.osnabrugge @hollandlaw.nl**
Bart Prinsen	**(40) 262-6566** **Mobile: (6) 21-25-23-27**
Dick Weebers, *Candidate, Civil Law Notary*	**(40) 262-6805**
◆ Maarten van der Zanden, *Civil Law Notary*	**(40) 262-6760** **Mobile: (6) 21-25-20-23** **E-mail: maarten.van.der.zanden @hollandlaw.nl**

THE HAGUE GMT +1

Ernst & Young — **(70) 328-6666**
Mail Address: — **Fax: (70) 324-2076 (International Tax)**
P.O. Box 90636
2509 LP The Hague
Netherlands

Street Address:
Wassenaarseweg 80
2596 CZ The Hague
Netherlands

Holland Van Gijzen — **(70) 328-6480**
Attorneys at Law and — **Fax: (70) 324-8389**
Civil Law Notaries
Mail Address:
P.O. Box 90636
2509 LP The Hague
Netherlands

Street Address:
Wassenaarseweg 80
2596 CZ The Hague
Netherlands

Human Capital

Bea Haring	**(70) 328-6595** **Mobile: (6) 21-25-14-89**

Legal Services (Holland Van Gijzen Attorneys at Law and Civil Law Notaries)

◆ Jan Andringa	**(70) 328-6493** **Mobile: (6) 21-25-27-73**
Dik Marijnen	**(70) 441-2045** **Mobile: (6) 51-48-31-44**
Christy Sleeswijk Visser-Hupkes	**(70) 441-2026** **E-mail: christy.hupkes@hollandlaw.nl**
◆ Jan Willem Stouthart, *Civil Law Notary*	**(70) 441-2101** **Mobile: (6) 29-08-32-27** **E-mail: jan.willem.stouthart@hollandlaw.nl**
Pieter van Dijk	**(70) 328-6648** **Mobile: (6) 21-25-26-65** **E-mail: pieter.van.dijk@hollandlaw.nl**
◆ Dick Weiffenbach	**(70) 328-6572** **Mobile: (6) 21-25-21-01**

ROTTERDAM GMT +1

Ernst & Young **(10) 406-8888**
Mail Address: **Fax: (10) 406-8889 (Tax)**
P.O. Box 2295
3000 CG Rotterdam
Netherlands

Street Address:
Marten Meesweg 51
3068 AV Rotterdam
Netherlands

Holland Van Gijzen **(10) 406-5000**
Attorneys at Law and **Fax: (10) 406-5001**
Civil Law Notaries
Mail Address:
P.O. Box 2295
3000 CG Rotterdam
Netherlands

Street Address:
Martin Meesweg 115
Alexanderpoort Building
Entrance A
3068 AV Rotterdam
Netherlands

International Tax Services – Core

Bas Buytendijk	**(10) 406-8607** **Mobile: (6) 29-08-33-19**
Theodore Huiskes	**(10) 406-8569** **Mobile: (6) 21-25-19-75**
Maarten Kormelink	**(10) 406-8557** **Mobile: (6) 29-08-44-99**
Frank M. Schoon	**(10) 406-8818**
★ Ton W.A.M. van den Hoven	**(10) 406-8619** **Mobile: (6) 53-11-17-69** **E-mail: ton.van.den.hoven@nl.ey.com**

International Tax Services – Mergers and Acquisitions

Willem Vunderink	**(10) 406-8525** **Mobile: (6) 21-25-23-35**

International Tax Services – Tax-Effective Supply Chain Management

Jan-Gerben Smallenbroek	**(10) 406-8630** **Mobile: (6) 21-25-25-72** **E-mail: jan-gerben.smallenbroek@nl.ey.com**

Financial Services

Marcel Romyn	**(10) 406-8553**

Corporate Tax – Inbound

Ron Daalhuizen	**(10) 406-8691** **Mobile: (6) 21-25-16-20**
Johan Felius	**(10) 406-8564** **Mobile: (6) 21-25-16-71**
Hans Grimbergen	**(10) 406-8551** **Mobile: (6) 21-25-28-21**
Joost Kutsch Lojenga	**(10) 406-8547** **Mobile: (6) 29-08-45-03** **E-mail: joost.kutsch.lojenga@nl.ey.com**
Bert Schut	**(10) 406-8612** **Mobile: (6) 29-08-31-61**
Ben C.J. van Gils	**(10) 406-8830** **Mobile: (6) 29-08-36-32** **E-mail: ben.van.gils@nl.ey.com**

Corporate Tax

Ed Capel	**(10) 406-8663** **Mobile: (6) 53-22-36-77**
Edwin de Jong	**(10) 406-8690** **Mobile: (6) 22-44-55-17** **E-mail: edwin.de.jong@nl.ey.com**
Marc de Louw	**(10) 406-8664** **Mobile: (6) 21-25-21-43** **E-mail: marc.de.louw@nl.ey.com**
Rob Heerkens	**(10) 406-8692** **Mobile: (6) 29-08-37-26**
Ben Kiekebeld	**(10) 406-8507** **Mobile: (6) 21-25-12-64**
Dick Mulder	**(10) 406-8513** **Mobile: (6) 21-25-13-14**
Han Oosters	**(10) 406-8511** **Mobile: (6) 53-14-52-73**
Henriëtte Padt	**(10) 406-8622** **Mobile: (6) 21-25-12-44**
Jolanda Schenk	**(10) 406-8719** **Mobile: (6) 21-25-12-45**
Paul Tabaksblat	**(10) 406-8661** **Mobile: (6) 21-25-23-09**
★ Kees van Boxel	**(10) 406-8509** **Mobile: (6) 21-25-20-74** **E-mail: kees.van.boxel@nl.ey.com**
Arjo van Eijsden	**(10) 406-8506** **Mobile: (6) 29-08-46-38** **E-mail: arjo.van.eijsden@nl.ey.com**
Jan van Tilburg	**(10) 406-8508** **Mobile: (6) 29-08-33-03** **E-mail: jan.van.tilburg@nl.ey.com**

Energy, Chemicals and Utilities

Ron Daalhuizen	**(10) 406-8691** **Mobile: (6) 21-25-16-20**
Marc de Louw	**(10) 406-8664** **Mobile: (6) 21-25-21-43** **E-mail: marc.de.louw@nl.ey.com**
Joost Kutsch Lojenga	**(10) 406-8547** **Mobile: (6) 29-08-45-03** **E-mail: joost.kutsch.lojenga@nl.ey.com**
★ Ben C.J. van Gils	**(10) 406-8830** **Mobile: (6) 29-08-36-32** **E-mail: ben.van.gils@nl.ey.com**

Foreign Tax Desks

Nico Derksen *(resident in Chicago)*	**[1] (312) 879-5508** **E-mail: nico.derksen@ey.com**
Dennis Kriek *(resident in New York)*	**[1] (212) 773-5212** **Mobile: [1] (917) 769-1685** **E-mail: dennis.kriek@ey.com**
Tobias J. Lintvelt *(resident in Tokyo)*	**[81] (3) 3506-2423** **Mobile: [81] (90) 2428-6525** **E-mail: tobias.lintvelt@jp.ey.com**

Indirect Taxes

Ted Braakman	**(10) 406-8597** **Mobile: (6) 29-08-39-52**
Robert Kortman	**(10) 406-8640**
Marcel A. Mählmann	**(10) 406-8782** **Mobile: (6) 21-25-12-06**
Henriëtte van Brenk	**(10) 406-8606** **Mobile: (6) 21-25-12-95** **E-mail: henriette.van.brenk@nl.ey.com**
Dennis van Dijk	**(10) 406-8784** **Mobile: (6) 21-25-15-18** **E-mail: dennis.van.dijk@nl.ey.com**
Hans van Dijk	**(10) 406-8575** **Mobile: (6) 21-25-26-88** **E-mail: hans.van.dijk@nl.ey.com**
Rogier Vanhorick	**(10) 406-8888**

Human Capital

Marion Bechtold	**(10) 406-8536** **Mobile: (6) 21-25-17-80**
Tom Dubbelman	**(10) 406-8544** **Mobile: (6) 29-08-45-08**
Liset Keursten	**(10) 406-8539** **Mobile: (6) 29-08-43-90**
Helen Krans-Kors	**(10) 406-8545** **Mobile: (6) 21-25-14-60** **E-mail: helen.krans@nl.ey.com**
★ Mans Kuipers, *Payroll Tax*	**(10) 406-8973** **Mobile: (6) 21-25-28-72**
Robert Rouwers	**(10) 406-8540** **Mobile: (6) 21-25-12-84**
Carin Stout-Hardeman	**(10) 406-8614** **Mobile: (6) 21-25-12-20** **E-mail: carin.hardeman@nl.ey.com**
Paul van Nierop	**(10) 406-8538** **Mobile: (6) 21-25-19-08** **E-mail: paul.van.nierop@nl.ey.com**

Legal Services (Holland Van Gijzen, Attorneys at Law and Civil Law Notaries)

◆ Neill André de la Porte	**(10) 406-5059** **Mobile: (6) 21-25-21-02** **E-mail: neill.andre.de.la.porte @hollandlaw.nl**
Ina Kuiper	**(10) 406-5015** **Mobile: (6) 21-25-14-55**
◆ Jan Meijerman	**(10) 406-5019** **Mobile: (6) 25-08-45-04**
◆ Onno Okkinga, *Civil Law Notary*	**(10) 406-5025** **Mobile: (6) 25-07-27-85**
Huub Pleijsier	**(10) 406-5003** **Mobile: (6) 52-46-59-00**
Caspar Rutten	**(10) 406-5104** **Mobile: (6) 52-46-59-22**
Remco van der Kroft	**(10) 406-5043** **Mobile: (6) 29-08-45-45** **E-mail: remco.van.der.kroft@nl.ey.com**

★ Hans van Gijzen, *Cross-Border Employment Law*	**(10) 406-5010** **Mobile: (6) 21-25-12-87** **E-mail: hans.van.gijzen@hollandlaw.nl**
◆ Nicole van Smaalen, *Civil Law Notary*	**(10) 406-5026** **Mobile: (6) 29-50-29-19** **E-mail: nicole.van.smaalen@hollandlaw.nl**
Denis Willemars	**(10) 406-5052** **Mobile: (6) 29-08-35-32**

UTRECHT **GMT +1**

Holland Van Gijzen
Attorneys at Law and
Civil Law Notaries
Mail Address:
P.O. Box 3053
3502 GB Utrecht
Netherlands

(30) 259-5252
Fax: (30) 259-5255

Street Address:
Euclideslaan 1
3584 BL Utrecht
Netherlands

Legal Services (Holland Van Gijzen Attorneys at Law and Civil Law Notaries)

Hendrik-Jan Bleijerveld	**(30) 259-5276** **Mobile: (6) 29-08-41-43** **E-mail: hendrik-jan.bleijerveld@nl.ey.com**
Bart Terhorst	**(30) 259-5281** **Mobile: (6) 29-08-38-46**
Fred van Brussel	**(30) 259-5262** **Mobile: (6) 29-08-31-64** **E-mail: fred.van.brussel@nl.ey.com**
Johan Westerhof	**(30) 259-5276** **Mobile: (6) 21-25-20-60**

A. At a Glance

Corporate Income Tax Rate (%)	34.5 (a)
Capital Gains Tax Rate (%)	34.5 (a)
Branch Tax Rate (%)	34.5 (a)
Withholding Tax (%)	
Dividends	25 (b)
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	3
Carryforward	Unlimited

(a) A tax rate of 29% applies to the first €22,689 of taxable income. A corporate surtax is effective from 1 January 2001 (for details, see Section B).
(b) This rate may be reduced to 0% if the recipient is a parent company established in a European Union (EU) member state (see Section B).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate income tax is levied on resident and nonresident companies. Resident companies are those incorporated under Dutch civil law, including subsidiaries of foreign companies, even if their management is situated abroad. In addition, companies are resident if incorporated under foreign civil law, but effectively managed and controlled in the Netherlands. Resident companies are subject to tax on their worldwide income. Nonresident companies, primarily branch offices of foreign companies doing business in the Netherlands, are taxable only on specific income items, such as real estate and business profits in the Netherlands.

Tax Rates. The corporate tax rate is 34.5%. A tax rate of 29% applies to the first €22,689 of taxable income.

A surtax is imposed on companies that make “excessive” dividend distributions during the period of 1 January 2001 through 31 December 2005. The surtax is imposed at a rate of 20% on the “excessive” portion of dividend distributions. The law contains guidelines for determining if a distribution is “excessive.” The surtax is reduced if the Dutch company paying the dividends establishes that its shares have been held for an uninterrupted period of three years by one or more shareholders each holding at least 5% of the shares of the company and if these shareholders are residents of the Netherlands, the Netherlands Antilles or a country with which the Netherlands has entered into a tax treaty. If the shares of the company were transferred before 14 September 1999, the three-year holding period requirement described above is deemed to be satisfied.

Based on the 4 October 2001 decision of the European Court of Justice (ECJ) in *Athanaïki Zythopoiia AE* (C-294/99), it is possible that the surtax described above violates the EU Parent-Subsidiary Directive and, consequently, does not apply within the EU.

Capital Gains. No distinction is made between capital gains and other income. All income is taxed at the corporate tax rates.

Administration. The standard tax year is the calendar year, but a company may use its fiscal year as its tax year.

An annual tax return must be filed with the tax inspector of corporate taxes within six months after the end of the tax year, unless the company applies for an extension (normally, an additional nine months).

Companies must make partial payments of corporate tax during the year, which are known as preliminary assessments. The preliminary assessments are based on the expected final assessment. For 2004, the assessments are levied according to the following schedule:
- The first preliminary assessment is due on 31 January 2004. The tax administration may estimate the profits by applying a percentage to the average fiscal profit of the previous two years. If the taxpayer can plausibly establish that the expected final assessment will be a lower amount, the preliminary assessment is based on that amount.
- The second preliminary assessment is due at the end of the eighth month of 2004. This preliminary assessment is derived from an estimate made by the taxpayer.

These preliminary assessments may be paid in as many monthly installments as there are months remaining in the year.

The final assessment is made within three years from the time the tax liability arose. If a higher tax liability is established than that shown in the tax return, interest is charged at a rate equal to the deposit rate established by the European Central Bank. If less tax is payable than already paid on preliminary assessments, interest is paid at the same rate on the refund.

Interest is charged or paid if an assessment is dated after the end of the financial year and a balance of tax is refundable or payable. This rule applies to all types of assessments (preliminary, final and additional).

The tax authorities may impose arbitrary assessments if the taxpayer fails to file a return. For 2004, the amount of tax due may be increased by up to □1,134.

Additional assessments may be imposed if, as a result of deliberate actions by the taxpayer, insufficient tax has been levied. A penalty of 100% of the additional tax due may be levied. Depending on the degree of wrongdoing, this penalty is normally reduced to 25% or 50%.

Advance Tax Rulings. An Advance Tax Ruling (ATR) provides up-front certainty regarding the tax consequences of an intended transaction or transactions. Issues that may be covered by ATRs include the applicability of the participation exemption, issues regarding hybrid finance structures and the existence of a permanent establishment in the Netherlands. A request for an ATR must be sent to the competent tax inspector, who submits the request to the APA (advance pricing agreement)/ATR team of the Tax Office for Large Enterprises in Rotterdam for binding advice.

ATRs are not granted in the following circumstances:

- The ATR is requested by a company that is primarily engaged in the receiving of interest and royalties within a group of companies but does not have sufficient presence in the Netherlands, regardless of the name given and the form used for such activities.
- The ATR is requested by a company that is engaged in activities with no substantial risks. However, an ATR may be granted if the company filing the request agrees that information may be provided to the tax authorities of the source country. No credit for foreign withholding tax is given in these situations.

Dividends Tax. The standard rate of dividends tax is 25%. Under the participation exemption (see Section C), dividends paid by resident companies to other resident companies are usually tax-free. Dividends from shares or profit-sharing certificates are exempt from dividend withholding tax if distributed to a qualifying entity in another European Union (EU) member state. At the time of the distribution, the parent company must have held for an uninterrupted period of one year at least 25% (10% for parent companies from Germany, Greece and the United Kingdom) of the nominal paid-up share capital of the withholding agent as well as the shares or profit-sharing certificates on which the distribution is made. If, at the time of the distribution, a recipient with a 25% shareholding has held it for less than a year, the distribution is exempt from withholding tax if the recipient maintains the 25% shareholding for one year. In such circumstances, Dutch law requires that the subsidiary guarantee payment of the withholding tax if the holding period requirement is not fulfilled. In addition, a voting rights criterion has been introduced that applies only to distributions to certain countries (for example, the United Kingdom).

Measures to Combat Dividend Stripping. Measures to combat dividend stripping, which are retroactively effective from 27 April 2000, have been added to the Dividend Tax Act. Under these measures, a reduction of dividend withholding tax is available only if the recipient of the dividends is regarded as the beneficial owner of the dividends. The measures provide that a recipient of dividends is generally not regarded as the beneficial owner if the following circumstances exist:

- The dividend recipient did something in return for the payment of the dividends as part of a series of transactions;
- It is likely that the payment of the dividends benefits a person who would have been entitled to a lesser (or no) reduction, exemption or refund of dividend tax than the recipient; and
- The person benefiting from the dividends directly or indirectly maintains or acquires an interest in the share capital of the payer of the dividends that is comparable to the person's position in the share capital before the series of transactions.

Non-investment Companies. Non-investment companies that are listed on the stock exchange are not required to withhold dividends tax when they repurchase their own shares if they satisfy certain conditions. However, repurchases of shares during the period of 1 January 2001 through 31 December 2005 may trigger the corporate surtax (see *Tax Rates* above).

Credit for Dividend Withholding Tax. A Dutch intermediate company may credit a portion of the foreign dividend withholding tax imposed on dividends received against the Dutch withholding tax due on its dividend distributions if certain conditions are satisfied. The credit is generally 3% of the gross amount of qualifying dividends received. However, if the dividends received are not passed on in full by the Dutch intermediate company, the credit is 3% of the dividend distribution made by the Dutch intermediate company.

To claim the credit, the Dutch intermediate company withholds the Dutch withholding tax at the appropriate rate, but remits only a portion of the tax to the Dutch tax authorities. For example, if the applicable withholding tax rate on dividends distributed by a Dutch intermediate company in 2004 is 15%, only 12% (15% minus 3%) of the distribution must be paid to the Dutch tax authorities. As a result of this procedure, the Dutch intermediate company receives the benefit of the credit rather than its shareholders. The Dutch intermediate company is not subject to Dutch corporate income tax on this benefit.

Foreign Tax Relief. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

C. Determination of Taxable Income

General. The fiscal profit is not necessarily calculated on the basis of the annual financial statements. In the Netherlands, all commercial accounting methods have to be reviewed to confirm that they are acceptable under fiscal law. The primary feature of tax accounting is the legal concept of "sound business practice."

Expenses incurred in connection with the conduct of a business are, in principle, deductible. However, certain expenses are not deductible, such as fines and penalties, and expenses incurred with respect to a crime. For companies that do not have shareholders with substantial interests, no other restrictions exist, except with respect to the deductibility of interest. For other companies, certain expenses are partially deductible, such as meals, drinks, and conferences. If expenses exceed normal arm's length charges and are incurred directly or indirectly for the benefit of shareholders or related parties, the excess is considered a nondeductible profit distribution (a dividend). Restrictions are imposed on the deductibility of interest (see Section E).

If a debt with a book value exceeding the fair market value of the receivable is transferred into formal or informal share capital or profit-sharing rights of the debtor, the debtor must include the difference between the book value of the debt and the fair market value of the receivable in taxable income.

Taxpayers must calculate their taxable income in euros. On request, Dutch corporate tax returns may be calculated in the functional currency of the taxpayer, provided the financial statements of the relevant financial year are prepared in that currency. The financial statements may be expressed in a foreign currency if it is justified by the company's business or the international nature of the company's group. If this regime is applied, in principle, the functional currency must be used for at least 10 years.

Inventories. Inventories are generally valued at the lower of cost or market value, but the last-in, first-out (LIFO) and the base stock methods of valuation are acceptable if certain conditions are fulfilled. Both of these make it possible to defer taxation of inventory profits. Valuation under the replacement-cost method is not accepted for tax purposes.

Provisions

Tax-Free Reserves. Dutch law permits the creation of tax-free equalization and reinvestment reserves.

The equalization reserve may be established in anticipation of certain future expenditure that might otherwise vary considerably from year to year, such as ship maintenance, overhauling, pension payments or warranty costs.

If certain conditions are met, the book profit arising from the disposal of a tangible or intangible business asset may be carried forward and offset against the cost of a reinvestment asset. This is known as a reinvestment reserve. The reinvestment asset must be purchased within three years after the year in which the reinvestment reserve was established. If a reinvestment asset is not purchased within three years after the establishment of the reinvestment reserve, the amount in the reinvestment reserve is included in taxable income for corporate income tax purposes in the third year following the year in which the reinvestment reserve was established. The offset of the book profit may not reduce the book value of the reinvestment asset below the book value of the asset that was sold. An amount that cannot be offset as a result of the rule described in the preceding sentence may continue to be carried forward if the condition of the same economic function for the reinvestment does not apply (see below). If the depreciation period for the reinvestment asset is more than 10 years or if the reinvestment asset is not depreciable, the reinvestment asset must fulfill the same economic function as the asset that was sold. The condition of the same economic function for the reinvestment does not apply to reinvestment assets with a depreciation period of 10 years or less. For details regarding measures combating trade in companies with reinvestment reserves, see Section E.

The risk reserve for uninsured risks and the export risk reserve are abolished, effective from 1 January 2000. Any existing reserves are taxed over a period of 10 years, with 1/10 of the existing reserves being included in taxable income each year.

Group Finance Facility. For tax purposes, a group finance company may establish a reserve of up to 80% of its financial services income. The reserve is designed to cover risks related to participations held by the group in the Netherlands as well as to finance activities, including financing of assets, leasing of assets within the corporate group, licensing of intangible assets, financial and administrative services and portfolio investments that are maintained as a "war chest." A group finance company must satisfy several requirements to qualify for the group finance facility, including the following:

- The company must conduct its finance activities in the Netherlands only;
- The company's finance activities must be performed for the benefit of affiliated members of the corporate group in at least four countries or on at least two continents;
- The company should earn at least 5% of its gross financing income in each country if the four-country rule described in the preceding item applies or 10% in each continent if the two-continent rule applies; and
- The ratio of the lending by the company to the Netherlands to its total lending may not exceed the ratio of group assets in the Netherlands to total group assets, but the lending ratio may never exceed 1:10.

Tax-free withdrawals may be made from the reserve. A group finance company may make a tax-free withdrawal from the reserve equal to 50% of the amount that it invests directly in subsidiaries (excluding acquisitions of subsidiaries through internal reorganizations). In addition, certain indirect investments qualify for 100% tax-free withdrawals. To qualify for a 50% tax-free withdrawal, the group finance company must be resident in the Netherlands and hold the investment for at least five years. If a liability of a group finance company or another member of the group is converted into a capital contribution because the debtor company is unable to pay its debts, this conversion may result in a 100% tax-free withdrawal from the reserve equal to the amount of the capital contribution. In addition, acquisitions of subsidiaries may qualify for a 100% tax-free withdrawal from the reserve if, in the opinion of the Ministry of Finance, the risks of the acquisition are greater than normal.

Because of these tax-free withdrawals, the effective tax rate on the financial services income could be as low as 7%, or even lower through the crediting of foreign withholding tax.

Since July 2001, the group finance facility has been subject to a formal investigation of the European Commission. On 18 February 2003, the European Commission determined that this facility is forbidden state aid under Article 87 of the EU Treaty. The

European Commission ruled that no new reserves may be established under this regime and that any existing reserves must be terminated by 31 December 2010.

Participation Exemption. All corporations located in the Netherlands (except qualified investment companies that are subject to a corporate income tax rate of 0%), including holding companies, are in principle exempt from Dutch corporation tax on all benefits connected with certain qualifying shareholdings. Benefits include cash dividends, dividends-in-kind, bonus shares, "hidden" profit distributions and capital gains realized on disposal of the shareholding. A capital loss that might result from the disposal of the shareholding is similarly nondeductible (but a liquidation loss of a subsidiary company is, in principle, deductible). To qualify for the participation exemption, the following conditions for the shareholding must be met:

- The participation should normally represent at least 5% of the nominal paid-up capital of the subsidiary;
- The subsidiary company should not be a Dutch qualified investment company; and
- The stock in the subsidiary may not be held as a current asset.

For a foreign subsidiary, the following additional conditions apply:

- The exemption applies only if that subsidiary is subject to a profits tax levied by a sovereign power in the foreign country where the subsidiary is established. The rate of tax is unimportant.
- In addition, the foreign subsidiary shares held cannot be mere portfolio investments. Holdings of nonresident subsidiaries are not generally considered portfolio investments if the parent company performs activities involving decision-making, management or financing for the group of companies.

  Intermediate holding companies of international groups with a parent company and subsidiaries abroad are not generally considered to hold their nonresident participations as portfolio investments if a link exists between the companies in the group. The participation exemption therefore applies to their nonresident participations. An advance ruling on this issue may be obtained from the tax authorities.

  However, the participation exemption does not apply if the subsidiary itself is an investment company.

  If the majority of the activities of a foreign finance company are finance activities, the shares held in the company are considered, in principle, a passive (portfolio) investment. Consequently, the participation exemption does not apply. Safe harbor rules exist to enable shareholdings in such companies to qualify for the participation exemption.

  Portfolio investments qualify for the participation exemption if the holdings consist of at least 25% of the nominal paid-up share capital of companies located in other EU member states. Additional conditions must be observed.

  A new antiavoidance rule regarding the participation exemption is effective from 1 January 2002. This new rule counteracts a holding structure that is established to take advantage of the portfolio investment exception described in the preceding paragraph. Under this structure, the Dutch (intermediate) parent holds a share interest in an entity from an EU member state, which in turn holds shares in non-EU entities. If the Dutch parent had held the shares directly in the non-EU entities, the investment would not have qualified for the participation exemption. If it is proven that the principal objective of the structure is not tax evasion or deferral, the antiavoidance rule does not apply.

Effective from 1 January 2003, the antiavoidance rule discussed in the preceding paragraph is expanded. Under the expanded rule, the participation exemption does not apply to a participation in an EU subsidiary that is interposed between a Dutch parent company and a company (EU or non-EU) that would not normally qualify for the exemption. In addition, the new measure covers situations in which the EU subsidiary (indirectly) operates through a passive branch.

- If under the terms of a tax treaty with another EU member state the dividend tax is reduced according to a voting rights criterion (such as under the treaties with the Germany, Ireland and the United Kingdom), a participating interest also qualifies if the parent company controls at least 25% of the voting rights of the company located in the other member state. Additional general conditions must be observed.

As a result of the ruling of the European Court of Justice (ECJ) in the *Bosal* case, the rules on the participation exemption were amended. Effective from 1 January 2004, the limitation on the deduction of expenses with respect to qualifying foreign participations is abolished. Under the prior law governing the participation exemption, expenses incurred with respect to qualifying foreign participations were not deductible for Dutch corporate income tax purposes, unless the expenses were instrumental in generating Dutch taxable income. In the *Bosal* case, the ECJ ruled that this measure was incompatible with EU law and, consequently, was not applicable to expenses related to qualifying EU participations. Under the amended participation exemption, interest expenses relating to EU participations and non-EU participations are deductible. However, under a Decree of the State Secretary of Finance issued after the ECJ ruling in the *Bosal* case, interest expenses relating to EU participations incurred before 1 January 2004 are also deductible for tax purposes if the tax assessment is still open as a result of an objection or appeal procedure. In addition, foreign-exchange gains and losses on loans to finance equity investments in foreign subsidiaries qualifying for the participation exemption are no longer excluded from the tax base in the Netherlands.

The rules governing the participation exemption include the following antiabuse measures:

- If a written-off loan to a foreign subsidiary is sold to a related foreign person or a foreign group company, the written-off amount is, in principle, treated as taxable income for corporate income tax purposes;
- If a written-off loan to a foreign subsidiary is converted into an investment in shares, informal capital or profit participation rights, the written-off amount is regarded as taxable income for corporate income tax purposes; and
- Other antiabuse measures concern the incorporation of a permanent establishment and the treatment of losses on the liquidation of a participating interest.

Companies may expedite the deduction of losses with respect to recently acquired or incorporated participations. If the amount invested in a participation that represents 25% or more of the nominal paid-up share capital of a qualifying subsidiary exceeds the fair market value of the participation, the difference may be fully deducted by the Dutch company in the first five years after acquiring or incorporating such subsidiary.

Any increase in the value of the participation or dividends received on the participation during the five-year period described in the preceding paragraph is included in taxable income to the extent a loss has been previously deducted. After the five-year period has expired, to the extent a loss has not been recaptured, the balance will be added in equal portions to taxable income for the following five years. Consequently, the provision creates a timing benefit only. If the participation is transferred or dissolved, any amount not yet recaptured is added to taxable income in the year of transfer or dissolution. The legislation includes an antiabuse provision that prevents companies from expediting the deduction of losses more than once through the transfer of a participation.

Under prior legislation and case law, if a participation was sold for consideration that partially consisted of future uncertain payments, such as a share of future profits, both the seller and purchaser of the participation were required to estimate the value of the future payments. Any fluctuations in value were taxable or tax-deductible. Effective from 1 January 2002, any gains or losses on the seller's receivable or the purchaser's payable are subject to the participation exemption. As a result, the gains or losses are no longer taxable or tax-deductible. This change applies only to participations that are sold on or after 1 January 2002.

Effective retroactively from 1 January 2002, the measures described in the preceding paragraph are extended to a purchaser receiving a share interest that qualifies as a participation for the purchaser, but does not qualify as a participation for the seller. The measure is also extended to earn-out settlements that are effected through share redemptions. In addition, payments by the seller of the participation arising from a guarantee on the balance sheet are also covered by the measure described above and are therefore subject to the rules of the participation exemption.

Tax Depreciation. Depending on the circumstances, depreciation is generally charged over the following periods.

Asset	Years
Buildings	33 to 50
Plant and machinery	5 to 10
Office equipment	3 to 10
Vehicles	3 to 5

Depreciation is normally based on historical cost, but the declining-balance method may be allowed in some cases. Assets should not be depreciated below a residual value. If an asset is acquired during the accounting year, it is normal practice to charge only a proportional amount of depreciation in that year.

To encourage investments that protect the environment, free depreciation on certain environmental investments is allowed. Free depreciation is also allowed for investments made before 1 January

2005 in the following: sea vessels; intangible assets obtained from foreign permanent establishments; production of oil and gas in the Dutch part of the North Sea; real estate in certain economically weak regions; investments in assets to improve labor conditions; and film productions.

Groups of Companies. The fiscal unity regime is revised, effective from 1 January 2003. The following are significant aspects of the revised regime:
- To elect a fiscal unity, a parent company must own at least 95% of the shares of a subsidiary;
- Both Dutch and foreign companies may be included in a fiscal unity if their place of effective management is located in the Netherlands;
- A permanent establishment in the Netherlands of a company with its effective management abroad may be included in a fiscal unity; and
- A subsidiary may be included in the fiscal unity from the date of acquisition.

Under transitional rules, existing fiscal unities may elect a two-year extension of the old fiscal unity regime.

Advantages of such group treatment include the following:
- Losses of one subsidiary may be offset against profits of other members of the group;
- Reorganizations, including movements of assets with hidden reserves from one company to another, have no direct fiscal consequences; and
- Intercompany profits may be fully deferred.

Interest Deferral Rules and the Fiscal Unity Regime. Since 1997, interest deferral rules have applied to the fiscal unity regime. These rules may apply if interest is paid on a loan from a group company to finance the acquisition of a Dutch target company that will join the fiscal unity. In a typical Dutch acquisition structure, a Dutch holding company that is financed through a loan from a group company purchases shares in the Dutch target company. Subsequently, the Dutch holding company and the Dutch target company enter into a fiscal unity, intending to offset the interest expenses on the loan against the operating income of the target.

For such acquisition structures, the fiscal unity rules require a creditor that is a group company to obtain a third-party loan. If this requirement is not met, the deferral rules apply. Effective from 1 January 2003, the new fiscal unity rules also include a "subject-to-tax" measure, which requires the interest to be included in the tax base of the group company in the year of payment (or accrual) or in the following year. If the deferral rules apply, the interest paid may not be offset against income of the target company and is carried forward for a period of eight years. After the end of the eight-year period, the interest may be offset against the income of the target company.

Effective from 1 January 2003, the interest deferral rules also apply to interest related to loans from a group company that are contributed as capital into a company that is part of a fiscal unity, unless the interest is included in the tax base of the group company in the year of payment (or accrual) or in the following year ("subject-to-tax" measure).

The two new rules described above may not apply if an election is made to extend the old regime for two years.

Relief for Losses. Losses of a company may be carried back three years and carried forward indefinitely.

Effective from 1 January 2004, restrictions on loss relief for holding and financing companies have been introduced. The restrictions apply to a company if holding activities and direct or indirect financing of related parties account for at least 90% of the company's activities during a financial year.

A company meeting the above condition may offset losses from a financial year against profits earned in another financial year only if its activities in both financial years consist of (or almost totally consist of) holding activities and the direct or indirect financing of related parties. This rule is designed to prevent companies from offsetting losses incurred in years in which they primarily engaged in holding and financing activities against profits of other activities that are subsequently begun or acquired.

A second restriction provides that the balance of the related-party receivables and the related-party payables of the company during the financial year in which the profits are realized may not exceed this balance in the financial year in which the losses were incurred. This rule is designed to prevent companies from using losses by increasing the profitable finance activities. However, the company may make a case that the balance of the receivables and payables has increased for business reasons and not only for the purpose of using the loss carryforwards.

For details regarding measures combating trade in companies with loss carryforwards, see Section E.

D. Value-Added Tax

Value-added tax is imposed on goods delivered and services rendered in the Netherlands other than exempt goods and services. The general rate is 19%. Other rates are 0% and 6%.

E. Miscellaneous Matters

Dutch Intermediate Companies. The Netherlands may be used as a base for intermediate companies. These are primarily holding companies, finance companies and royalty companies. The purpose of using the Netherlands for such intermediate companies is to reduce withholding taxes on passive income streams. Reduction of the withholding tax burden is brought about by the extensive tax treaty network of the Netherlands. The actual rate of withholding tax on the income of the intermediate company depends on which countries the income comes from and the provisions in the treaties with those countries. Measures, which are effective from 1 January 2002, counter the use of companies that perform financing or licensing activities within a group if the activities do not involve any risks. No credit of foreign withholding tax is granted with respect to such activities. A safe harbor test determines whether risk is involved.

The Netherlands levies no withholding tax on interest and royalties. Furthermore, because of the participation exemption, a Dutch intermediate company is usually exempt from Dutch corporate tax on dividends from, and capital gains connected with, a foreign shareholding.

Tax Arrangements with Aruba and the Netherlands Antilles

Aruba. If an Aruban offshore holding company owns at least 25% of a Dutch intermediate holding company, the Dutch company must withhold 7.5% from dividends paid to the Aruban holding company unless the Aruban offshore company is taxed on the dividends received at a profit tax rate of at least 5.5%. In that case, the withholding tax rate is 5%. The 5% and 7.5% rates apply only if the effective combined withholding tax rate and the profit tax rate in Aruba is at least 8.3%. For dividends not qualifying for the 5% or 7.5% rates (such as if the parent company owns less than 25% or the shareholder is not a company), the Dutch withholding tax is 15%.

Netherlands Antilles. Effective from 1 January 2001, the Netherlands Antilles amended their tax laws. Under these amendments, the offshore tax rates of 2.4% to 3% were abolished, and a regime conforming to Organization for Economic Cooperation and Development (OECD) standards was introduced. Under the New Fiscal Regime (NFR), a fixed profit tax rate of 34.5% and a 100% participation exemption apply to dividends qualifying under Article 11, Paragraph 3 of the Tax Arrangement for the Kingdom of the Netherlands. Companies qualifying as offshore companies can continue to benefit from the offshore tax rates through 2019, but they may benefit from the 100% participation exemption of the NFR without losing their status as offshore companies. As a result, a 100% participation exemption applies to dividends and capital gains from qualifying Dutch subsidiary companies, regardless of whether the recipient is subject to the NFR provisions or the offshore tax provisions. Withholding tax at a rate of 8.3% is imposed on dividend distributions made by a Dutch company to a Netherlands Antilles holding company that owns at least 25% of the payer if the combined effective tax rate of Netherlands dividend withholding tax and Netherlands Antilles profit tax on gross dividend distributions is not less than 8.3%. The Dutch withholding tax rate is 15% for dividend distributions not qualifying for the 8.3% rate (such as if the parent company owns less than 25% of the payer or if the recipient is not a company).

Foreign-Exchange Controls. No real restrictions are imposed on the movement of funds into and out of the Netherlands.

Debt-to-Equity Rules and Other Restrictions on Deductibility of Interest

Statutory Thin-Capitalization Rules. Effective from 1 January 2004, the corporate income tax law in the Netherlands includes thin-capitalization rules. These rules are designed to avoid the erosion of the Dutch tax base within corporate groups. Under the new rules, interest expenses (and other costs) with respect to related-party loans (or deemed related-party loans) may be partly or completely disallowed if the taxpayer is part of a group, as defined under Dutch generally accepted accounting principles (GAAP)/ international financial reporting standards (IFRS).

In principle, deductions for interest on external (bank) debt directly obtained by the taxpayer are not disallowed. However, if such external debt is formally granted by a third party but is in fact owed to a related party, the thin-capitalization rules apply.

The rules provide two ratios to determine the amount of excess debt. Under the first ratio, which is a fixed ratio, the average fiscal debt may not exceed more than three times the company's average fiscal equity. The excess debt is considered excessive only if it exceeds €500,000. For the purpose of this ratio, debt is defined as the balance of the company's loan receivables and loan payables. The balance sheet for tax purposes is used to determine the average debt and equity. This rule is especially relevant to Dutch companies involved in back-to-back finance operations.

Alternatively, when the company files its corporate tax return, it may elect to apply for the group ratio. Under this alternative, the company may look at the commercial consolidated debt-to-equity ratio of the (international) group of which it is a member. If the company's commercial debt-to-equity ratio does not exceed the debt-to-equity ratio of the group, the tax deduction for interest on related-party loans is allowed.

Recharacterization of Loans as Equity. In decisions of the Dutch Supreme Court, loans have been recharacterized as informal capital contributions in the following circumstances:

- The loan agreement is deemed to be a sham transaction because the parties involved actually intended to make a capital contribution to the subsidiary; and
- The loan is granted to a company that is incurring large losses when the loan is granted, and it is clear to the lender that the debtor will not be able to wholly or partly pay back the loan.

In such situations the participation exemption applies because the payments of interest on the recharacterized loans are considered distributions. In addition, the loss resulting from the lower valuation of the receivable is not deductible for corporate income tax purposes.

Effective from 1 January 2002, companies may not deduct interest or other amounts paid as compensation for a loan or for changes in the value of a loan if the loan is deemed to be an equity interest in the borrower (hybrid loan). Several types of loans are treated as hybrid loans. The most important of these is a loan that has the following features: the amount of interest due is based on the profits of the company; and the date of repayment is more than 10 years after the date of the concluding of the loan. A corresponding rule applies to Dutch corporate creditors. Income from hybrid loans may be exempt from Dutch corporate tax under the participation exemption. For purposes of qualifying for the participation exemption, a key requirement is whether the creditor holds, in addition to the profit-sharing loan, a share interest in the borrower that is considered to be a participation under the participation exemption rules. This measure imposes a significant restriction on loans from Netherlands residents to foreign residents. Benefits under the participation exemption are granted to the creditor only if the foreign borrower cannot deduct the interest payments or accruals for tax purposes in its home country.

Payments on profit-sharing loans falling within the scope of the measures described above are treated as distributions of profit subject to the Dutch dividend withholding tax of 25%. Issues may arise as to the effect of this change in treaty situations.

Payments on hybrid loans are exempt from dividend withholding tax if the participation of the receiving company qualifies for the participation exemption.

Other Restrictions. Interest payable by a Dutch company to its shareholders or to its subsidiaries is disallowed if a dividend has been distributed or capital has been repaid in the form of a note or if a capital contribution has been made by a Dutch company in the form of a note. The legislation also covers "indirect" or "de facto" loans and, as a result, back-to-back and similar multiparty financing arrangements may be challenged. In addition, interest is disallowed if it is paid on related-party loans with respect to the following transactions:

- Dividend distributions or repayments of capital;
- Internal reorganizations in which a Dutch company purchases the shares in an affiliate; and
- Capital contributions by a Dutch group company into subsidiaries that are in turn loaned to a Dutch group company.

This legislation does not apply if good business reasons exist to justify the transaction or if the interest in the hands of the recipient is subject to reasonable taxation determined in accordance with Dutch standards.

Transfer Pricing. The Dutch tax law includes the arm's length principle contained in the OECD model tax convention and in the OECD Transfer Pricing Guidelines. Associated enterprises should prepare documentation that establishes how transfer prices were determined and provides a basis for determining whether the terms of the intercompany transactions would have been adopted if the parties were unrelated. If the taxpayer is in litigation and if such information is not available, the burden of proof on the issue of the arm's length nature of the transfer prices shifts to the taxpayer. Taxpayers can refer to the OECD Transfer Pricing Guidelines for guidance on the contents of the documentation and national rules.

Advance pricing agreements (APAs) are available. The rules regarding information to be provided by taxpayers conform to the requirements of the OECD Transfer Pricing Guidelines. APAs may be concluded unilaterally (between the taxpayer and the Dutch tax administration), bilaterally, or multilaterally (if tax administrations of third countries are involved). The APA rules explicitly adopt the functional analysis approach. The term of an APA may vary depending on the situation, but, in general, it is valid for four or five years. An APA is binding on the taxpayer that entered into the APA and the Dutch tax authorities.

Incentives. The Netherlands offers a wide array of financial incentives, such as grants and special tax deductions, to both Dutch and foreign investors. Incentives are granted for activities, such as collaboration in high-technology research and development (R&D) projects, energy and environmental projects, employment, job training and innovation. Incentives are often granted in a tailor-made subsidy package consisting of various schemes and facilities. Some of the major incentive programs are described below.

Regional Investments. Several subsidies are available to foreign investors making regional investments. Investments in buildings, machinery and equipment in certain northern parts of the provinces of Drenthe, Friesland and Groningen and in the northern municipalities of Hardenberg and Steenwijk may qualify under the Regional Investment Projects subsidy scheme. In the Corop-area of Twente and in several municipalities in Southern Limburg, subsidies are available for the establishment and reorganization of projects (minimum project cost of €136,134) and for the expansion of projects (minimum project cost of €453,780). For new green field projects, the subsidy is 20% of the eligible project costs, with a maximum subsidy of €11,108,570). Similar subsidies are also available for projects that are expanded within five years after their establishment. These subsidies can amount to 15% of the eligible project costs, with a maximum subsidy of €14,264,815. The Regional Investment Projects Flevoland 2000 scheme, which is a similar scheme, applies in the province of Flevoland. Another scheme that applies only in the province of Flevoland is the SME-scheme. Activities relating to a company's expenditure or movement may be subsidized under this scheme if, among other conditions, 50% of the company's turnover is derived outside the province.

The Objective-2 Program for 2000-2006 contains measures to encourage economic development of specific regions in the EU. In the Netherlands, the program applies only to certain municipalities in the northern part of the country, specific parts of nine large cities and portions of the provinces of Gelderland, Limburg, Noord-Brabant, Overijssel and Utrecht.

Technological Development. Many significant subsidies are available in the field of technological development. The Research and Development Incentive Act (RDIA) provides a subsidy for expenses incurred on activities regarding technological research, or the development of a physical product, production process or new software. The subsidy is calculated as a percentage of the wage costs of the research and development (R&D) staff located in the Netherlands. The subsidy amounts to 40% of the first €90,756 of the wage costs and 13% of the remainder. For companies in existence five years or less, the percentage of 40% is increased to 60%. Under plans to revise the scheme, the subsidy will equal the sum of 42% of the first €120,000 of the wage costs and 14% of the balance.

Under the Technological R&D-Collaboration Scheme (TS) a subsidy may be obtained for fundamental and industrial research and development collaboration between companies and other companies or between companies and research institutes. The TS scheme grants subsidies to the following five categories of collaboration:

- International technology collaborations (EUREKA project or with Japan, Singapore or the United States);
- Collaborations with emerging markets (China, India, Indonesia, Netherlands Antilles or South Africa);

- Information technology breakthrough projects;
- Maritime collaborations; and
- Generic technology collaborations.

Fundamental research may be supported up to a maximum of 50% of the project costs. For precompetitive development, the maximum percentage is 25%. Small and medium-sized companies and international collaborations within the EU may qualify for an additional 10% subsidy.

In January 2004, the TS and other R&D-related schemes are being replaced by similar new schemes.

Other Incentives. In the Netherlands, other important incentives include energy and environment-related incentives and incentives for employment and training. The most significant energy and environment-related incentives are the VAMIL Scheme (a free depreciation scheme for environmental investments), the Environment Investment Allowance (MIA) and the Energy Investment Allowance (EIA). Employment and training incentive schemes include the Payroll Tax Reduction Act (WVA), Tax Deduction for Education (FSA) and the Reintegration of Disabled Workers (REA). Under the MIA and the EIA, a company may claim additional corporate tax deductions.

Antiavoidance Legislation

General. Dutch tax law contains the *fraus legis* doctrine, which provides that a legally correct transaction that evades the intent of the law may be replaced by the nearest similar transaction that does not abuse the law. The tax authorities can apply the *fraus legis* doctrine if the following conditions are fulfilled:

- The primary purpose of a transaction is to avoid the imposition of tax; and
- The taxpayer's act frustrates the spirit and purpose of the tax legislation.

Measures Combating Trade in Loss Companies and Reinvestment Reserve Companies. The Corporate Income Tax Act contains specific rules to combat the trade in so-called "loss companies" and "reinvestment reserve companies."

If 30% or more of the shares of a company are transferred among shareholders or to new shareholders, in principle, the losses of the company may not be offset against future profits. However, many exceptions to this rule exist, but the company has the burden of proof with respect to the applicability of the exemptions.

A similar rule applies to a transfer of 30% or more of the shares of a company that has a reinvestment reserve on its balance sheet. In the year of the transfer of the shares, the amount of the reinvestment reserve is included in taxable income for corporate income tax purposes. Many exceptions to this rule exist, but the company has the burden of proof with respect to the applicability of the exemptions.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under Dutch domestic law.

	Dividends (b) %	Interest (f) %	Royalties (f) %
Argentina	10 (a)	0	0
Armenia	0/5 (a)	0	0
Aruba	5/7.5/15 (a)(c)	0	0
Australia	15	0	0
Austria	0/5 (a)(b)	0	0
Bangladesh	10 (a)	0	0
Belarus	0/5 (a)(l)	0	0
Belgium	0/5 (a)(b)	0	0
Brazil	15	0	0
Bulgaria	5 (a)	0	0
Canada	5 (a)	0	0
China	10	0	0
Croatia	0/15 (a)	0	0
Czech Republic	0 (a)	0	0
Denmark	0 (a)	0	0
Egypt	0 (a)	0	0
Estonia	5 (a)	0	0
Finland	0 (a)	0	0
France	0/5 (a)(b)	0	0
Georgia	0/5/15 (t)	0	0
Germany	0/10 (a)(b)	0	0
Greece	0/5 (a)(b)	0	0
Hungary	5 (a)	0	0
Iceland	0 (a)(k)	0	0
India	10	0	0
Indonesia (r)	10 (a)	0	0
Ireland	0 (a)	0	0
Israel	5 (a)(m)	0	0
Italy	0/5/10/15 (b)	0	0
Japan	5 (a)	0	0
Kazakhstan	0/5 (a)	0	0
Korea	10 (a)	0	0
Kuwait	0/10	0	0
Latvia	5 (a)	0	0
Lithuania	5 (a)	0	0
Luxembourg	0/2.5 (a)(b)	0	0
Macedonia	0/15	0	0
Malawi	15	0	0
Malaysia	0 (a)	0	0
Malta	0/5 (a)(o)	0	0
Mexico	5 (h)	0	0
Moldova	0/5/15 (p)	0	0
Mongolia (g)	0/5/15	0	0
Morocco	10 (a)	0	0
Netherlands Antilles	8.3 (a)(c)	0	0
New Zealand	15	0	0
Nigeria	12.5 (a)	0	0
Norway	0 (a)	0	0
Pakistan	10 (a)	0	0
Philippines	10 (a)	0	0
Poland	0/5/15 (s)	0	0
Portugal	0/10 (b)	0	0
Romania	0/5/15 (n)	0	0
Russian Federation	5 (a)	0	0
Singapore	0 (a)	0	0
Slovak Republic	0 (a)	0	0

	Dividends (b) %	Interest (f) %	Royalties (f) %
South Africa	5 (a)	0	0
Spain	0/5 (a)(b)	0	0
Sri Lanka	10 (a)	0	0
Suriname	7.5/15 (a)	0	0
Sweden	0 (a)	0	0
Switzerland	0 (a)	0	0
Taiwan (q)	10	0	0
Thailand	5 (a)	0	0
Tunisia	0/20 (i)	0	0
Turkey	5 (a)	0	0
Ukraine	0/5 (a)	0	0
USSR (d)	15	0	0
United Kingdom	0/5 (a)(b)	0	0
United States	5 (a)	0	0
Uzbekistan	5 (a)	0	0
Venezuela	0 (a)	0	0
Vietnam	5/7/10/15 (j)	0	0
Yugoslavia (e)	5 (a)	0	0
Zambia	5 (a)	0	0
Zimbabwe	10 (a)	0	0
Nontreaty countries	25	0	0

(a) The treaty withholding rate is increased to 15% (or other rate as indicated below) if the recipient is not a corporation owning at least 25% (Armenia, Bangladesh, Croatia, Iceland, Kazakhstan, Nigeria, Philippines, the United States and Uzbekistan, 10%) of the distributing corporation.

Czech Rep.	10%	Slovak Rep.	10%	Turkey	10/15/20%
Greece	15/35%	Spain	10/15%	Ukraine	20%
Japan	10/15%	Suriname	15/20%	Venezuela	10%
Morocco	25%	Thailand	10/15/20/25%	Zimbabwe	20%
Pakistan	20%				

(b) No withholding tax is levied on dividends distributed by a Dutch subsidiary to its parent company in another EU state if certain conditions are satisfied.

(c) For details, see Section E.

(d) The Dutch fiscal administration has indicated that the USSR treaty applies to all of the new republics that comprised the former USSR until the Netherlands enters into tax treaties with these republics. The Netherlands has entered into tax treaties with Belarus, Kazakhstan, Latvia, Lithuania and the Russian Federation. The withholding rates under these treaties are listed in the above table.

(e) The Dutch fiscal administration has indicated that the Yugoslavia treaty applies to the republics of Bosnia-Herzegovina, Slovenia and the Federal Republic of Yugoslavia (Montenegro and Serbia). The Netherlands and Croatia have entered into a tax treaty (see the listing in the above table).

(f) Interest and royalties are not subject to withholding tax under Dutch domestic law.

(g) These treaties have been signed, but are not yet effective.

(h) If the recipient is a corporation owning less than 10% of the distributing corporation, the rate is 15%.

(i) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the payer. The 20% rate applies to other dividends.

(j) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer or has invested in the payer more than US$10 million or the equivalent in Dutch or Vietnamese currency. The 10% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 25% but less than 50% of the capital of the payer. The 15% rate applies to other dividends.

(k) Under certain circumstances, Iceland may increase the rate to 15%.

(l) The 0% rate applies if the recipient is a corporation that owns at least 50% of the shares of the payer and has invested ECU 250,000 in the share capital of the payer or if the recipient is a corporation owning at least 25% of the shares of the payer and the capital of the payer is guaranteed or insured by the government.

(m) Israel may apply a 10% rate if the recipient is a corporation owning at least 10% of the payer and if the income out of which the dividend is paid is not taxable in Israel under legislation designed to stimulate investment.
(n) The 0% rate applies if the recipient is a corporation owning at least 25% of the payer. The 5% rate applies if the recipient is a corporation owning at least 10% but less than 25% of the payer. The 15% rate applies to other dividends.
(o) If legislation to stimulate investments applies to the payer and the participation exemption applies to the recipient, the Maltese tax on profits is reduced to 15%.
(p) The 0% rate applies if the recipient of the dividends owns at least 50% of the capital of the payer. The 0% rate also applies if either of the following conditions are satisfied: the recipient has invested at least US$300,000 in the payer; or the investment is guaranteed or insured by the government or government bodies of the other contracting state. The 5% rate applies if the recipient owns at least 25% of the capital of the payer. The 15% rate applies to other dividends.
(q) The agreement does not have the formal status of a tax treaty but it serves as such.
(r) Indonesia unilaterally cancelled the existing tax treaty between the Netherlands and Indonesia, effective from 1 January 2001. The Netherlands and Indonesia will continue to apply the existing treaty until a new tax treaty becomes effective. A new tax treaty between the countries, which is not yet effective, provides a withholding tax rate of 10% for all dividends.
(s) Under a protocol to the treaty, until both states apply in full the EU Parent-Subsidiary Directive of 23 July 1990, the 0% rate applies if the recipient is a company that owns at least 25% of the capital of the payer of the dividend. The 5% rate applies if the recipient is a company that owns at least 10% of the capital of the payer of the dividend.
(t) The 0% rate applies if the recipient is a company that owns at least 50% of the capital of the payer of the dividend. The 5% rate applies if the recipient is a company that owns at least 10% of the capital of the payer of the dividend.

NETHERLANDS ANTILLES

(Country Code 599)

WILLEMSTAD, CURAÇAO **GMT -4**

Ernst & Young **(9) 461-1011**
Mail Address: **Fax: (9) 465-6770**
P.O. Box 3626
Willemstad, Curaçao
Netherlands Antilles

Street Address:
Zeelandia Office Park
Willemstad, Curaçao
Netherlands Antilles

Corporate Tax

Angel R. Bermudez **(9) 461-1011-238**
Aruba: [297] 582-4050, Ext. 225
Mobile: [297] 993-0382
E-mail: angel.bermudez@an.ey.com

Han Biemans **(9) 461-1011-247**
E-mail: han.biemans@an.ey.com

Zahayra S.E. de Lain **(9) 461-1011-246**
E-mail: zahayra.de-lain@an.ey.com

Victor A. Th. Libiee **(9) 461-1011-242**
E-mail: victor.libiee@an.ey.com

Runela Sillé **(9) 461-1011-255**
E-mail: runela.sille@an.ey.com

Digna I. van der Pol **(9) 461-1011-274**
E-mail: digna.van-der-pol@an.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	34.5 (a)
Capital Gains Tax Rate (%)	34.5 (a)
Branch Tax Rate (%)	34.5 (a)
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10 (b)

(a) Includes 15% island surcharges.
(b) Losses incurred by certain companies during their first four years of business may be carried forward indefinitely.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate income tax is levied on resident and nonresident companies. Resident companies are those incorporated under Netherlands Antilles civil law, even if their management is located abroad, as well as companies incorporated under foreign civil law, but effectively managed and controlled in the Netherlands Antilles. For resident companies, corporate income tax is, in principle, levied on the aggregate amount of net profits earned from all sources during the company's accounting period. Nonresident companies are subject to tax on specific Netherlands Antilles income items, such as profits earned through a permanent establishment and income related to real property in the Netherlands Antilles, including interest derived from a mortgage on such real property.

Tax Rates. Under the New Fiscal Regime (NFR) of the Netherlands Antilles, which was introduced in 2001, resident and nonresident companies, including branches of foreign companies, are taxed at a standard effective rate of 34.5%, including island surcharges. However, this rate does not apply to companies qualifying for tax incentives, E-zone companies, offshore companies or Tax Exempt Companies. In conjunction with the introduction of the NFR, the offshore regime was abolished, subject to grandfather rules.

No withholding taxes are imposed on remittances of profits by branches to their foreign head offices.

Tax Incentives. Reduced tax rates and other tax incentives are granted to new business enterprises engaged in certain activities, including industrial activities (through 2015, at the latest), tourism and land development.

E-zone Companies. Effective from 3 March 2001, new incentives are available under E-zone legislation. These incentives replace the incentives that were previously available under the free zone legislation. The E-zone legislation offers tax incentives to e-commerce companies and trading companies with an e-strategy that locate their activities in the Netherlands Antilles. In principle, the activities of these companies must be focused on trading with, or providing services to, companies or persons located outside the Netherlands Antilles. Profits derived by E-zone companies from sales of goods or services to companies or individuals located in the Netherlands Antilles may not exceed 25% of total turnover. In general, E-zone companies are taxed at a rate of 2% (surtax included). However, for profits derived from sales of goods or services to companies or individuals located in the Netherlands

Antilles (up to a maximum of 25% of total turnover), the standard corporate income tax rate of 34.5% applies. Tax losses may be carried forward to offset taxable profits in the following 10 years. No turnover tax or import duties are imposed on the following:

- Goods entering the E-zone;
- Services rendered by Netherlands Antilles companies to E-zone companies; and
- Products delivered by E-zone companies, or services rendered, to individuals or companies that are not resident in the Netherlands Antilles or to companies that are located in the E-zone.

Offshore Companies. In conjunction with the introduction of the NFR in 2001, the offshore regime was abolished. However, under the transitional rules of the NFR, special incentives are available for qualifying offshore companies in existence before 1 January 2002. Offshore companies are resident companies beneficially owned by nonresidents that perform their business activities entirely abroad; that is, they earn foreign-source income only. Income derived by offshore companies (for example, royalties, and income from mutual funds, holding companies, portfolio investments, finance and service activities) is taxed at rates of 2.4% to 3%. Capital gains are exempt from tax. In addition, advance tax rulings may be obtained from the tax authorities to reduce the tax burden substantially. Profits derived from real estate located outside the Netherlands Antilles are exempt from tax. The tax rates of 2.4% to 3% are guaranteed through 2019. Consequently, the NFR does not apply to these companies until 2019. However, offshore companies may irrevocably elect to be subject to the NFR. Companies making the election are entitled to a tax-free step-up in basis.

Special transitional rules apply to companies incorporated after 30 June 1999. These companies may benefit from the offshore regime if they are regarded as having begun substantial activities by 1 January 2002.

Tax Exempt Companies. Tax Exempt Companies (TECs) are exempt from Netherlands Antilles profit tax. Only closed limited liability companies incorporated under Netherlands Antilles law may qualify as a TEC. TECs may engage only in investing in debt instruments, securities and deposits. To qualify as a TEC, a written request must be submitted to the tax inspector and certain conditions must be satisfied. TECs are not eligible for benefits under the Tax Regulation for the Kingdom of the Netherlands nor for any benefits under double tax treaties that the Netherlands Antilles may enter into in the future. Exchange of information measures apply to TECs. The Netherlands Antilles company laws contain measures designed to prevent TECs from being used for illegal activities. If a TEC loses its tax-exempt status, it is treated prospectively as an ordinary company subject to tax on its worldwide income, and it receives a tax-free step-up in basis.

Ruling Policy Under the NFR. As a result of the introduction of the NFR, a new tax ruling policy has been introduced. This policy complies with the latest international standards regarding transparency and ring-fencing. Various conditions for activities and the tax consequences for the activities are set forth in standard rulings, which can be obtained on a wide range of subjects. These rulings include the following: cost-plus rulings for intercompany support activities; minimum gross margin rulings for finance activities; participation exemption rulings for holding activities; and informal capital (cost-plus) rulings for intercompany trading activities. These rulings are usually valid for a five-year period, with an option for renewal for an additional five-year period.

Capital Gains. In general, except for offshore companies, no distinction is made between the taxation of capital gains and that of other income. All income is taxed at the corporate tax rate.

Administration. The standard tax year is the calendar year. However, on request and under certain conditions, a company may use its financial accounting year as its tax year.

Companies must file a provisional tax return within three months after the end of the financial year. This return must show taxable profit that is at least equal to the taxable profit shown on the most recently filed final tax return. Any tax due must be paid at the time of filing the return. An extension of time to file the return and pay the tax will not be granted. On request of the company, the Tax Inspector may consent to the reporting of a lower taxable profit than the taxable profit shown on the most recently filed tax return.

The final tax return must be filed within six months after the end of the financial year. Any difference between the tax due based on the provisional return and the tax due based on the final return must be settled at once. An extension of time may be obtained to file the final return and pay any balance of tax due shown in the return.

In general, offshore companies must file their final tax returns within six months following the end of the financial year. In practice, the tax authorities do not strictly enforce this deadline.

To ensure compliance with the rules described above, severe penalties may be imposed. The tax authorities may impose arbitrary assessments if the taxpayer fails to file a tax return. Additional assessments may be imposed if, as a result of deliberate actions by the taxpayer, insufficient tax is levied. A penalty of 100% of the additional tax due may be levied. Depending on the degree of wrongdoing, this penalty is normally reduced to 25% or 50%.

Dividends. Although a Dividend Withholding Tax Ordinance, which provides for a 10% withholding tax on certain dividend distributions, has been introduced, the ordinance is not expected to enter into force in the foreseeable future.

Foreign Tax Relief. A 95% exemption from Netherlands Antilles profit tax is available for foreign business profits derived through a permanent establishment abroad.

Foreign tax relief is available under the Tax Regulation for the Kingdom of the Netherlands and under the tax treaty with Norway (see Section F).

C. Determination of Taxable Income

General. Taxable profit must be calculated in accordance with “sound business practice”; it is not necessarily based on the annual financial statements.

All expenses incurred in connection with the conduct of a business are, in principle, deductible. However, if expenses exceed normal arm's length charges and are incurred directly or indirectly for the benefit of shareholders or related companies, the excess is nondeductible. In addition, certain expenses, such as fines, penalties and expenses incurred with respect to crimes, are not deductible. Only 80% of representation expenses, as well as expenses incurred on meals, drinks, gifts and courses and seminars, is deductible. If expenses exceed normal arm's length charges and are incurred directly or indirectly for the benefit of shareholders or related companies, the excess is considered to be a nondeductible profit distribution (dividend).

In principle, interest expenses are deductible for tax purposes if the interest rate is determined on an arm's length basis. However, certain restrictions apply to the deduction of interest on loans connected to certain tax-driven transactions and intragroup reorganizations (including transactions involving a TEC (see Section B). Under thin-capitalization rules, interest accrued or paid directly or indirectly to affiliated TECs may not be deductible.

Participation Exemption. Under a new participation exemption contained in the NFR (see Section B), certain income derived from a qualifying shareholding in a company is either 100% (resident participation) or 95% (nonresident participation) tax exempt. Income that is tax exempt under the participation exemption includes dividends and capital gains, as well as foreign-exchange gains resulting from loans obtained to finance the participation.

In general, a shareholding qualifies for the participation exemption if it represents at least 5% of the share capital or voting power in a company or if the amount paid for the shareholding amounts to at least NAF 1 million (US$560,000). For participations held in nonresident companies, no restrictions are imposed with respect to the activities of the nonresident company, and the nonresident company is not required to be subject to profit tax in its country of residence.

Expenses that are connected with the investment, including financing expenses, are not deductible if the income is 100% tax-exempt. If the income is 95% tax-exempt, 5% of the expenses connected with the investment is deductible. Deductible expenses include foreign-exchange losses on loans obtained to finance to the participation. Five percent of capital and liquidation losses on shareholdings qualifying for the 95% tax exemption is deductible for tax purposes. These losses are not deductible if the shareholding qualifies for the 100% tax exemption.

Income derived from a qualifying shareholding in a Netherlands Antilles company is 100% tax-exempt. Income derived from a Netherlands company in which a Netherlands Antilles company owns at least 25% of the share capital is also 100% tax-exempt. Income derived from a Netherlands company in which a Netherlands Antilles company owns less than 25% of the share capital or from any qualifying participation in any company that is resident outside both the Netherlands Antilles and the Netherlands is 95% tax exempt. For the purpose of the participation exemption, TECs (see Section B) are treated as nonresident companies. Consequently, the 95% participation exemption applies to dividends from TECs and capital gains realized on participations in TECs.

Tax Depreciation. In general, assets are depreciated using the straight-line method. The following are some of the applicable rates.

Asset	Rate (%)
Commercial buildings	2 to 2.5
Industrial buildings	3 to 4
Office equipment	10 to 50
Motor vehicles	10 to 33 1/3
Plant and machinery	10 to 20

Fixed assets acquired by companies operating in the Netherlands Antilles may qualify for accelerated depreciation at a maximum annual rate of 33 1/3% of the cost of the assets.

An investment allowance of 8% (12% for new buildings) is granted for acquisitions or improvements of fixed assets by companies operating in the Netherlands Antilles. The allowance is deducted from taxable income in the year of the investment and in the following year. The allowance is recaptured if the asset is sold within six years (15 years for buildings) of the date of the investment.

Groups of Companies. On written request, Netherlands Antilles resident companies may form a fiscal unity (tax-consolidated group). To qualify for a fiscal unity, the parent company must own at least 99% of the subsidiaries. A fiscal unity may include a Dutch company that has its place of effective management in the Netherlands Antilles. The whole group is taxed as if it were one company, and as a result, the subsidiary companies are no longer individually subject to profit tax.

Advantages of fiscal unity treatment include the following:

- Losses of one subsidiary may be offset against profits of other members of the group;
- Reorganizations, including movements of assets with hidden reserves from one company to another, have no direct tax consequences; and
- Intercompany profits may be fully deferred.

Relief for Losses. Losses in a financial year may be carried forward for 10 years to be offset against profits of future years. No carryback is permitted. Losses incurred by certain companies during their first four years of business may be carried forward indefinitely.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax in Curaçao and Bonaire; a general consumption tax on goods delivered, imports, and services rendered by legal entities or individuals in the Netherlands Antilles or services rendered abroad for use in the Netherlands Antilles; certain imports are exempt	
Standard rate	5
Insurance	6
Breads and medicines	0

Nature of Tax	Rate (%)
Turnover tax in Saba, St. Eustatius and St. Maarten; levied on turnover generated from goods sold and services rendered on the islands	
Standard rate	3

E. Miscellaneous Matters

Foreign-Exchange Controls. For foreign investors that obtain a foreign-exchange license from the central bank, no restrictions are imposed on the movement of funds into and out of the Netherlands Antilles. In general, the central bank automatically grants foreign-exchange licenses for remittances abroad. Residents are subject to several foreign-exchange regulations imposed by the central bank. Many residents, however, may be granted nonresident status for foreign-exchange control purposes. Some reporting requirements exist for statistical purposes.

Transfer Pricing. The Netherlands Antilles tax law does not contain any specific intercompany pricing provisions. Intercompany charges should be determined on an arm's length basis.

F. Tax Treaties

Provisions for double tax relief are found in the tax treaty with Norway and in the Tax Regulation for the Kingdom of the Netherlands. Under a provision in the tax regulation, dividend distributions by a qualifying Dutch subsidiary to its Netherlands Antilles parent company are effectively subject to an 8.3% Dutch dividend withholding tax. The Netherlands Antilles does not impose withholding tax on payments from the Netherlands Antilles to residents of other countries.

The Netherlands Antilles government is in the early stages of tax treaty negotiations with several countries, including the United States.

NEW ZEALAND

(Country Code 64)

The e-mail addresses for the persons listed below who are resident in New Zealand are in the following standard format:

firstname.surname@nz.ey.com

The e-mail addresses for persons who are not resident in New Zealand or who have e-mail addresses varying from the standard format are listed below the respective persons' names.

AUCKLAND **GMT +12**

Ernst & Young Limited **(9) 377-4790**
Mail Address: **Fax: (9) 358-1017**
P.O. Box 2146
Auckland
New Zealand

Street Address:
41 Shortland Street
Auckland
New Zealand

Corporate Tax

Andrew G. Archer	**(9) 302-8584** **Mobile: (27) 489-9052** **E-mail: andy.archer@nz.ey.com**
Joanna Doolan *(resident in Sydney)*	**[61] (2) 9248-5872** **Mobile: (27) 493-5627** **E-mail: joanna.doolan@au.ey.com**
Matthew Hanley	**(9) 300-8008** **Mobile: (27) 489-9279**
David Haywood	**(9) 300-7049** **Mobile: (27) 480-5382**
Rob McLeod	**(9) 300-7056** **Mobile: (27) 489-9003**
★ Michael G. Stanley	**(9) 302-8572** **Mobile: (27) 489-9414**
H. Stephen Titter	**(9) 300-8169** **Mobile: (27) 489-9419** **E-mail: stephen.titter@nz.ey.com**

Human Capital

Christine Colman	**(9) 308-1059** **Mobile: (27) 489-9114**

Financial Services

Andrew G. Archer	**(9) 302-8584** **Mobile: (27) 489-9052** **E-mail: andy.archer@nz.ey.com**

Indirect Taxes

★ Allan Bullôt	**(9) 300-8017** **Mobile: (27) 489-9924** **E-mail: allan.bullot@nz.ey.com**

Foreign Desk

Peter Stinson, *Australia*	**(9) 302-8574** **Mobile: (27) 489-9417**

Capital Markets

Andrew G. Archer	**(9) 302-8584** **Mobile: (27) 489-9052** **E-mail: andy.archer@nz.ey.com**

Transfer Pricing

★ Leslie Prescott-Haar	**(9) 300-8111** **Mobile: (27) 451-6646**

Insurance/Funds Management

Matthew Hanley	**(9) 300-8008** **Mobile: (27) 489-9279**

CHRISTCHURCH — GMT +12

Ernst & Young Limited **Mail Address:** **P.O. Box 2091** **Christchurch** **New Zealand**	**(3) 379-1870** **Fax: (3) 379-8288**

Street Address:
Ernst & Young House
227 Cambridge Terrace
Christchurch
New Zealand

Corporate Tax

◆ Richard G.F. Carey	**(3) 353-8091** **Mobile: (27) 489-9509**
Peter R. Steenson	**(3) 353-8092** **Mobile: (27) 489-9538**

Entrepreneurial Tax

Paul Park	**(3) 353-8096** **Mobile: (27) 489-9968**

WELLINGTON **GMT +12**

Ernst & Young Limited **(4) 499-4888**
Mail Address: **Fax: (4) 495-7400**
P.O. Box 490
Wellington 1
New Zealand

Street Address:
Majestic Centre
100 Willis Street
Wellington 1
New Zealand

Corporate Tax

◆ Geoffrey M. Blaikie	**(4) 495-7399** **Mobile: (27) 293-0787**
Geof Nightingale	**(4) 470-0519** **Mobile: (27) 440-7899**
Catherine A. Shaw	**(4) 470-8638** **Mobile: (27) 489-9395**
Randolph van der Burgh	**(4) 495-7437** **Mobile: (27) 285-6333** **E-mail: randolph.van-der-burgh@nz.ey.com**

Human Capital

Geoffrey M. Blaikie	**(4) 495-7399** **Mobile: (27) 293-0787**

Financial Services

Randolph van der Burgh	**(4) 495-7437** **Mobile: (27) 285-6333** **E-mail: randolph.van-der-burgh@nz.ey.com**

Indirect Taxes

★ Allan Bullôt *(resident in Auckland)*	**(9) 300-8017** **Mobile: (27) 489-9924** **E-mail: allan.bullot@nz.ey.com**

Natural Resources

Geof Nightingale	**(4) 470-0519** **Mobile: (27) 440-7899**

Transfer Pricing

★ Leslie Prescott-Haar *(resident in Auckland)*	**(9) 300-8111** **Mobile: (27) 451-6646**

Insurance

Geoffrey M. Blaikie	**(4) 495-7399** **Mobile: (27) 293-0787**

A. At a Glance

Corporate Income Tax Rate (%)	33
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	33
Withholding Tax (%)	
Nonresidents	
Dividends	30 (a)
Interest	15 (b)
Royalties from Patents, Know-how, etc.	15 (c)
Payments to Contractors	15
Branch Remittance Tax	0
Residents	
Dividends	33 (d)
Interest	19.5 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) Final tax. The rate is reduced to 15% for portions of cash dividends that are fully imputed (see Section B). In addition, to the extent noncash dividends paid are fully imputed, no withholding tax is imposed. The rate is also reduced to 15% to the extent the dividends are fully credited under the dividend withholding payment system or under the conduit tax relief system or to the extent that imputation credits are passed on to foreign investors through the payment of supplementary dividends under the foreign investor tax credit regime.
(b) Final tax if the recipient is not associated with the payer. For an associated person, this is a minimum tax (the recipient must report the income on its annual tax return, but it may not obtain a refund if the tax withheld exceeds the tax that would otherwise be payable on its taxable income). Under the Income Tax Act, associated persons include the following: any two companies in which the same persons have a voting interest of at least 50% and, in certain circumstances, a market value interest of at least 50% in each of the companies; two companies that are under the control of the same persons; and any company and any other person (other than a company) that has a voting interest of at least 25% and, in certain circumstances, a market value interest of at least 25% in the company. Interest paid by an approved issuer on a registered security to a nonassociated person is subject only to an approved issuer levy of 2% of the interest payable.
(c) Final tax on royalties relating to literary, dramatic, musical or artistic works. For other royalties, this is a minimum tax.
(d) See Section B.
(e) The 19.5% rate applies to individuals only. The rate is increased to 39% if the recipient's tax file number is not supplied. Recipients may elect to have a 33% or 39% tax withheld from interest paid.

B. Taxes on Corporate Income and Gains

Income Tax. Resident companies are subject to income tax on worldwide taxable income. Nonresident companies carrying on business through a branch pay tax only on New Zealand-source income.

A company is resident in New Zealand if it is incorporated in New Zealand, if it has its head office or center of management in New Zealand or if director control is exercised in New Zealand.

Rate of Income Tax. Resident and nonresident companies are subject to tax at a rate of 33%.

Capital Gains. No capital gains tax is levied in New Zealand. However, residents may be taxed on capital gains derived from many types of financial arrangements and from certain real and personal property transactions. These gains are subject to tax at the standard corporate tax rate.

Administration. The income year is from 1 April to 31 March. A company with an accounting period that ends on a date other than 31 March may apply to the Commissioner of Inland Revenue for permission to adopt an income year that corresponds to its accounting period. If the Commissioner approves an alternative income year, income derived during that year is deemed to have been derived during the year ending on the nearest 31 March. For this purpose, year-ends up to 30 September are deemed to be nearest the preceding 31 March, and year-ends after 30 September are deemed to be nearest the following 31 March.

Companies with year-ends from 1 April to 30 September must file tax returns by the seventh day of the fourth month following the end of their income year. All other companies must file their returns by 7 July following the end of their income year.

Provisional tax payments must be made in the fourth, eighth and twelfth months of the income year of the company. The first installment is equal to one-third of the provisional tax payable; the second installment is equal to two-thirds of the provisional tax payable, less the amount of the first installment; and the balance of the provisional tax is payable in the third installment. In general, the provisional tax payable in a year equals 105% of the income tax payable in the preceding year. Companies with year-ends from October to January must pay terminal tax by the seventh day of the eleventh month following the end of the income year. Companies with a February year-end must pay terminal tax by the fifteenth day of the following January. All other companies must pay terminal tax by the seventh day of February following the end of their income year. The date for payment of terminal tax may be extended by two months if the company has a tax agent.

Several measures impose interest and penalties on late payments of income tax. For late payments or underpayments, the basic penalty equals 5% of the unpaid tax. This penalty is reduced to 1% if the tax is paid within a week after the due date. An additional penalty of 1% of the unpaid balance, compounding monthly, is also imposed. Interest may be payable if provisional tax paid is less than the final income tax payable for the year. Conversely, interest may be credited on overpaid provisional tax.

For the 2003-04 and future income years, interest charges and the risk of penalties with respect to provisional tax may be reduced if provisional tax is paid under a tax-pooling arrangement through a Revenue-approved intermediary.

Dividends

Exempt Income. Dividends received by New Zealand resident companies from other New Zealand resident companies are taxable. However, dividends received from a wholly owned subsidiary resident in New Zealand are exempt. Dividends received by New Zealand resident companies from nonresident companies are also exempt. However, the New Zealand resident company may be required to make a dividend withholding payment to the Inland Revenue Department (see below).

Imputation System. New Zealand's dividend imputation system enables a resident company to allocate to dividends paid to shareholders a credit for tax paid by the company. The allocation of credits is not obligatory; however, if a credit is allocated, the maximum credit is calculated at 33/67 of the dividend declared. Consequently, a dividend of NZ$67 may have an imputation credit attached of up to NZ$33.

These credits may not be used to offset nonresident withholding tax on dividends paid to nonresidents. However, a New Zealand company may pass on the benefit of such credits to nonresident investors through payments of supplementary dividends. The aim of this mechanism is to allow nonresident investors to claim a full tax credit in their home countries for New Zealand nonresident withholding tax. The New Zealand company may also claim a partial refund or credit with respect to its own New Zealand company tax liability.

In general, the carryforward of excess credits for subsequent distribution must satisfy a 66% continuity-of-shareholding test. Interests held by companies or nominees are generally traced through to the ultimate shareholders. Listed, widely held companies and limited attribution foreign companies are entitled to special treatment. In effect, they are treated as the ultimate shareholder if their voting interest in other companies is less than 50% or if the actual ultimate shareholders would each have voting interests of less than 10% in the underlying company. The definition of a listed company includes companies listed on any exchange in the world that is recognized by the Commissioner of Inland Revenue. For carryforward purposes, direct voting or market value interests of less than 10% may be considered to be held by a single notional person, unless such an interest is held by a company associated with the company that has the carryforward.

Dividend Withholding Payments. Under the dividend withholding payment system, dividends received by a resident company from a nonresident are subject to a 33% withholding payment to be made by the recipient to the Inland Revenue Department. The withholding payment is reduced by any foreign withholding tax paid on the dividend and, if certain conditions are satisfied, by a credit for underlying foreign tax.

The company making the dividend withholding payment may pass the benefit of the payment to the shareholder by way of a credit attaching to dividends paid by the company. The credit may be available under either the imputation system or the foreign dividend withholding payment system. The unused portion of a dividend withholding payment credit can be refunded to the shareholder, but an excess imputation credit is not refundable.

If a resident company elects to be a conduit tax relief company, a withholding payment on dividends received from a nonresident may also be reduced to the extent that the resident company has nonresident shareholders. The benefit of this conduit tax relief is passed on to the nonresident shareholders through the payment of dividends and the attachment of conduit tax relief credits.

Resident Withholding Tax. For dividends paid to a resident company by another resident company that is not in a tax group with the recipient, the payer must deduct a withholding tax equal to 33%, having first allowed for any imputation credits attached to the dividend, unless the recipient holds an exemption certificate.

Foreign Tax Relief. In general, any tax paid outside New Zealand by a New Zealand resident taxpayer can be claimed as a credit against the tax payable in New Zealand. The credit is limited to the amount of New Zealand tax payable on that income.

C. Determination of Trading Income

General. Gross income consists of all profits or gains derived from any business activity, including the sale of goods and services, commissions, rents, royalties, interest and dividends.

A gross approach applies to the calculation of taxable income. Under this approach, a company calculates its gross income and then subtracts its allowable deductions to determine its net income or loss. If the company has net income, it subtracts any loss carryforwards or group losses to determine its taxable income.

To be deductible, expenses must be incurred in deriving gross income or necessarily incurred in carrying on a business for the purpose of deriving gross income. Interest is now generally deductible for most New Zealand resident companies, subject only to the thin capitalization and conduit interest allocation rules (see Section E). Deductions for certain business entertainment expenses are limited to 50% of the expenses incurred. Capital expenditures are generally not deductible.

Exempt Income. The only major categories of exempt income are dividends received from a wholly owned subsidiary resident in New Zealand, dividends received from nonresident companies and dividends paid out of capital gains derived from arm's length sales of fixed assets and investments on winding up.

Inventories. Stock in trade must generally be valued at cost. Market selling value may be used (but not for shares or "excepted financial arrangements") if it is lower than cost. Cost is determined by reference to generally accepted accounting principles, adjusted for variances between budgeted and actual costs incurred. Simplified rules apply to "small taxpayers," which are those with annual turnover of NZ$3 million or less. A further concession applies to taxpayers with annual turnover of NZ$1.3 million or less and closing inventory of less than NZ$5,000.

Depreciation. The depreciation regime generally allows a deduction for depreciation of property, including certain intangible property, used in the production of gross income. Most assets can be depreciated using the straight-line or the declining-balance methods. For assets valued at less than NZ$2,000, a taxpayer may elect to pool the assets and apply the pool-depreciation method. Under the pool-depreciation method, the lowest rate applicable to any asset in the pool is used to depreciate all assets in the pool. A taxpayer may have more than one pool of assets. Assets in a pool must be used for business purposes only or be subject to Fringe Benefit Tax (see Section D) to the extent the assets are not used for business purposes. Buildings may not be pooled. Property costing NZ$200 or less may be written off immediately.

Assets, other than intangible property, acquired before 1 April 1993 are depreciated at the rates provided under the prior depreciation regime.

A transitional system applies to assets, including certain intangible property, acquired from 1 April 1993 through the end of the taxpayer's 1994-95 income year (the income year ending nearest to 31 March 1995). Under the transitional system, a taxpayer may elect to use the depreciation rates under the prior regime or the new depreciation rates set by the Commissioner of Inland Revenue, which are based on the effective useful life of an asset.

Assets acquired in a taxpayer's 1995-96 or subsequent income year must be depreciated using the new depreciation rates. In general, most of these assets, other than buildings and used imported motor cars, qualify for a 20% loading on the applicable depreciation rates for the 1995-96 and subsequent income years, if the assets were not previously used in New Zealand. In certain circumstances, a taxpayer may apply for a special depreciation rate.

The following are some of the general straight-line and declining-balance depreciation rates under the new depreciation regime (before the addition of any loading).

	Method	
Asset	**Declining-Balance (%)**	**Straight-Line (%)**
Buildings	4	3
Calculators	50	40
Chairs	15	10
Desks	12	8
Filing cabinets	12	8
Motor vehicles	15 to 40	10 to 30
Photocopiers	33	24
Typewriters	33	24

The rates for plant and machinery vary depending on the particular type of plant and machinery.

Tax depreciation is generally subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. Amounts recaptured are included in gross income in the year of disposal. If sales proceeds are less than the tax value after depreciation, the difference may be deducted as a loss in the year of disposal. However, such losses on buildings are not deductible.

Special Deductions. A few special deductions designed to achieve specific government objectives are available, such as certain deductions relating to petroleum, mining, forestry and agricultural activities.

Trading Losses. Trading losses may be carried forward and offset against future taxable income if, at all times from the beginning of the year of loss to the end of the year of offset, a group of persons held an aggregate minimum voting interest in the company and, in certain circumstances, minimum market value interests of at least 49%.

Group Losses. Losses incurred within a group of companies may be offset against other group company profits either by election or subvention payments.

Subvention payments are intercorporate payments specifically made to effect the transfer of company losses. They are treated as deductions to the paying (profit) company and as taxable income to the recipient (loss) company. The loss company and the profit-making company must be in the same group of companies throughout the relevant period. The required common ownership is 66%.

Wholly owned corporate groups may elect income tax consolidation.

Elective Regime for Closely Held Companies. Qualifying companies with five or fewer shareholders may elect to be taxed similarly to partnerships.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Goods and Services Tax (GST), similar to a value-added tax, levied on the supply of goods and services and on imports	12.5
Fringe Benefit Tax (FBT), paid by the employer on the value of fringe benefits provided to employees and on noncash dividends distributed to shareholder-employees	64
(If benefits are attributable to particular employees, employers may elect to calculate FBT on the attributable benefits at rates of 17.65%, 26.58%, 49.25% and 63.93%. The rates vary depending on the employee's cash remuneration inclusive of the fringe benefits. Unattributed benefits provided to such employees are subject to FBT at a rate of 49%. As a further alternative, employers may pay FBT at a rate of 63.93% on attributed benefits and at a rate of 49% on unattributed benefits.)	
Accident compensation levy, on gross salaries and wages, paid by	
Employer; rate (before residual and health and safety elements) varies according to industry class and may be reduced if the employer meets certain work safety criteria; certain employers may take direct responsibility under full self-cover or partnership discount plans	0.12 to 7.03
Employee	1.2
Self-employed; rate (before residual and health and safety elements) varies according to industry class, incorporating income and non-income benefit portions (the calculation of which depends on the individual's earnings) and according to age and abatement factors if a guaranteed amount of weekly compensation is purchased	0.07 to 8.47

E. Miscellaneous Matters

Antiavoidance Legislation. Legislation permits the Inland Revenue Department to void any arrangement made or entered into if tax avoidance is one of the purposes or effects of the arrangement and is not merely incidental.

Branch-Equivalent System. Under the branch-equivalent system of taxation, New Zealand residents that have interests in the income of a controlled foreign company (CFC) are taxed on attributed income as if the CFC is a branch of a New Zealand resident company. A CFC is a foreign company under the control of five or fewer New Zealand residents or a group of New Zealand resident directors. In general, for the purposes of the CFC rules, control is more than 50% ownership. A New Zealand resident with an income interest greater than 10% is required to calculate and include in income the attributed foreign income or loss of the CFC. Branch-equivalent losses are quarantined. The branch-equivalent system does not apply to interests in a CFC that is resident in a "grey list country" (Australia, Canada, Germany, Japan, Norway, the United Kingdom or the United States), unless branch profits of the CFC benefit from a foreign tax exemption or certain other specified relief.

Certain nondividend repatriations of funds by CFCs to New Zealand are effectively taxed to shareholders with an income interest of 10% or more. The annual increase in the CFC's investment in New Zealand property (as defined) resulting from these repatriations is measured at the end of the company's accounting year and is subject to foreign dividend withholding payment for corporate shareholders or income tax for shareholders who are individuals.

Foreign Investment Fund System. New Zealand has a foreign investment fund (FIF) system that taxes the change in value of a New Zealand resident's interest in the FIF over an income year. The change in value includes income, capital growth and any exchange fluctuation.

The FIF regime generally applies to all offshore investments that are not CFC interests, including interests in foreign companies, foreign unit trusts, foreign life insurance, and foreign savings and superannuation funds.

The FIF rules do not apply to individuals owning FIF interests that cost less than NZ$50,000 or to certain FIF interests (other than life insurance and superannuation funds) in grey list countries. Exemptions are also provided for certain employment-related foreign superannuation schemes and foreign private annuities and pensions as well as for the first four years that individuals who become resident in New Zealand hold interests in foreign life insurance funds and superannuation schemes, provided the individuals held these interests before they became resident in New Zealand.

The four permissible methods for calculating FIF income are a branch-equivalent method, a deemed rate of return method, a comparison of opening and closing values, and a method based on accounting profits.

Conduit Tax Relief. New Zealand resident companies may be relieved from tax on attributed foreign income arising under the CFC regime and on FIF income calculated under the branch-equivalent or accounting profits methods to the extent that they have nonresident shareholders. Interest allocation rules limit conduit relief if companies allocate an excessive amount of interest expense to their New Zealand operations in comparison to the amount of interest expense allocated to foreign investments that are granted relief under these rules.

Transfer Pricing. The transfer-pricing regime in New Zealand is aimed primarily at cross-border arrangements between associated parties. Taxpayers are able to adopt the method that produces the most reliable measure of arm's length consideration. The allowable methods are the comparable uncontrolled price method, the resale price method, the cost-plus method, the profit-split method and the comparable profits method. Binding rulings with respect to transfer-pricing issues are available from the Commissioner of Inland Revenue. New Zealand and countries with which New Zealand has concluded tax treaties may enter into multilateral advance pricing agreements under the transfer-pricing regime.

Debt-to-Equity Ratios. In conjunction with the transfer-pricing regime (see *Transfer Pricing* above), a thin-capitalization regime applies to New Zealand entities that are at least 50% owned or controlled by a single nonresident (however, interests held by persons associated with a nonresident may be included for the purpose of determining the nonresident's level of control). This regime denies interest deductions to the extent that the New Zealand entity's level of interest-bearing debt exceeds both a safe harbor debt to total assets ratio of 75%, and 110% of the ratio of interest-bearing debt to total assets of the entity's worldwide group. A netting rule excludes borrowings that are in turn loaned to the following: nonresidents that are not carrying on business in New Zealand through a fixed establishment; nonassociated persons; or associates that are subject to the thin-capitalization regime but are not in the lender's New Zealand group. This rule effectively exempts most finance companies and banks from the regime.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties %
Australia	15	10	10
Belgium	15	10	10
Canada	15	15	15
China	15	10 (a)	10
Denmark	15	10	10
Fiji	15	10	15
Finland	15	10	10
France	15	10 (a)	10
Germany	15	10 (a)	10
India	15	10 (a)	10
Indonesia	15	10 (a)	15
Ireland	15	10	10
Italy	15	10 (a)	10
Japan	15	15 (b)	15 (b)
Korea	15	10 (a)	10
Malaysia	15	15	15
Netherlands	15	10 (a)	10
Norway	15	10 (a)	10
Philippines	15 (c)	15	15
Russian Federation (g)	15	10	10
Singapore	15	15	15
South Africa (g)	15	10 (a)	10
Sweden	15	10	10
Switzerland	15	10	10
Taiwan	15	10	10
Thailand	15	15 (e)	10/15 (f)
United Kingdom	15	10 (a)	10
United States	15	10 (a)	10
Nontreaty countries (d)	30	15	15

(a) Interest paid to a contracting state or subdivision, to certain state financial institutions or with respect to certain state-guaranteed loans is exempt.
(b) No article of the treaty limits the rate applicable to interest or royalties, and neither is included in the treaty definition of business profits. The 15% rate provided by the principal tax act is therefore shown in the table.
(c) 25% if paid to a person other than a company.
(d) See applicable footnotes to Section A.
(e) The rate is 10% for interest paid to financial institutions, including insurance companies, or if the interest relates to arm's length sales on credit of equipment, merchandise or services. Interest paid to certain institutions of the government or the central bank is exempt.
(f) The 10% rate applies to payments for the use of copyrights, industrial, scientific or commercial equipment, films, tapes or other broadcast matter. The 15% rate applies to other royalties.
(g) At the time of writing, the exchange of instruments of ratification had not yet occurred. Consequently, the treaty had not entered into force in New Zealand.

NICARAGUA

Please direct all inquiries regarding Nicaragua to Rafael Sayagués of the Costa Rica office (telephone: [506] 204-9029; mobile: [1] (305) 310-8007; fax: [506] 204-7305; e-mail: rafael.sayagues@cr.ey.com).

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%) (a)	
Dividends	10.5
Interest	22.5
Royalties from Patents, Know-how, etc.	21
Payments for Movie Films, Radio and Television	9
Income Derived from Real Estate (b)	
With Buildings	21
Without Buildings	24
Transportation	
Air Transportation	1.5
Land and Maritime Transportation	3
International Communications	1.5
Insurance and Bail Premiums	
Life Insurance	0.9
Fire Insurance	2.4
Maritime Transportation Insurance	3
Other Insurance	0.6
Musical and Artistic Public Spectacles	15
Compensation for Services	10.5
Branch Remittance Tax	10.5
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The withholding taxes apply to nonresident companies and individuals. The withholding tax rates are determined by applying the 30% corporate income tax rate to the imputed taxable income for the various activities. For details regarding the calculation of the imputed income amounts, see Section C.
(b) Income derived from real estate includes income from leases and subleases, and any other benefits resulting from the holding of title to real estate.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The Nicaraguan tax system is based on the territorial principle. As a result, income derived from property located in Nicaragua, from services rendered there, and from business conducted or producing effects in Nicaragua is subject to income tax.

Corporate Income Tax Rate. The standard corporate tax rate is 30% of taxable income for both resident and nonresident companies. A resident company is a company that is registered with the tax authorities and the Public Mercantile Registry.

After their third year of operations, companies subject to income tax that have total assets over C$150,000 are subject to a minimum tax of 1% of their total assets. Special rules apply to financial entities.

Capital Gains. Capital gains are treated as ordinary income and are subject to tax at the standard corporate income tax rate. Tax on these gains is either withheld at source or subject to advance payments of corporate income tax.

Administration. The statutory tax year runs from 1 July through 30 June of the following calendar year. However, in specified circumstances, taxpayers may request one of the following special tax years: 1 April through 31 March; 1 October through 30 September; and 1 January through 31 December. Tax returns must be filed within three months after the end of the tax year.

Companies must make monthly advance payments, each equaling 1% of their monthly gross income. The advance payments made are treated as advance payments of the annual income tax liability.

Dividends. Dividends distributed by entities that pay income tax are not included in the taxable income of the recipient.

Foreign Tax Relief. Because Nicaragua taxes only income derived from Nicaraguan sources, the domestic income tax law does not grant any relief for foreign taxes paid, such as a foreign tax credit.

C. Determination of Trading Income

General. Taxable income is computed in accordance with generally accepted accounting principles, subject to adjustments required by the Nicaraguan tax law.

In general, taxable income includes income or gains derived from Nicaraguan sources, such as income derived from the sale and exportation of goods, amounts received for services rendered and income and gains derived from real estate located in Nicaragua. Allowable deductions generally include all expenses necessary to generate taxable income.

Imputed Income Taxation. Nonresident companies that earn certain types of income in Nicaragua are subject to an imputed income assessment equal to a specified percentage of their Nicaraguan gross income. The amount of the imputed income assessment is subject to tax at the normal income tax rate. The following are the applicable percentages for the imputed assessment.

Type of Income	Percentage (%)
Dividends	35
Interest	75
Royalties from patents, copyrights, trademarks and other similar rights	70
Payments for movie films, television and radio programs	30
Income derived from real estate	
With buildings	70
Without buildings	80
Transportation	
Air transportation	5
Land and maritime transportation	10
International communications	5
Insurance	
Life insurance	3
Fire insurance	18
Maritime insurance	10
Other type of insurance	2
Compensation for services	35
Musical and artistic public spectacles	50

Inventories. If inventories are a significant element in the determination of a company's taxable income, the company must value each item by its acquisition cost or market price, whichever is lower. The law allows companies to use the weighted-average cost, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods to determine the cost of merchandise sold.

Provisions. Companies may deduct 1% of the amount of receivables as a provision for doubtful debts.

Banks may deduct increases in minimum reserves for debtors in accordance with the standards of the Bank Superintendence.

Tax Depreciation. Regulations under the income tax law allow the use of the straight-line method to calculate depreciation. However, the tax authorities may authorize certain exporters to use accelerated depreciation methods. The following are the applicable straight-line rates.

Asset	Rate (%)
Industrial buildings	10
Commercial buildings	5
Residences located on agricultural farms	10
Fixed assets of agricultural farms	10
Buildings held for rental*	10
Freight or mass transportation equipment	20
Other transportation equipment	12.5
Industrial machinery and equipment installed permanently	10
Industrial machinery and equipment not installed permanently	15
Agricultural and agroindustrial equipment	20
Elevators and air conditioning equipment	10
Communication equipment	20
Furniture and office equipment	20

Asset	Rate (%)
Computers (central processing unit, monitor and keyboard)	50
Media equipment (video cameras)	50
Other machinery and equipment	20

* The rate is applied to the registered value of the buildings.

Relief of Losses. Companies may carry forward their operating losses for three years to offset all types of income. Losses may not be carried back.

Groups of Companies. Nicaraguan law does not contain any measures allowing the filing of consolidated tax returns.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	15
Municipal sales tax	1
Real estate tax; imposed on 80% of the appraisal value	1
Payroll taxes; paid by employers (average rate)	17

E. Foreign-Exchange Controls

The Nicaraguan currency is the cordoba (C$). On 25 September 2003, the exchange rate of the cordoba against the U.S. dollar was C$15.3125 = US$1.

No restrictions are imposed on foreign-trade operations or on foreign-currency transactions.

F. Tax Treaties

Nicaragua has not entered into any tax treaties with other countries.

NIGERIA

(Country Code 234)

LAGOS **GMT +1**

Ernst & Young
Osindero, Oni & Lasebikan
Ebani House (Marina Side)
P.O. Box 2442
62 Marina
Lagos
Nigeria

(1) 266-1462, 266-2833
(1) 266-5534, 266-2881
Fax: (1) 266-2709, 264-0742
E-mail: eyng@linkserve.com.ng

Corporate Tax

★ Prof. M. T. Abdulrazaq	**(1) 264-0741**
Mike Aluko	**(1) 266-5535**

Human Capital

Afolabi Allimi	**(1) 266-5534**
Mike Aluko	**(1) 266-5535**

Banking

Kehinde Odeneyeyo	**(1) 266-5534**
Segun Owokade	**(1) 266-5535**

Natural Resources

Debo Alabi	**(1) 266-1462**
Mike Aluko	**(1) 266-5535**

Foreign Country Specialist

★ Prof. M. T. Abdulrazaq, *Gambia, Liberia and Sierra Leone*	**(1) 264-0741**

Indirect Taxes

Prof. M. T. Abdulrazaq	**(1) 264-0741**

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	10
Withholding Tax (%) (a)	
Investment Income (b)	
Dividends	10 (c)
Interest	10 (d)
Rental Income	10
Royalties	10
Earned Income	
Building, Construction and Related Activities	5
Contract for Supplies	5
Consulting, Management and Technical Services	10
Commissions	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

(a) Applicable to residents and nonresidents.
(b) For nonresidents, these are final taxes. For resident companies, only the withholding tax on dividends is a final tax.
(c) Certain dividends are exempt (see Section B).
(d) Certain interest is exempt (see Section C).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide profits. Nonresident companies are taxed on the profits of their operations in Nigeria only. However, if a nonresident company performs a contract for survey, deliveries, installation or construction, the entire contract price is taxable in Nigeria, regardless of whether a portion of the contract is performed outside Nigeria. Assessable profits from all sources accruing in the accounting period are aggregated for tax purposes. Total profit on which tax is assessed is calculated by deducting capital allowances (tax depreciation) from the aggregate of assessable profits.

A company is resident in Nigeria if it is incorporated and registered in Nigeria. A foreign company that intends to carry on a trade or business in Nigeria is required by the Companies and Allied Matters Act to incorporate a Nigerian company.

Rates of Corporate Tax

Corporate Income Tax. The corporate income tax rate is 30%. However, tax is assessed at a reduced rate of 20% for a Nigerian company's first five tax years if it is engaged in manufacturing or agricultural production or in the mining of solid materials, and if its turnover (gross sales) is under ₦1 million.

Tax Holidays. Limited liability companies registered in Nigeria may apply for pioneer status, which is granted in industries vital to Nigeria's economic development or beneficial to the public interest. A company with pioneer status is granted a tax holiday of up to three years, with a possible extension of two years and an additional two-year extension if the company is located in an economically disadvantaged area.

New manufacturing companies operating in the export-free zone enjoy a full tax holiday for their first three years of operations if they engage in specified manufacturing activities, such as assembling or processing of goods, and if their proceeds from exports are at least 50% of their turnover for each of the three tax years. New export-oriented companies located outside the free zone may also qualify for the three-year tax holiday if they satisfy certain conditions.

New companies engaged in the mining of solid minerals also enjoy a tax holiday for their first three years of operations.

Oil and Gas Companies. Companies engaged in the marketing and distribution of gas for domestic and industrial use are subject to the Companies' Income Tax Act.

Beginning on the date they begin production, companies engaged in the marketing and distribution of gas for domestic and industrial use and companies engaged in industrial projects that use gas benefit from an initial five-year tax holiday, which is renewable for an additional two years if they are performing satisfactorily. After the tax holiday has expired, for expenditure on plant and machinery, the companies benefit from an annual allowance of 90% in the year of expenditure and 9% in the second year. In addition, they may claim a 15% investment allowance, which does not reduce the cost of the asset for the purposes of calculating the annual allowance.

During the tax holiday described above, dividends distributed on investments of foreign currency or plant and machinery representing at least 30% of the equity of the company are exempt from tax.

Companies may deduct interest on loans for gas projects if they obtain the prior approval of the Federal Ministry of Finance.

All expenditure necessarily incurred to separate gas from the reservoir (underground rock formation containing crude oil or gas), to convert it into usable product and to deliver gas to points of use is considered part of the capital investment for oil-field development, which may be charged against profits.

A gas-flaring penalty is imposed on oil companies for wasteful disposals of gases through burning in oil fields and refineries.

Companies engaged in gas exploration are subject to the Companies' Income Tax Act.

Petroleum- and gas-producing companies are subject to Petroleum Profit Tax at a rate of 85%. However, a concessionary rate of 65.75% applies if certain conditions are met.

Minimum Tax. Companies are required to pay minimum corporate tax if the minimum tax is greater than their actual tax liability. The minimum tax is computed by first determining the highest of the following:
- 0.5% of gross profit;
- 0.5% of net assets;
- 0.25% of paid-up capital; or
- 0.25% of turnover, up to ₦500,000.

The company then adds 0.125% of turnover exceeding ₦500,000 to this figure to determine the minimum tax.

The minimum tax does not apply to companies until the fifth year after the commencement of business. Companies engaged in an agricultural trade or business and companies with at least 25% imported equity capital are exempt from the minimum tax requirement.

If minimum tax is payable, capital allowances calculated for the year, together with capital allowances brought forward, are reduced by the taxable profit for the year.

Withholding Tax. The withholding tax rate on dividends and interest for residents and for recipients in nontreaty countries is generally 10%. However, certain dividends are exempt from tax (see *Dividends* below). Taxable interest income includes interest on all time deposits with banks and on savings passbook accounts of ₦50,000 and above. Certain types of interest income are exempt from tax (see Section C). Tax withheld from dividends and interest accruing to nonresident companies is regarded as a final tax. For resident companies, the withholding tax from dividends is also regarded as a final tax, but they must account for other investment income in their tax returns and claim credit for tax withheld. Both resident and nonresident companies must include in their tax returns earned income subject to withholding and claim the tax withheld as a credit.

Capital Gains. Capital gains tax is chargeable on the gains accruing from the disposal of all types of assets, including the following:
- Land and buildings;
- Options, debts and other property rights;
- Any currency other than Nigerian currency;
- Any form of property created by the person disposing of it or otherwise coming to be owned without being acquired; and
- Movable assets (motor vehicles).

For resident companies, disposals of assets located outside Nigeria are taxable regardless of whether gains accruing from such disposals are received in Nigeria. For nonresident companies, only gains accruing in Nigeria are taxable.

Taxable gain is the difference between the consideration accruing on the disposal of an asset and its original cost together with expenses incurred on its disposal.

Any loss incurred on a disposal may not be offset against the gains accruing from the disposal of another asset unless the two disposals result from a single transaction. Taxable gains are assessed in the year of disposal of an asset. The capital gains tax rate is 10%.

A company may claim an exemption if the proceeds from the disposal of an asset used in a trade or business are applied within a year before or after the disposal toward the acquisition of a similar asset to be used in the same trade or business.

Dividends. Dividends are generally subject to a final 10% withholding tax. However, dividends are exempt from tax if paid by a Nigerian company to a recipient that owns a 10% or greater equity participation of the company's share capital and if the equity participation was wholly paid for with cash or equipment imported into Nigeria between 1 January 1987 and 31 December 1992.

Dividends distributed from pioneer profit (see *Rates of Corporate Tax* above) or from after-tax petroleum profit are exempt from tax.

Administration

Filing and Tax Payment. The Federal Board of Inland Revenue is responsible for administering and collecting companies' income tax, petroleum profits tax (see Section D) and capital gains tax imposed on companies.

The tax year is from 1 January to 31 December. Every company subject to tax is required to file its tax return with the Inland Revenue within six months after the end of its accounting year or within 18 months after its date of incorporation. A penalty of ₦2,500 is imposed for the first month of lateness and ₦500 for each subsequent month.

All companies must file self-assessment forms and pay their tax liability when they file their tax returns. Companies may apply to the Inland Revenue for permission to pay their tax liability in up to six installments. The first installment must accompany the self-assessment form. The remaining five installments are payable over the following five months. Companies that do not comply with the requirement to file self-assessment forms are assessed tax based on their tax returns filed with the Inland Revenue. These companies may be required to pay their tax liability within two months after the date of service of the assessment.

A 10% penalty and interest at the bank lending rate are imposed for late payment of assessed tax. The bank lending rate, which is set by the Central Bank of Nigeria, is currently 21%.

Provisional Tax. Within three months from the beginning of a year of assessment, companies that do not comply with the requirement to file self-assessment forms must pay provisional tax in an amount equal to the tax paid in the preceding year. The payment must be made in no more than six successive monthly installments.

Advance Tax on Dividends. A company planning to distribute dividends must first pay tax on the taxable profits at the companies tax rate to ensure that the dividends are paid with after-tax profits. The tax on dividends is considered an advance tax payment. If dividends are distributed from profit that is not subject to tax, the tax paid on dividends is not regarded as an advance payment of tax, and it is not refundable.

Foreign Tax Relief. Foreign tax on the profits or capital gains of a Nigerian company may be credited against the company's income tax or capital gains tax on the same profit or gains. If a company receives a dividend from a foreign company in which it has at least 10% of the voting power, it may also obtain relief for the underlying foreign tax on the profits out of which the dividend is paid. Foreign tax relief may not exceed the Nigerian tax levied on the profit or gains.

C. Determination of Trading Profit

General. Taxable income is based on financial statements prepared on commercial principles. Trading profit is adjusted for deductions not allowed for tax purposes and for profits or gains not subject to tax.

Investment income earned abroad is tax-exempt if it is brought into Nigeria through the Central Bank of Nigeria or through any bank or other corporate body appointed by the Minister of Finance as an authorized dealer.

Interest received by banks on loans with a moratorium of at least 18 months is exempt from tax if the loans are granted to agricultural trades or businesses, to companies or individuals engaged in the manufacturing of plant and machinery in Nigeria or for working capital for certain cottage industries established under the family economic development program.

Interest on bank loans granted for the manufacturing of goods for export and interest on foreign loans are tax-exempt in accordance with the following percentages.

Repayment Period Including Moratorium	Grace Period	Tax Exemption Allowed (%)
More than 7 years	Not less than 2 years	100
5 to 7 years	Not less than 18 months	70
2 to 4 years	Not less than 12 months	40
Less than 2 years	None	0

Interest earned by a nonresident company on a deposit account consisting entirely of foreign-currency transfers is exempt from tax. In addition, interest on foreign-currency accounts maintained or operated in Nigeria is exempt from tax.

Expenses must be reasonable and incurred wholly, exclusively, necessarily and reasonably for the purpose of the trade or business.

Deductions are not allowed for the following: losses reimbursable under an insurance contract or a contract of indemnity; for donations made to public bodies and institutions not approved by the government; for subscriptions to social organizations; and for contributions to a pension and provident fund scheme that has not been approved by the Joint Tax Board.

Maximum limitations apply to the deductibility of the following: entertainment expenses; donations to approved bodies and institutions; management fees; and contributions to a pension and provident fund scheme that has been approved by the Joint Tax Board.

Inventory. The tax law does not prescribe any basis for valuation of inventory, provided a method is used consistently from year to year. However, first-in, first-out (FIFO) is one of the methods recommended by the Nigerian Accounting Standards Board, and last-in, first-out (LIFO) is discouraged.

Tax Depreciation (Capital Allowances)

Initial and Annual Allowances. Annual allowances are granted under the straight-line method. Initial allowances are deducted from the asset's cost before the annual allowance rate is applied on the balance. The following are rates of initial and annual allowances.

Qualifying Expenditure	Initial Allowance (%)	Annual Allowance (%)
Industrial buildings	15	10
Other buildings	15	10
Mining	95	None
Agricultural plant and machinery (excluding furniture and fittings)	95	None
Replacement of obsolete industrial plant and machinery	95	None
Plant and machinery used by companies engaged in gas utilization	90	None
Other plant and machinery (excluding furniture and fittings)	50	25
Motor vehicles for public transportation (excluding mass transit buses)	95	None
Mass transit buses	100	None
Other motor vehicles	50	25
Ranching and plantation (preproduction)	30	50
Research and development	95	None
Housing estate	50	25
Furniture and fittings	25	20

Investment Allowances. An investment allowance at a rate of 10% is granted for expenditure incurred on plant and equipment. If the expenditure is for replacement of obsolete industrial plant and equipment, the rate is increased to 15%. The investment allowance is not deducted from the cost of assets. It is granted in addition to the initial allowance. An investment allowance may be carried forward if it is not completely used to offset income in the year of the acquisition of the asset.

Companies established at least 20 kilometers (12.4 miles) from certain types of infrastructural facilities may claim rural investment allowances instead of investment allowances for expenditures on such facilities. The types of facilities and the applicable percentages of rural investment allowances are the following: electricity, 50%; water, 30%; tarred road, 15%; and telephone, 5%. Unused rural investment allowances may not be carried forward.

Initial and annual allowances are recaptured on the sale of an asset if the sales price exceeds the written-down tax value. The amount recaptured may not exceed the initial and capital allowances granted. Amounts recaptured are taxed as ordinary income at the regular corporate tax rates.

Investment Tax Credit. Investment tax relief is similar to the rural investment allowance. It is granted for expenditures on certain infrastructural facilities by companies established at least 20 kilometers

(12.4 miles) from such facilities. The following are the types of facilities and the applicable percentages of the relief: electricity, 50%; water, 30%; tarred road, 15%; and telephone, 5%. The investment tax relief may be claimed for three years. A company that has enjoyed or is enjoying pioneer status (see Section B) may not claim the relief. A company may claim both the investment tax relief and the rural investment allowance [see *Tax Depreciation (Capital Allowances)* above] at the same time.

Companies engaged in research and development activities may claim a tax credit of 20% of their qualifying capital expenditure.

A 15% investment tax credit is granted for purchases of locally manufactured plant and machinery and equipment for the use of the purchaser.

Companies wholly engaged in the manufacturing of tools, spare parts and similar items are entitled to an investment tax credit of 25% with respect to their qualifying capital expenditure. A company may claim both the investment tax credit and the rural investment allowance [see *Tax Depreciation (Capital Allowances)* above] at the same time.

Relief for Losses. Trade and business losses may be carried forward to offset profits of the same trade or business for four years, after which the losses lapse. Losses may not be carried back.

Groups of Companies. Each company must file a separate tax return. There are no provisions for filing consolidated returns or offsetting losses against profits within a group of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, levied on specified goods and services, including goods manufactured or assembled in Nigeria, imported goods, certain bank services and certain services performed by professionals	5
Education tax, on assessable income; the tax is deductible for purposes of the petroleum profits tax	2
Nigeria Social Insurance Trust Fund (NSITF) contributions, on monthly gross salary (for NSITF purposes, gross salary consists of basic pay, and housing and transport allowances); paid by	
Employer	6.5
Employee	3.5
(Expatriates covered by a plan in their home country may qualify for exclusion.)	

E. Miscellaneous Matters

Foreign-Exchange Controls. Before investing in Nigeria, foreigners must register with the Nigeria Investment Promotion Commission and obtain a Certificate of Capital Importation from authorized foreign-exchange dealers through whom foreign currency is imported. This certificate, which serves as documentary evidence of the importation of the currency, guarantees the unconditional transferability of dividends and interest and the repatriation of capital through authorized dealers.

Companies are free to determine the amount of dividends distributed. Borrowing funds to remit dividends is not allowed. The application to remit dividends must be submitted with the Certificate of Capital Importation and a tax clearance certificate, which establishes that tax was paid or that no tax is due with respect to the remitted dividends. If the appropriate amount of tax is withheld from dividends and interest paid to nonresidents, no additional tax clearance is required.

Remittances of royalties and fees require the approval of the National Office for Technology Acquisition and Promotion. Permission is granted if the royalties and fees are within certain prescribed limits.

Importation and exportation of the naira, the Nigerian currency, are prohibited.

Exporters of non-oil products must open a local bank account marked “Export Proceeds” and must credit their foreign-currency export earnings to this account.

Antiavoidance Provisions. If the Chairman of the Federal Board of Inland Revenue sends a written request to a bank for information pertaining to its customers, the bank must comply with the request. A government ministry, government agency or bank entering into a transaction with any company is required to demand a tax clearance certificate from such company. The certificate must provide evidence of tax payment or tax exemption during the preceding three years.

Transfer Pricing. Under the tax law, if the tax authority determines that transactions between two related companies are artificial and fictitious and are carried out to reduce the tax liability of either of the companies, the tax authority may direct appropriate adjustments to ensure that the proper amount of tax is paid.

Debt-to-Equity Rules. No tax-related thin-capitalization rules apply in Nigeria.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Belgium	7.5/10	7.5	7.5
Canada	7.5/10	7.5	7.5
Czechoslovakia	7.5/10	7.5	7.5
France	7.5/10	7.5	7.5
Netherlands	7.5/10	7.5	7.5
Pakistan	7.5/10	7.5	7.5
Romania	7.5/10	7.5	7.5
United Kingdom	7.5/10	7.5	7.5
Nontreaty countries	10	10	10

Nigeria has signed double tax treaties with Bulgaria, the Philippines and South Africa, but these treaties have not yet been ratified.

Nigeria has begun tax treaty negotiations with Brazil, India, Korea, the Russian Federation, Tunisia and Turkey.

NORTHERN MARIANA ISLANDS, COMMONWEALTH OF THE

(Country Code 1)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.lastname@gu.ey.com

SAIPAN **GMT +10**

Ernst & Young	**(670) 234-8300**
Suite 209	**Fax: (670) 234-8302**
Oleai Business Center	**E-mail: ernst.young@saipan.com**
P.O. Box 3198	
Saipan, MP 96950	

Corporate Tax

Edmund E. Brobesong *(resident in Guam)*	**(671) 649-8469**
★ Lance K. Kamigaki *(resident in Guam)*	**(671) 649-4577**
Marlyn B. Oberiano *(resident in Guam)*	**(671) 649-5987**
James Whitt	**(670) 234-8300**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (a)
Branch Income Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	30 (a)(b)
Interest	30 (a)(b)(c)
Royalties from Patents, Know-how, etc.	30 (a)(b)
Branch Profits Tax	30 (a)(d)
Net Operating Losses (Years)	
Carryback	2
Carryforward	20 (e)

(a) Income tax on income sourced within the Northern Marianas that exceeds gross revenue tax on the same income is subject to a rebate. For details, see Section B.
(b) Imposed on payments to nonresidents. See Section E.
(c) Bank deposit interest not effectively connected with a trade or business in the Northern Marianas and interest on certain portfolio debt obligations are exempt from withholding tax.
(d) This is the branch profits tax, imposed on the earnings of a foreign corporation attributable to its branch, reduced by earnings reinvested in the branch and increased by reinvested earnings withdrawn.
(e) No deduction is available for net operating losses arising before 1 January 1985.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporations are subject to a gross revenue tax. In addition, the Commonwealth of the Northern Mariana Islands (CNMI) has adopted the U.S. Internal Revenue Code as its income tax law. For a description of the income taxation of resident corporations doing business in CNMI, refer to the chapter in this book on the United States and substitute “CNMI” for each reference to the “United States.”

To avoid double taxation, a credit against income tax is given for gross revenue tax paid or accrued on income earned within the Northern Marianas. If income tax on Northern Marianas income exceeds the gross revenue tax, the company is entitled to a rebate of specified percentages of the excess. The following are the rebate percentages: 90% of the excess up to $20,000; 70% of the next $80,000; and 50% of the excess over $100,000.

Income earned by residents from foreign sources is subject to the full amount of tax under the Internal Revenue Code (I.R.C.). A special rule prevents U.S. residents from taking advantage of the rebate by changing their residence to report gains on the sale of U.S. property or stock in U.S. companies on their Northern Marianas tax return.

Gross Revenue Tax. A gross revenue tax is imposed on the gross income of businesses from their activities and investments in the CNMI. The gross revenue tax rates are shown in the following table.

Gross Revenue Exceeding $	Gross Revenue Not Exceeding $	Rate on Total Gross Income %
0	5,000	0
5,000	50,000	1.5
50,000	100,000	2
100,000	250,000	2.5
250,000	500,000	3
500,000	750,000	4
750,000	–	5

These rates apply to total gross income and are not progressive.

Tax Incentives. The CNMI, through the Commonwealth Development Authority, is authorized by law to grant tax rebates to qualified investors. The Commonwealth Development Authority grants Qualifying Certificates (QCs) for tax incentives to businesses engaged in activities that are deemed to be beneficial to the development of the CNMI economy. The incentives are aimed primarily at franchise restaurants, water parks, aquariums, cultural centers, theme parks, resort hotels, golf courses, convention centers, dinner theaters, special events, CNMI-based airlines, manufacturing of high-technology products and Internet-related businesses. In general, QCs can provide rebates of up to 100% of income tax paid for up to 25 years.

Basis of Qualified Fresh-Start Assets. Under the Northern Marianas Territorial Income Tax, effective 1 January 1985, income from pre-1985 appreciation of Northern Marianas property is not subject to income tax. For the purposes of determining gain and allowances for depreciation and amortization, the basis of the Northern Marianas real and personal property is the greater of the basis determined under the I.R.C. or the fair-market value as of 1 January 1985. Fair-market value can be established either by independent appraisal or by discounting the ultimate sales price back to 1 January 1985, using the discount factors specified by regulation. Currently, rates published by the U.S. Internal Revenue Service are used.

Administration. Income taxes are paid to the government of the Northern Marianas, which administers its tax system. In general, the administration of the Northern Marianas tax is the same as in the United States, but estimated taxes are due on the last day of the month following the end of each quarter of the tax year. The income tax rebate is not available to reduce estimated tax payments.

Foreign Tax Relief. Foreign tax credits are available in the Northern Marianas to reduce income tax in the same manner as foreign tax credits in the United States. The credits do not reduce gross revenue tax, which is imposed on CNMI-source income only.

C. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Hotel occupancy tax	10%
Excise taxes on all property except school and library books and machinery and raw materials used in manufacturing	Various
Liquid fuel taxes	
Gasoline, diesel and other liquid fuels (refunded if used by commercial vessels outside CNMI)	15 cents a gallon
Aviation fuel (reduced depending on flight schedule)	3%
Social security contributions (including 1.45% Medicare Tax; U.S. system); imposed on	
Wages up to $87,900 (for 2004); paid by	
Employer	7.65%
Employee	7.65%
Wages in excess of $87,900 (for 2004); paid by	
Employer	1.45%
Employee	1.45%
Miscellaneous license fees	Various

D. Miscellaneous Matters

Foreign-Exchange Controls. CNMI does not impose foreign-exchange controls, but large currency transfers must be reported to the U.S. Treasury Department.

Transfer Pricing. The U.S. transfer-pricing rules apply in CNMI.

Debt-to-Equity Rules. The U.S. thin-capitalization rules apply in CNMI.

E. Treaties and Withholding Taxes

CNMI does not participate in the U.S. income tax treaties and has not entered into any treaties with other countries. The withholding tax rate for dividend, interest and royalty payments to nonresidents is 30%, but the rebate discussed in Section B is available if a recipient files a CNMI income tax return. In general, no withholding tax is imposed on payments between CNMI and the United States or Guam, unless the recipient exceeds certain foreign ownership and income limitations.

NORWAY

(Country Code 47)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@no.ey.com

For persons with a middle name, their e-mail addresses are in the following standard format:

firstname.middlename.surname@no.ey.com

OSLO — GMT +1

Ernst & Young Tax	**24-00-24-00**
Christian Frederiks plass 6	**Fax: 24-00-29-01**
Oslo Atrium	
P.O. Box 20	
N-0051 Oslo	
Norway	

International Tax Services

★ Øyvind Hovland	**24-00-22-38**
	Mobile: 950-39-812
Martin Wikborg	**24-00-22-42**
	Mobile: 982-06-242

International Tax Services – Transfer Pricing

Marius Leivestad	**24-00-23-86**
	Mobile: 982-06-386
◆ Ulf Sørdal	**55-21-35-76**
(resident in Bergen)	**Mobile: 976-52-881**

Corporate Tax – Consulting

Einar Brask	**24-00-22-07**
	Mobile: 982-06-207
Bjørgun Jønsberg	**24-00-21-68**
	Mobile: 982-06-168
Henning Raa	**24-00-25-94**
	Mobile: 917-86-479
★ Hans Georg Wille	**24-00-24-16**
	Mobile: 908-45-931

Corporate Tax – Compliance

Bjørgun Jønsberg	**24-00-21-68**
	Mobile: 982-06-168

Corporate Tax – Inbound

Henning Raa	**24-00-25-94**
	Mobile: 917-86-479
Martin Wikborg	**24-00-22-42**
	Mobile: 982-06-242

Transactions Advisory Support

Christian Wahl	**24-00-28-52**
	Mobile: 992-16-751

Human Capital

Antonio Holstad	**24-00-25-38**
	Mobile: 982-06-169
★ Johan Killengreen	**24-00-25-64**
	Mobile: 982-06-375

Indirect Taxes

Knut Andreassen	**24-00-22-60**
	Mobile: 982-06-260
Christin Bøsterud	**24-00-20-33**
	Mobile: 977-78-314

Øystein Arff Gulseth	**24-00-23-87** **Mobile: 982-06-387**
★ Per Oskar Tobiassen	**24-00-22-69** **Mobile: 982-06-269**

BERGEN **GMT +1**

Ernst & Young Tax **55-21-30-00**
Lars Hillesgate 20A **Fax: 55-21-30-03**
P.O. Box 6163, Postterminalen
N-5892 Bergen
Norway

International Tax Services

◆ Espen Ommedal	**55-21-34-70** **Mobile: 982-06-470**
Ulf Sørdal	**55-21-35-76** **Mobile: 976-52-881**

Corporate Tax

Dag Saltnes	**55-21-35-70** **Mobile: 970-96-154**

Human Capital

Espen Ommedal	**55-21-34-70** **Mobile: 982-06-470**

STAVANGER **GMT +1**

Ernst & Young Tax **51-70-66-00**
Vassbotnen 11 **Fax: 51-70-66-01**
P.O. Box 8015
N-4068 Stavanger
Norway

International Tax

◆ Øyvind Eskeland	**51-70-67-70** **Mobile: 901-81-620**
Klaus Klausen	**51-70-66-90**

Human Capital

Per Christian Ask	**51-70-66-91** **Mobile: 982-06-691**

Unless otherwise indicated, the rates and thresholds stated in the chapter apply to 2003 income. Changes with respect to the taxation of 2004 income may be introduced with retroactive effect until 31 December 2004.

A. At a Glance

Corporate Income Tax Rate (%)	28
Capital Gains Tax Rate (%)	28
Branch Tax Rate (%)	28
Withholding Tax (%)	
Dividends	25 (a)
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0 (b)
Carryforward	10

(a) Applicable to nonresident shareholders.
(b) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to corporate income tax on worldwide income. Nonresident companies are subject to corporate income tax on income attributable to Norwegian business operations.

A company is resident in Norway if it is incorporated (registered) in Norway or if its central management and control are effectively exercised in Norway.

Rates of Corporate Tax. For 2003, the corporate tax rate is 28%.

In addition to the general income tax of 28%, a special petroleum tax of 50% applies to income from oil and gas production and from pipeline transportation.

Qualifying shipping companies may elect a deferred tax regime instead of the ordinary tax regime. Under the deferred tax regime, profits are exempt from tax, but dividend distributions trigger taxation on the grossed-up amount that is distributed. For example, a dividend distribution of NOK 72 results in a tax of NOK 28. Companies electing the deferred tax regime must pay an insignificant tonnage excise tax.

Active Shareholder Tax. If a shareholder owns more than two-thirds of the company's shares and actively participates in the company's business, the shareholder is subject to personal income tax on the company's profits (computed under special rules). For 2003, the maximum rate of this tax is 30.2% (including the social security contribution; see Section D). The active shareholder tax is imposed in addition to the regular 28% corporate tax on the company. The company reimburses the shareholder for the active shareholder tax, but may not take a deduction for the tax. The shareholder does not include the reimbursement in taxable income.

Capital Gains. Capital gains derived from the disposal of business assets and shares are subject to normal corporate taxes. However, in general, capital gains derived by a foreigner from the sale of shares in a Norwegian company are not subject to tax.

Administration. The annual tax return is due 28 February for accounting years ending in the preceding calendar year. An extension of one month may normally be obtained. Assessments are made in the third quarter of the year in which the return is submitted. Tax is paid in four installments, the first two on 15 February and 15 April, respectively. These payments normally represent 2/3 of the tax due. The last two installments are payable three weeks after the issuance of the assessment (normally September) and on 15 November, respectively. Interest is charged if less than 2/3 of the total tax is paid by 30 April.

Dividends. Dividends received by resident shareholders are subject to tax at the normal corporate tax rate of 28%. However, Norway has an imputation system for dividends distributed by Norwegian companies to resident shareholders. Under this system, resident shareholders that receive dividends are entitled to a credit for the tax the distributing company has paid on the earnings. Consequently, dividends received by resident shareholders from Norwegian companies are effectively exempt from tax.

Dividends paid to nonresident shareholders are subject to a 25% withholding tax. The withholding rate may be reduced by tax treaties. It is not clear whether the imposition of Norwegian withholding tax on dividends paid to shareholders from European

Union (EU) or European Free Trade Association (EFTA) countries is in accordance with Norway's obligations under the European Economic Area Agreement.

Dividends received from foreign companies are included in taxable income and taxed at the regular rate of 28%.

As a result of differences between financial accounting rules and tax rules, companies may distribute dividends from income that has not yet been taxed. To ensure that the distributing company pays tax on earnings that are distributed, a correction tax at a rate of 28% (the regular corporate tax rate) is imposed on distributions of profits that have not yet been taxed. Consequently, deferred tax is payable when dividends are distributed.

Foreign Tax Relief. A tax credit is allowed for foreign tax paid by Norwegian companies, but it is limited to the proportion of the Norwegian tax that is levied on foreign-source income.

In addition to claiming a tax credit for dividend withholding tax, Norwegian companies holding at least 10% of the share capital and the voting rights of a foreign company may also claim a tax credit for the underlying foreign corporate tax paid by the foreign company, provided the Norwegian company includes an amount equal to the tax credit in taxable income. In addition, the credit is also available for tax paid by a second-tier subsidiary, provided that the Norwegian parent indirectly holds at least 25% of the second-tier subsidiary and that the second-tier subsidiary is a resident of the same country as the first-tier subsidiary. The regime also applies to dividends paid out of profits that have been retained by the first- or second-tier subsidiary for up to four years after the year the profits were earned. The tax credit applies only to tax paid to the country where the first- and second-tier subsidiaries are resident.

C. Determination of Taxable Income

General. Taxable income is based on book income shown in the annual financial statements, which must be prepared in accordance with generally accepted accounting principles. An item must be included in the statutory accounts to be deductible for tax purposes. In general, all expenses, except gifts and entertainment expenses, are deductible.

Inventory. Inventory is valued at cost, which must be determined on a first-in, first-out (FIFO) basis.

Depreciation. Depreciation on fixed assets must be calculated using the declining-balance method at any rate up to a given maximum. Fixed assets are allocated to one of the following eight different groups.

	Group	Maximum Depreciation Rates (%)
A	Office equipment and similar items	30
B	Acquired goodwill	20
C	Trailers, trucks, buses, taxis and vehicles for the transportation of disabled persons	20
D	Cars, tractors, other movable machines, other machines, equipment, instruments, furniture, fixtures and similar items	15

Group	Maximum Depreciation Rates (%)
E Ships, vessels, drilling rigs and similar items	14
F Aircraft and helicopters	12
G Installations for transmission and distribution of electric power and electronic equipment in power stations	5
H Industrial buildings, hotels, rooming houses, restaurants and similar buildings	4 or 8
I Office buildings	2

Assets in groups A, B, C and D are depreciated as whole units, while assets in groups E, F, G, H and I are depreciated individually.

If fixed assets in groups A, B, C and D are sold, the proceeds reduce the balance of the group of assets and consequently the basis for depreciation. If a negative balance results within groups A, C or D, part of the negative balance must be included in income. In general, the amount included in income is determined by multiplying the negative balance by the depreciation rate for the group. However, if the negative balance is less than NOK 15,000, the entire negative balance must be included in taxable income.

A negative balance in one of the other groups (B, E, F, G, H and I) must be included in a gains and losses account. Twenty percent of a positive balance in this account must be included in taxable income.

Relief for Losses. A company holding more than 90% of the shares in a subsidiary may form a group for tax purposes. Intragroup contributions to set off profits in one company against losses in another may be made if included in the statutory accounts.

Alternatively, losses may be carried forward 10 years. Losses can only be carried back when a business is terminated and then only against profits of the preceding two years.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods and services, other than an exempt supply, in Norway	
General rate	24
Articles of food	12
Social security contributions, on all taxable salaries, wages and allowances, and on certain fringe benefits; paid by (the rates and thresholds shown below are the 2003 figures; however, the thresholds will be adjusted by 1 May 2004)	
Employer (general rates for 2003; lower in some municipalities and for employees age 62 and over)	
Up to NOK 895,424 (for each employee)	14.1
Exceeding NOK 895,424 (for each employee)	26.6

Nature of Tax	Rate (%)
Employee (expatriates liable unless exempt under a social security convention; 2003 rate)	7.8
Active shareholder, on income (2003 rates)	
Professional services	
Up to NOK 671,568	10.7
Exceeding NOK 671,568	7.8
Nonprofessional services	
Up to NOK 671,568	10.7
From NOK 671,568 to NOK 895,424	7.8
From NOK 895,424 to NOK 4,193,300	0
From NOK 4,193,300 to NOK 7,499,176	7.8
Exceeding NOK 7,499,176	0
Pensioners and persons under 16 years old	3

E. Miscellaneous Matters

Antiavoidance Legislation. Legislation permits the revenue authorities to impute arm's length prices if transactions between related parties are not considered at arm's length. The legislation also applies to thin-capitalization issues.

Foreign-Exchange Controls. Norway does not impose foreign-exchange controls.

Debt-to-Equity Rules. Statutory debt-to-equity rules are prescribed only for petroleum-related offshore activities. Development, exploitation, processing and pipeline transportation must be 20% equity-financed. According to practice, companies must be 100% equity-financed if they are engaged primarily in exploring petroleum resources, without developing or producing from such resources. The 20% rule may also be applied as a general guideline for other activities.

Controlled Foreign Companies. Norwegian shareholders in controlled foreign companies (CFCs) resident in low-tax jurisdictions are subject to tax on their allocable shares of the profits of the CFCs, regardless of whether the profits are distributed as dividends. A CFC is a company of which 50% or more of its shares are owned directly or indirectly by Norwegian residents. A low-tax jurisdiction is a jurisdiction with a corporate tax rate that is less than two-thirds of the Norwegian tax rate (that is, less than 18.66%). The CFC rules also apply to CFCs resident in countries with which Norway has concluded a tax treaty, provided that the activities of the CFCs are of a passive nature.

Effective from 2004, the losses of a CFC may not offset the non-CFC income of an owner of the CFC, but they may be carried forward to offset future profits of the CFC.

Deduction for Contributions to Limited Companies. Shareholders of a company may obtain a deduction from income for cash contributions made to a Norwegian company engaged in a new activity. The deduction is available in the year the new activity is established and in the four subsequent years. Contributions are considered income to the company and are designed to cover losses incurred by the company in the new trade.

F. Treaty Withholding Tax Rates

For treaty countries, the following rates reflect the lower of the treaty rate and the rate under domestic law on outbound payments.

	Dividends (d) %	Interest (i) %	Royalties (i) %
Albania	5 (a)	0	0
Argentina	10 (a)	0	0
Australia	15	0	0
Austria	5 (a)	0	0
Azerbaijan	10 (n)	0	0
Barbados	5 (b)	0	0
Belgium	5 (a)	0	0
Benin	20	0	0
Brazil (q)	25	0	0
Bulgaria	15	0	0
Canada	5 (s)	0	0
Chile (t)	5 (p)	0	0
China	15	0	0
Côte d'Ivoire	15	0	0
Cyprus (q)	0 (f)	0	0
Czechoslovakia (c)	5 (a)	0	0
Denmark (Nordic Treaty)	0 (b)	0	0
Egypt (q)	15	0	0
Estonia	5 (a)	0	0
Faeroe Islands (Nordic Treaty)	0 (b)	0	0
Finland (Nordic Treaty)	0 (b)	0	0
France	0 (h)	0	0
Gambia	5 (a)	0	0
Germany	0 (a)	0	0
Greece	20	0	0
Hungary	10	0	0
Iceland (Nordic Treaty)	0 (b)	0	0
India	15 (a)	0	0
Indonesia	15	0	0
Ireland	5 (b)	0	0
Israel	5 (l)	0	0
Italy	15	0	0
Jamaica	15	0	0
Japan	5 (p)	0	0
Kazakhstan (o)	5 (b)	0	0
Kenya	15 (p)	0	0
Korea	15	0	0
Latvia	5 (a)	0	0
Lithuania	5 (a)	0	0
Luxembourg	5 (a)	0	0
Malawi	0 (f)	0	0
Malaysia (q)	0	0	0
Malta	15	0	0
Mexico	0 (a)	0	0
Morocco	15	0	0
Nepal	5 (g)	0	0
Netherlands	0 (a)	0	0

	Dividends (d) %	Interest (i) %	Royalties (i) %
Netherlands Antilles	5 (a)	0	0
New Zealand	15	0	0
Pakistan	15	0	0
Philippines	15 (k)	0	0
Poland	5 (a)	0	0
Portugal (q)	10 (a)	0	0
Romania	10	0	0
Russian Federation	10	0	0
Senegal	16	0	0
Sierra Leone	0 (f)	0	0
Singapore	5 (m)	0	0
South Africa	5 (a)	0	0
Spain	10 (r)	0	0
Sri Lanka	15	0	0
Sweden (Nordic Treaty)	0 (b)	0	0
Switzerland (q)	5 (a)	0	0
Tanzania	20	0	0
Thailand (q)	20 (p)	0	0
Trinidad and Tobago	10 (p)	0	0
Tunisia	20	0	0
Turkey	20 (a)	0	0
Uganda	10 (a)	0	0
Ukraine	5 (a)	0	0
United Kingdom	5 (s)	0	0
United States	15	0	0
Venezuela	5 (b)	0	0
Vietnam	5 (j)	0	0
Yugoslavia (e)	15	0	0
Zambia	15	0	0
Zimbabwe	15 (a)	0	0
Nontreaty countries	25	0	0

(a) The treaty withholding rate is increased to 15% (or other rate as indicated below) if the recipient is not a corporation owning at least 25% of the distributing corporation.

India	25%
Turkey	25%
Zimbabwe	20%

(b) The treaty withholding rate is increased to 15% (Venezuela, 10%) if the recipient is not a company directly owning at least 10% of the distributing company.

(c) Norway honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.

(d) It is not clear whether the imposition of Norwegian withholding tax on dividends paid to shareholders from European Union (EU) or European Free Trade Association (EFTA) countries is in accordance with Norway's obligations under the European Economic Area Agreement.

(e) The treaty with Yugoslavia is temporarily suspended. Nevertheless, Norway honors the Yugoslavia treaty with respect to Croatia and Slovenia. Other cases are dealt with individually by the authorities. Norway is negotiating a tax treaty with Slovenia.

(f) The treaty withholding rate is increased to 5% if the recipient is not a company holding at least 50% of the voting power of the distributing corporation.

(g) The 5% rate applies if the recipient is a company owning at least 25% of the distributing company. The rate is increased to 10% if the recipient is a company owning at least 10%, but less than 25%, of the distributing company. For other dividends, the rate is 15%.

(h) In general, the treaty withholding rate is increased to 15% if the recipient is not a corporation owning at least 25% of the distributing company. However, the rate is 5% if the recipient is a French corporation owning at least 10%, but less than 25%, of the distributing company.

(i) Interest and royalties are not subject to withholding tax under Norwegian domestic law.
(j) The 5% rate applies if the recipient of the dividends owns at least 70% of the capital of the Norwegian payer. The rate is increased to 10% if the recipient owns at least 25%, but less than 70%, of the Norwegian payer. For other dividends, the rate is 15%.
(k) The rate is increased to 25% if the recipient is not a company owning at least 10% of the distributing company.
(l) The rate is increased to 15% if the recipient is not a company owning at least 50% of the voting power of the distributing company.
(m) The rate is increased to 15% if the recipient does not own at least 25% of the distributing company.
(n) The rate is increased to 15% if the recipient is not a company that satisfies both of the following conditions: it owns at least 30% of the capital of the distributing company; and it has invested more than US$100,000 in the payer.
(o) This treaty was signed on 3 April 2001, but it is not yet in force.
(p) The rate is increased to 15% (Trinidad and Tobago, 20%; Kenya and Thailand, 25%) if the recipient is not a company owning at least 25% of the voting power of the payer.
(q) A revision of this treaty is currently being negotiated.
(r) The rate is increased to 15% if the recipient is not a company that owns directly or indirectly at least 25% of the distributing company.
(s) The rate is increased to 15% if the recipient is not a company that controls directly or indirectly at least 10% of the voting power in the distributing company.
(t) This treaty enters into force on 1 January 2004.

OMAN

(Country Code 968)

MUSCAT **GMT +4**

Ernst & Young **703-105**
Mail Address: **Fax: 702-734**
P.O. Box 1750
Ruwi, Postal Code 112
Oman

Street Address:
Bank Dhofar Building, 6th Floor
Muttrah Business District
Muscat
Oman

International Tax
Sridhar Sridharan **703-105**
E-mail: sridhar.sridharan@om.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (a)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	10 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (c)

(a) See Section B.
(b) This tax is imposed on the following earnings of foreign companies without a permanent establishment in Oman: royalties; rent for equipment; management fees; fees for transfers of technical know-how; and research and development fees. Companies or permanent establishments in Oman that pay these items must deduct tax at source and remit it to the Secretary General of Taxation.
(c) Net losses incurred during the tax holidays described in Section B may be carried forward indefinitely.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies, including partnerships and joint ventures, carrying on business in Oman are subject to tax on Omani-source income.

Rates of Corporate Income Tax. Companies registered in Oman, regardless of the extent of foreign participation, and permanent establishments of companies incorporated in the other member countries of the Gulf Cooperation Council (GCC; Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates are the other members of the GCC) are subject to tax at a rate of 0% on their first RO 30,000 of income, and at a rate of 12% on their income in excess of RO 30,000.

Branches of foreign companies, other than companies incorporated in the member states of the GCC, are subject to tax at the rates listed in the following table.

Taxable Income		
Exceeding	**Not Exceeding**	**Rate (%)**
0	5,000	0
5,000	18,000	5
18,000	35,000	10
35,000	55,000	15
55,000	75,000	20
75,000	100,000	25
100,000	–	30

The tax rates for branches of foreign companies are not progressive. Consequently, total taxable income is taxed at the appropriate rate from the above table. For example, the tax on RO 80,000 is RO 20,000 (25% of 80,000). However, marginal relief applies if taxable income slightly exceeds the maximum amount in the previous tax band. In such circumstances, the tax is calculated by adding the excess to the amount payable on the maximum amount in the previous tax band.

Oil exploration and production companies are taxed under special rules covered by concession agreements.

Foreign shipping and aviation companies are exempt from tax in Oman, if the Omani shipping and aviation companies enjoy similar reciprocal treatment in the respective foreign countries.

Joint investment accounts (mutual funds) established under the Omani regulations or those established outside Oman to deal in Omani financial instruments listed on the Muscat Securities Market (MSM) are exempt from tax.

Tax holidays are available to the following: companies engaged in industrial activities, mining, exporting, tourism, agricultural farm production, farm processing, animal husbandry processing and manufacturing of animal products, fishing, fish processing and certain services such as public utility services; colleges, universities and other private higher education institutions, private schools, kindergarten and training institutes; and medical care companies that establish private hospitals. The performance of management contracts and construction contracts in public utility projects does not qualify for tax holidays. Tax holidays are granted for five years from the beginning of production or business operations. The Council of Financial Affairs and Energy Resources may grant an extension of the tax holiday for up to five years.

Capital Gains. No special rules apply to capital gains. Capital gains on fixed assets and acquired intangible assets are included in regular income and taxed at the rates set out in *Rates of Corporate Income Tax* above.

Gains derived from sales of investments and securities listed on the MSM are exempt from tax.

Administration. The tax year is the calendar year. A company is permitted to have a different accounting year. Provisional tax returns must be filed within three months of the end of the accounting year and final returns within six months. There are no advance payment procedures, and tax due must be paid with the provisional return. A fine of 1% per month is levied on late payments. Various penalties may also be imposed.

Dividends. Dividends received by companies are not taxed.

Foreign Tax Relief. Relief for foreign taxes paid may be allowed on a case-by-case basis by the authorities.

C. Determination of Trading Income

General. Tax is levied on income that has been realized or has arisen in Oman or which the Secretary General of Taxation deems to have been realized or to have arisen in Oman. Financial accounts must be presented on the accrual basis of accounting.

Actual expenses incurred may be deducted. However, special rules exist for allowances, such as depreciation, bad debts, donations, director's remuneration, rent, head-office overhead allocated to branches and sponsorship fees. Any exchange difference relating to head-office or related-party balances is normally disregarded.

If certain income is exempt from tax, the related expenses are not deductible for tax purposes.

Inventories. The tax law does not stipulate a required method of accounting for inventories. In general, they are valued at the lower of cost or net realizable value, with cost determined using the weighted-average or first-in, first-out (FIFO) method. Any provisions to bring down the value to net realizable value, however, are not allowed for tax purposes.

Tax Depreciation. The following fixed annual depreciation rates are set by the tax law.

Assets	Rate (%)
Permanent buildings	4
Prefabricated buildings	15
Heavy equipment (usually earth-moving equipment)	33 1/3
Motor vehicles	33 1/3
Furniture	33 1/3
Other equipment and tools	15
Airplanes and ships	15
Scientific research equipment	100
Hospital buildings and educational establishments	100
Bridges, platforms, pipelines, roads and railways	10

For industrial buildings, the rate is doubled. Accelerated rates of up to 150% of the above rates are also permitted for equipment that is used continuously for three shifts a day. The rate for intangible assets is determined by the Secretary General of Taxation.

Relief for Losses. Losses may be carried forward for five years.

Net losses incurred by companies during the tax holidays described in Section B may be carried forward indefinitely to offset future taxable income. No carryback is permitted.

Groups of Companies. No measures exist for filing consolidated returns or for relieving losses within a group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Social security contributions, on basic salary of Omani employees	
Pension fund; paid by	
Employer	8%
Employee	5%
Government	5%
Occupational injuries and diseases; payable by employer	1%
Vocational training levy for each non-Omani employee; paid annually by employer	RO 100

E. Miscellaneous Matters

Antiavoidance Legislation. Two antiavoidance provisions are contained in the Income Tax Law. Tax authorities are empowered to nullify or alter the tax consequences of any transaction that they have reasonable cause to believe was entered into to avoid or reduce a tax liability. This does not, however, apply to the transfer of a business by an individual or group of individuals to a company established for this purpose.

If a company carries out a transaction with a related person that was planned to reduce the company's taxable income, the income arising from the transaction is deemed to be the income that would have arisen had the parties been dealing at arm's length.

Others. There are no rules relating to foreign-exchange controls, debt-to-equity ratios or controlled foreign companies.

F. Tax Treaties

Oman has entered into double tax treaties with Algeria, China, France, India, Italy, Lebanon, Mauritius, Pakistan, Sudan, Tunisia, the United Kingdom and Yemen. Oman has signed double tax treaties with Egypt, the Russian Federation and South Africa, but these treaties are not yet in force. Oman has signed double tax treaties with Canada, Germany, Seychelles, Singapore and Thailand, which have not yet been ratified.

Under Omani domestic law, withholding tax is not imposed on dividends or interest. Under the France, Mauritius and U.K. treaties, no withholding tax is imposed on royalties paid to companies resident in those countries. The 10% withholding tax on royalties under Omani domestic law applies to royalties paid to companies resident in the other treaty countries.

PAKISTAN

(Country Code 92)

ISLAMABAD GMT +5

Ford Rhodes Sidat Hyder & Co.
Mail Address:
P.O. Box 2388
Islamabad
Pakistan

(51) 287-0290 through 0292
Fax: (51) 287-0293
E-mail: frsh.isb@pk.ey.com

Street Address:
Eagle Plaza
75, West, Fazl-e-Haq Road
Blue Area
Islamabad
Pakistan

Corporate Tax

Syed Tariq Jamil	**(51) 227-0345**

KARACHI GMT +5

Ford Rhodes Sidat Hyder & Co.
Mail Address:
P.O. Box 15541
Karachi 75530
Pakistan

(21) 565-0007 through 0011
Fax: (21) 568-1965
E-mail: frsh.khi@pk.ey.com

Street Address:
Progressive Plaza
Beaumont Road
Karachi
Pakistan

Corporate Tax

★ Nasim Hyder	**(21) 565-0007** **E-mail: nasim.hyder@pk.ey.com**
Majid Khandwala	**(21) 565-0007** **E-mail: majid.khandwala@pk.ey.com**
Mustafa Khandwala	**(21) 565-0007** **E-mail: mustafa.khandwala@pk.ey.com**
Ehtesham Khwaja	**(21) 565-0007**
Khalil Waggan	**(21) 565-0007** **E-mail: khalil.waggan@pk.ey.com**

Human Capital

★ Majid Khandwala	**(21) 565-0007** **E-mail: majid.khandwala@pk.ey.com**
Khalil Waggan	**(21) 565-0007** **E-mail: khalil.waggan@pk.ey.com**

LAHORE GMT +5

Ford Rhodes Sidat Hyder & Co.
Mail Address:
P.O. Box 104
Lahore
Pakistan

(42) 721-1536 through 1538
Fax: (42) 721-1539
E-mail: frsh.lhr@pk.ey.com

Street Address:
Mall View Building
4 Bank Square
P.O. Box 104
Lahore
Pakistan

Corporate Tax
Ijaz Ahmed **(42) 721-1529**
E-mail: ijaz.ahmed@pk.ey.com

Human Capital
Ijaz Ahmed **(42) 721-1529**
E-mail: ijaz.ahmed@pk.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	41 (a)
Capital Gains Tax Rate (%)	41 (a)(b)
Branch Tax Rate (%)	41 (a)
Withholding Tax (%) (c)	
Dividends	5/7.5/10 (d)
Interest (e)	
Interest or Profits on Bank Deposits, Certificates, Debentures, Nongovernment Securities, Similar Instruments and Government Securities under the National Savings Scheme	
Payments to Residents and to Nonresidents That Have a Permanent Establishment in Pakistan	10
Payments to Other Nonresidents	30
Interest on Other Government Securities	
Payments to Residents and to Nonresidents That Have a Permanent Establishment in Pakistan	20
Payments to Other Nonresidents	30
Royalties from Patents, Know-how, etc.	5/6/15 (f)
Fees for Technical Services	5/6/15 (f)(g)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

(a) This is the rate for private companies. The rate for banking companies is 44% and the rate for public companies is 35%. The corporate income tax rates for banking companies and private companies will be reduced each year during the period of 2005 through 2007 (see Section B).
(b) Only 75% of the gain is taxable in certain circumstances (see Section B).
(c) See Section B for a listing of additional withholding taxes.
(d) This is a final tax. The 5% rate applies to dividends paid to public companies or insurance companies. For other dividends, the tax rate is generally 10%. However, the rate is 7.5% for the following dividends: dividends paid by companies engaged in power generation or by purchasers of power projects privatized by Water and Power Development Authority; and dividends paid to nonresident companies by companies engaged exclusively in mining operations, other than petroleum.
(e) The withholding taxes on interest are considered advance payments of tax, which may be credited against the final tax liability for the year. Interest paid on loans and overdrafts to resident banks and Pakistani branches of nonresident banks and financial institutions is not subject to withholding tax.
(f) Payments to nonresidents that have a permanent establishment in Pakistan are subject to withholding tax at a rate of 5% or 6%, depending on the value of the contract. The 5% or 6% withholding tax is treated as an advance payment of tax, which may be credited against the final tax liability for the year. The 15% tax is imposed on payments to nonresidents without a permanent establishment in Pakistan. The tax is applied to gross income and is a final tax.
(g) Fees for technical services do not include consideration for any construction, assembly or similar project of the recipient (such consideration is subject to a 4%, 5%, 6% or 8% withholding tax; see Section B) or consideration that is taxable as salary.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies that are resident in Pakistan are subject to corporation tax on their worldwide income. Tax is levied on the total amount of income earned from all sources in the company's accounting period, including dividends and taxable capital gains. Branches of foreign companies and nonresident companies are taxed only on Pakistan-source income. A company is resident in Pakistan if it is incorporated in Pakistan or if its control and management are exercised wholly or almost wholly in Pakistan during the tax year. Company is defined to include the following:

- A company as defined in the Companies Ordinance, 1984;
- A body corporate formed by or under any law in force in Pakistan;
- An entity incorporated by or under the corporation law of a country other than Pakistan;
- The government of a province;
- A local authority;
- A foreign association that the Central Board of Revenue declares to be a company; and
- A trust, cooperative society or a finance society established under or created by any law currently in force.

Tax Rates. The following are the corporate income tax rates for 2004 through 2007.

Tax Year*	Banking Company %	Public Company %	Private Company %
2004	44	35	41
2005	41	35	39
2006	38	35	37
2007	35	35	35

* The tax year ends on 30 June of each year. For example, the 2004 tax year runs from 1 July 2003 through 30 June 2004.

Public companies are companies that are listed and traded on a stock exchange in Pakistan, unit trusts, public trusts and companies in which the government is the majority shareholder.

Resident companies are subject to a minimum income tax equal to 0.5% of gross receipts from sales of goods, services rendered or the execution of contracts.

The gross revenue of nonresidents' air transportation and shipping businesses is taxed at 3% and 8%, respectively. This income is not subject to any other tax including withholding tax.

Certain types of income are subject to final withholding taxes. For information regarding these taxes, see Section A and *Withholding Taxes* below.

Tax Incentives. Some of the significant tax incentives available in Pakistan are described in the following paragraphs.

Private sector projects engaged in the generation of electricity are exempt from tax.

Income derived from instruments of redeemable capital, as defined in the Companies Ordinance, 1984, by the National Investment (Unit) Trust of Pakistan established by the National Investment

Trust Limited or by mutual funds, investment companies or collective-investment schemes approved by the Securities and Exchange Commission is exempt from tax if such enterprises distribute at least 90% of their income to their unit holders.

Income derived by nonresidents not operating in Pakistan from federal government securities and redeemable capital, as defined in the Companies Ordinance, 1984, that are listed on a registered stock exchange is exempt from tax if such investments are made exclusively with foreign exchange remitted into Pakistan through a special convertible rupee account maintained with a bank in Pakistan.

Mutual funds, investment companies registered under the Investment Companies and Investment Advisers Rules, 1971 and unit trust schemes established by asset management companies registered under the Assets Management Companies Rules, 1995 are exempt from tax if at least 90% of their income for the year is distributed to their unit holders, certificate holders or shareholders.

Income derived from the export of computer software developed in Pakistan and related services is exempt from tax until 30 June 2016.

Capital Gains. Only 75% of capital gains derived from transfers of capital assets, excluding immovable properties and assets on which tax depreciation is claimed, is taxed if the assets were held for more than 12 months. Capital gains on assets held for 12 months or less are taxed in full at the normal corporate rates. Capital gains from the transfer of shares of listed companies are exempt for financial years ending on or before 30 June 2005.

Capital losses can be offset only against capital gains. Capital losses can be carried forward for six years.

Administration

Filing Requirements. The tax year commences on 1 July and ends on 30 June. Companies are required to end their fiscal years on 30 June. Special permission is required from the Central Board of Revenue to use a different year-end. The Central Board of Revenue has specified 30 September as the year-end for certain industries, such as sugar and textiles, and 31 December as the year-end for insurance companies.

An income tax return must be filed by 30 September of the following year if the company's year-end is from 1 July through 31 December and by the following 31 December if the year-end is from 1 January through 30 June. Any balance due after deducting advance payments and withholding taxes must be paid when the tax return is filed.

Nonresident air transportation and shipping companies are not required to file returns.

Advance Tax Payments. Advance tax is payable quarterly. The advance tax payments are calculated by applying to turnover for the quarter the ratio of tax paid to turnover for the most recent tax year for which tax has been determined. The following table sets forth the quarterly periods and the dates on which the advance payments are due.

Quarter Beginning	Quarter Ending	Due Date for Advance Tax
1 July	30 September	7 October
1 October	31 December	7 January
1 January	31 March	7 April
1 April	30 June	21 June

Withholding Taxes. Withholding tax is an interim tax payment that may or may not be the final tax liability. Amounts withheld that are not final taxes are credited to the final tax liability of the taxpayer for the relevant year.

In addition to the withholding taxes listed in Section A, payments by corporations are subject to the following withholding taxes.

Type of Payment	Rate (%)
Foreign-exchange proceeds from exports of goods	0.75 to 1.25 (a)
Rent on residential property (if the annual rent exceeds Rs. 200,000)	5 (b)(c)
Payments for goods	
Specified goods	0.75 to 2 (d)(e)
Other goods	3.5 (d)(e)(f)
Payments for imported goods	6 (e)
Payments under executed contracts for construction, assembly and similar projects	
Payments to residents	5/6 (g)(h)
Payments to nonresidents	
Design of, supply of plant and equipment for, and construction of power or transmission line projects	
Hydel power projects (power generation based on water) or transmission line projects	5 (f)
Other projects	4 (f)
Turnkey projects	8 (f)
Other projects	5/6 (f)(g)
Payments for services	
Rendered by residents	
Transport services	2
Other services	5 (c)
Rendered by nonresidents	5/6 (c)(g)
Brokerage and commission	
Indenting commission	5 (b)(c)
Other commission and brokerage	5/30 (c)(h)
Payments to employees	– (b)(c)(i)

(a) This tax is a final tax that is imposed on both residents and nonresidents.
(b) This tax is imposed on residents and nonresidents.
(c) The tax is considered an advance payment of tax, which may be credited against the final tax liability for the year.
(d) This tax is applicable to residents and permanent establishment of nonresidents in Pakistan.
(e) This tax is a final tax for entities engaged in trading.
(f) Resident manufacturers and nonresident contractors may irrevocably elect to treat the withholding tax as a final tax.
(g) The 6% rate applies if the value of the contract exceeds Rs. 30 million. Otherwise, the rate is 5%.
(h) The 5% rate applies to payments to residents; the 30% rate applies to payments to nonresidents.
(i) The applicable rate depends on the employee.

In general, for payments not listed in the above tables or in Section A, withholding tax is imposed at a rate of 30% on payments to nonresidents subject to tax in Pakistan.

Interest and Penalties. For a failure to file an income tax return by the due date, a penalty equal to 0.1% of the tax payable for each day of default is imposed, subject to a minimum of Rs. 500 and a maximum of 25% of the tax payable.

In addition, interest and penalties are imposed in the following circumstances:
- Interest at a rate of 18% a year is charged if tax, including advance tax payments, are not made or are only partially paid;
- A penalty of up to 100% may be levied for nonpayment of tax due; and
- If income is concealed, a penalty equal to 100% of the tax payable is levied in addition to the normal tax payable.

The income tax department is required to pay compensation at the rate of 15% on refunds due that have not been paid within three months of the due date, from the expiration of the three months up to the date on which the refund is paid.

Dividends. Dividends are subject to withholding tax at the rates listed in Section A.

Foreign Tax Relief. A foreign tax credit is granted to resident companies with respect to foreign-source income at the average rate of Pakistani income tax or the actual foreign tax paid, whichever is less. If foreign income is derived under different heads (categories) of income, the amount of the allowable credit is applied separately to each head of income. However, income derived under a particular head of income from different locations is pooled together. A credit is allowed only if the foreign income tax is paid within two years after the end of the tax year in which the foreign-source income is derived.

C. Determination of Trading Income

General. Assessments are generally based on the audited financial statements, subject to certain adjustments. Any income accruing or arising, whether directly or indirectly, through or from any business connection in Pakistan, through or from any asset, property or source of income in Pakistan, or through the transfer of a capital asset situated in Pakistan, is subject to tax.

Expenses incurred to derive income from business that is subject to tax are allowed as deductions to arrive at taxable income. Deductions for employee perquisites are limited to 50% of the employee's salary. For branches of foreign companies, allocated head-office expenses may be deducted, up to an amount calculated by applying the ratio of Pakistani turnover to worldwide turnover.

Inventories. Inventory for a tax year is valued at the lower of cost or net realizable value of the inventory on hand at the end of the year. If a particular item of inventory is not readily identifiable, the first-in, first-out (FIFO) or weighted-average methods may be used. The valuation method should be applied consistently from year to year, but the method may be changed with the prior approval of the tax authorities.

Provisions. General provisions for bad debts are not allowed as deductions from income. A charge for specific bad debts, however, may be allowed if the debt is accepted by the income tax officer as irrecoverable.

Tax Depreciation. Depreciation recorded in the financial statements is not allowed for tax purposes. Tax depreciation allowances are given on assets, such as buildings, plant and machinery, computers and furniture owned by the company and used for business purposes. The company is entitled to a depreciation allowance only if assets are used to derive business income that is subject to tax during the tax year. Depreciation is allowable on a proportionate basis for the number of months in which the asset is used during the tax year. Depreciation is calculated using the declining-balance method.

The following depreciation rates are generally used.

Assets	**Annual Allowance %**
Buildings	5 to 10
Furniture and fixtures	10
Machinery and plant, including computer hardware, technical or professional books, ships, aircraft and motor vehicles	5 to 30
Below-ground installations (including offshore) of mineral oil enterprises	100
Offshore platform and production installations of mineral oil enterprises	20

For depreciation purposes, the value of automobiles not used for hire or for transporting employees or passengers is generally limited to Rs. 1 million.

To promote industrial development in Pakistan, certain other allowances relating to capital expenditure have been introduced. These allowances are summarized below.

Initial Allowance. An initial depreciation allowance at a rate of 50% is granted for plant and machinery acquired during the tax year if the plant and machinery is used for the first time in Pakistan and is wholly and exclusively used to derive business income subject to tax.

Amortization of Intangibles. Amortization of intangibles is allowed over the normal useful life of intangibles. If an intangible does not have an ascertainable useful life or if the normal useful life is more than ten years, for purposes of calculating annual amortization, the normal useful life is considered to be 10 years for the purposes of calculating amortization.

Amortization of Expenses Incurred Before the Commencement of Business. The amortization of expenses incurred before the commencement of business is allowed on a straight-line basis at an annual rate of 20%.

Relief for Losses. Business losses, other than capital losses and losses arising out of speculative transactions, may be carried forward to offset profit in subsequent years for a period not exceeding six years. Unabsorbed depreciation may be carried forward indefinitely.

Groups of Companies. Each company is a separate entity for tax purposes. No provisions are available for filing consolidated returns or for group relief, except that a listed company may claim business losses (not on account of depreciation allowances) of a 100%-owned subsidiary company, subject to certain considerations.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax, on the supply of goods, on the cost of imported goods and on certain services; certain items and classes of persons are exempt	15/20
Excise duties, on specified goods imported or manufactured in Pakistan and on specified services provided or rendered in Pakistan (the government may declare any goods or class of goods exempt)	Various
State and local taxes; an annual trade tax on companies, including branches of foreign companies	Various
Capital value tax, on purchases of	
Airplane tickets for international travel	1.5
Imported motor vehicles	3.75 to 7.5
Net assets tax (*zakat*, a religious levy), on certain assets of companies having a majority of Muslim shareholders who are citizens of Pakistan	2.5
Social security contributions, on salaries of employees (maximum of Rs. 210)	7
Employees' old age benefits, on salaries of employees (maximum of Rs. 150)	5

E. Miscellaneous Matters

Foreign-Exchange Controls. In general, remittances in foreign currency are regulated, and all remittances are subject to clearance by the State Bank of Pakistan. However, foreign currency may be remitted through the secondary market.

Debt-to-Equity Rules. The concept of thin capitalization was recently added for the first time to the tax law. Under the new thin-capitalization rules, if the foreign debt-to-equity ratio of a foreign-controlled company (other than a financial institution or a banking company) exceeds 3:1, interest paid on foreign debt in excess of the 3:1 ratio is not deductible.

The State Bank of Pakistan prescribes that borrowers from financial institutions have a debt-to-equity ratio of 60:40. This may be increased for small projects costing up to Rs. 50 million or by special government permission.

Loans and overdrafts to companies (other than banking companies), controlled directly or indirectly by persons resident outside Pakistan, and to branches of foreign companies are generally restricted to certain specified percentages of the entities' paid-up capital, reserves or head-office investment in Pakistan. The percentage varies, depending on whether the entities are manufacturing companies, semimanufacturing companies, trading companies or branches of foreign companies operating in Pakistan. No limits apply, however, to companies exporting at least 50% of their products.

To meet their working capital requirements, foreign controlled companies and branches of foreign companies may contract working capital loans in foreign currency that can be repatriated. The State Bank of Pakistan also permits foreign controlled companies to take out additional matching loans and overdrafts in rupees equal to the amount of the loans that may be repatriated. Other loans in rupees are permitted in special circumstances. Certain guarantees issued on behalf of foreign controlled companies are treated as debt for purposes of the company's borrowing entitlement.

F. Treaty Withholding Tax Rates

The maximum withholding rates provided in the treaties are shown in the following table.

	Dividends %	Interest %	Royalties %
Austria	10/20 (d)	– (b)(g)	20
Azerbaijan	10	10	10
Bangladesh	15	15 (b)	15
Belgium	10/15 (d)	15 (b)	20 (m)
Canada	15/20 (d)	25	20 (c)
China	10	10	12.5
Denmark	15	15 (b)(f)	12
Egypt	15/30 (q)	15 (t)	15
Finland	12/15/20 (s)	15 (i)	10
France	10/15 (o)	10 (t)	10
Germany	10/15 (v)	20 (b)(i)	10
Hungary	15/20 (p)	15 (b)	15
Indonesia	10/15 (p)	15	15
Ireland	10 (h)	– (b)(g)	– (e)
Italy	15/25 (r)	30 (t)	30
Japan	8.75 (h)	30 (b)	– (e)
Kazakhstan	12.5/15 (o)	12.5 (t)	15
Korea	10/12.5 (d)	12.5 (b)	10
Kuwait	10	10 (t)	10
Libya	15	– (g)	– (g)
Malaysia	15/20 (d)	15 (b)(f)	15
Malta	15 (a)	10 (b)	10
Mauritius	10	10 (b)	12.5
Netherlands	10/20 (p)	20 (b)(l)	5/15 (j)
Nigeria	12.5/15 (o)	15	15
Norway	15	10 (b)	12
Oman	10/12.5 (o)	10 (t)	12.5
Philippines	15/25 (p)	15 (b)	25 (k)
Poland	15 (d)	– (b)(g)	20 (c)
Qatar	5/10 (o)	10 (t)	10
Romania	10	10 (f)	12.5
Singapore	10/12.5/15 (u)	12.5	10

	Dividends %	Interest %	Royalties %
Sri Lanka	15	10 (b)	20
Sweden	15	15 (b)	10
Switzerland	10/20 (d)	30 (f)	– (e)
Syria	10	10	10/15/18 (w)
Thailand	15/25 (d)	25 (i)	10/20 (j)
Tunisia	10	13	10
Turkey	10/15 (d)	10	10
Turkmenistan	10	10	10
United Arab Emirates	10/15 (v)	10 (b)	12
United Kingdom	10/15/20 (n)	15 (b)	12.5
United States	8.75 (h)	– (g)	– (e)
Uzbekistan	10	10 (b)	15
Nontreaty countries	7.5/10 (x)	30 (x)	15 (x)

(a) Treaty-determined percentage holding required.
(b) Interest paid to the government or, in certain circumstances, to a financial institution owned or controlled by the government is exempt.
(c) Fifteen percent for industrial, commercial or scientific know-how.
(d) Treaty-determined percentage holding required, and payer must be engaged in an industrial undertaking; otherwise, higher rate or normal rate applies.
(e) Royalties are exempt from withholding tax to the extent they represent a fair and reasonable consideration.
(f) Certain approved loans are exempt.
(g) Normal rates apply.
(h) Treaty-determined percentage holding by a public company required and the profits out of which the dividends are paid must be derived from an industrial undertaking; otherwise, normal rates apply.
(i) Ten percent if the recipient is a financial institution.
(j) Lower amount for literary, artistic or scientific royalties.
(k) Fifteen percent if payer is an enterprise engaged in preferred activities.
(l) Rate reduced to 10% if recipient is a bank or financial institution or if certain types of contracts apply. Rate reduced to 15% if recipient holds 25% of the capital of the paying company.
(m) Copyright royalties and other similar payments for literary, dramatic, musical or artistic work are exempt.
(n) Fifteen percent if the recipient is a company. Further reduced to 10% if the treaty-determined percentage is held by the recipient and the industrial undertaking is set up in Pakistan after 8 December 1987. Twenty percent in other cases.
(o) Lower rate applies if the recipient is a company that controls, directly or indirectly, 10% of the voting power in the company paying the dividend.
(p) Lower rate applies if recipient is a company that owns directly at least 25% of the capital of the paying company.
(q) The 15% rate applies to dividends paid to companies. The 30% rate applies to other dividends.
(r) The 15% rate applies if the recipient is a company that owns directly at least 25% of the capital of the payer and is engaged in an industrial undertaking.
(s) The 12% rate applies if the recipient is a company that owns directly at least 25% of the capital of the payer; the 15% rate applies to dividends paid to other companies; and the 20% rate applies to other dividends.
(t) Interest paid to the government or to an agency of or an instrumentality owned by the government is exempt from tax.
(u) The 10% rate applies if the payer is engaged in an industrial undertaking and if the recipient is a company; the 12.5% rate applies if the recipient is a company; the 15% rate applies in all other cases.
(v) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 20% of the shares of the payer.
(w) The 10% rate applies to royalties for cinematographic films and to tapes for television or radio broadcasting. The 15% rate applies to royalties for literary, artistic or scientific works.
(x) See Section A.

Pakistan has also concluded treaties that cover only shipping and air transport. These treaties are not included in the above table.

PALESTINE

(Country Code 972)
(Country Code 970 within Middle East only)

RAMALLAH **GMT +2**

Ernst & Young	**(2) 240-1011**
Mail Address:	**Fax: (2) 240-2324**
P.O. Box 1373	**E-mail: ramallah.office@ps.ey.com**
Ramallah	**(Please indicate in all telecommunications**
Palestine	**"Attn. Hanna Quffa Ernst & Young")**

Street Address:
Trust Building – 6th Floor
Jerusalem St.
Ramallah
Palestine

Corporate Tax

Najeh Muzahem	**(2) 240-1011**
★ Hanna Quffa	**(2) 240-1015**
	E-mail: hanna.quffa@ps.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	0 (a)
Branch Tax Rate (%)	20 (b)
Withholding Tax (%)(c)	
Dividends	0 (d)
Interest	20 (e)
Royalties from Patents, Know-how, etc.	20 (e)
Payments for Services	20 (e)
Other Payments to Nonresidents	20 (f)
Branch Remittance Tax	0 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	6 (g)

(a) See Section B.
(b) Branches operating in Palestine are taxed like Palestinian companies, and any remittances are presumed to be dividends.
(c) The withholding taxes may be credited against income tax due.
(d) No withholding tax is imposed if, before or at the time of the distribution, corporate tax is paid on the profits out of which the dividends are paid.
(e) The withholding tax applies to resident and nonresident companies.
(f) The tax authorities may approve a reduction in the rate to 10% (see Section B).
(g) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Palestinian companies and branches of foreign companies carrying on business in Palestine are subject to corporate income tax only on their income derived from Palestine. A company is considered Palestinian if it is registered in Palestine. A branch of a foreign company registered in Palestine is treated like a Palestinian company.

Foreign companies operating in Palestine without a registered branch are subject to 20% withholding tax on all payments received in Palestine. The tax authorities may approve a reduction in the withholding rate to 10%. If a foreign company operates in Palestine for 183 days in any tax year, it is treated like a Palestinian company.

Rates of Corporate Income Tax. The standard rate of corporate income tax is 20%.

Oil and gas companies are subject to tax at a rate of 50%.

Under the Law for Encouragement of Investments, approved companies may benefit from an income tax exemption of 1 to 8 years and a reduced corporate income tax rate of 10% for 5 to 20 years, depending on the amount invested. An application must be filed with the Palestinian Investment Promotion Board to obtain approval for these tax benefits.

Capital Gains. In general, capital gains are not taxable, and capital losses are not deductible. However, gains on sales of shares derived by financial institutions that trade shares on a regular basis are taxable, and losses on such sales are deductible.

Administration. Companies must file a corporate tax return by the end of its third month after its year-end. All companies must use the calendar year as its tax year, unless the tax authorities approve a different tax year. As a result, tax returns are generally due on 31 March.

Companies must make quarterly advance tax payments. Tax assessors set the total amount of advance payments, which normally equals 100% of the prior year's tax. A company can request an adjustment of this amount within 15 days. If the total amount of the advance payments is paid by February of the tax year, a 15% discount is granted. Any balance of tax due must be paid by the due date for filing the annual tax return.

Dividends. Dividends paid by Palestinian companies are not taxable, if, before or at the time of the distribution, corporate income tax is paid on the profits out of which the dividends are paid.

Foreign Tax Relief. Because only Palestinian-source income is taxed, no foreign tax relief is granted.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements, subject to certain adjustments.

In general, all income derived in Palestine from trading or other sources is taxable in Palestine. Income derived from agriculture and interest received on government bonds are exempt from tax.

All business expenses incurred to generate income may be deducted, but the deductibility of certain expenses is limited. A specified percentage of entertainment expenses is not deductible. Head office charges are limited to 5% of net income.

Inventories. Inventories are valued on a first-in, first-out (FIFO) basis.

Provisions. Provisions are not deductible for tax purposes. Bad debts are deductible only if they are uncollectible and are accordingly written off.

Depreciation. The Palestinian tax law provides straight-line tax depreciation rates for various types of assets. These rates are applied to the purchase prices for the assets. If the rates for accounting purposes are greater than the tax depreciation rates, the excess is disallowed for tax purposes. The following are the straight-line rates for certain assets.

Asset	Rate (%)
Buildings	2
Industrial buildings	4
Office equipment	10
Office furniture	7
Computer	25

Relief for Losses. Companies may carry forward losses to offset profits in the following six tax years. However, the loss carryforward deduction is limited to 50% of the profits in each subsequent tax year.

Groups of Companies. The Palestinian tax law does not allow the filling of consolidated tax returns.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT)	
Standard rate	17
Wages and profit tax; imposed on financial institutions instead of VAT and in addition to corporate income tax	17
Property tax; based on assessed rental value	17
Stamp tax, on the contract value	0.4

E. Miscellaneous Matters

Foreign-Exchange Controls. Palestine does not impose any foreign-exchange controls.

Palestine does not have a currency. Major currencies used in Palestine include the Israeli shekel (NIS), Jordanian dinar (JD) and the U.S. dollar (US$).

Debt-to-Equity Rules. Palestinian law does not impose restrictions on debt-to-equity ratios. However, the articles of incorporation and bylaws of companies may impose such restrictions.

Transfer Pricing. The Palestinian tax law does not contain any transfer-pricing rules. However, transactions between related parties should be at arm's length.

F. Tax Treaties

Palestine has not entered into any tax treaties.

PANAMA

(Country Code 507)

PANAMA	GMT -5

Ernst & Young
Mail Address:
P.O. Box 0832-1575
World Trade Center
Panama
Republic of Panama

214-4307, 214-4400
Fax: 214-4300, 214-4301
E-mail: eyoung@pa.ey.com

Street Address:
Calle 50 and 53rd Street
Plaza 2000 Building – 12th Floor
Panama
Republic of Panama

Corporate Tax

★ Guillermo Lopez

214-4307
Mobile: 613-1678
E-mail: guillermo.lopez@pa.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30 (a)
Withholding Tax (%) (b)	
Dividends (c)	
On Nominative Shares	10
On Bearer Shares	20
Interest	6 (d)
Royalties from Patents, Know-how, etc.	30
Payments on Leases	30
Payments for Professional Services Rendered in Panama	30
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (e)

(a) See Section B for details concerning deemed dividend tax.
(b) Applicable only to nonresidents. Nonresident corporations are corporations not incorporated in Panama.
(c) Capitalized dividends are exempt from tax. See Section B.
(d) Certain interest is exempt from tax. See Section C.
(e) For details, see Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporations, partnerships, branches of foreign corporations, limited liability companies and any other entity considered a juridical person by law pay income tax on any profits or income generated in or derived from Panama. Income that does not arise in or is not derived from Panama is not subject to taxation in Panama.

Rates of Corporate Tax. Panamanian-source income of juridical persons, including branches of foreign corporations, is subject to tax at a rate of 30%.

If a corporation does not declare any dividends during the year, it must pay a deemed dividend tax, or minimum dividend tax, amounting to 4% of its taxable income less income tax.

Branches of foreign corporations must pay 10% of their taxable income less income tax as deemed dividend tax.

For companies operating in the Colón Free Zone, the regular income tax rate of 30% applies only to income derived from sales to companies located in Panama.

Free-zone companies are not subject to income tax or deemed dividend tax on their taxable income derived from re-export operations.

Capital Gains. Gains on the sale or transfer of real estate are considered capital gains. The seller may deduct the following items from the selling price:

- The original cost of the property;
- The cost of any improvements to the property;
- Any expenses incurred in the sale; and
- 10% of the original cost of the property and of any improvements to the property for each year the property was held.

The resulting gain is divided by the number of full years the property was held, and the result is added to other taxable income. A loss on the sale of real estate is divided by the number of years the property was held, and the result may be offset against gains on sales of real estate during the same tax year. Excess losses on the sale of real estate may not be offset against any other gains, nor may they be carried over to the following year.

A taxpayer may elect not to declare the gain resulting from the sale of the real estate and may pay income tax at a rate of 5% on the value of the property that results from increasing the original cost of the property and any improvements to the property by 10% for each year the property was held.

Administration. The calendar year is the standard fiscal year. However, under certain circumstances, a special fiscal year may be requested from the Director General of Internal Revenue. Businesses earning income subject to Panamanian tax must file annual income tax returns even if the net result for the period is a loss. Corporations having no Panamanian taxable income or loss are not required to file income tax returns. Tax returns are due 90 days after the close of the fiscal year. The regulations provide for an extension of time of up to three months to file an income tax return, provided the corporation pays the tax estimated to be due. If an extension is obtained, any payments due on filing the return are subject to interest at a rate of 2% above the local banking rate. Tax returns are filed on forms provided by the Ministry of Finance and Treasury.

Together with the tax returns filed every year, each taxpayer must file an estimated income tax return, which is a section of the annual tax return. The estimated taxable income may not be lower than the preceding year's actual taxable income, unless the taxpayer can justify a lower amount. The estimated tax is payable in three quarterly installments. If the actual taxable income in the following year is lower than the estimated income, any remaining credits are applied toward the following year's estimated income tax.

Dividends. Dividends derived from taxable income are taxed at the source at a single rate of 10% for nominative shares and at the rate of 20% if the shares are issued to bearer. The corporation paying the dividend must withhold the tax and pay it to the government within 10 working days after declaring or paying the dividend, whichever comes first. Capitalized dividends are not subject to dividend tax. During the five-year period after the capitalization, a company may not reacquire its own shares as treasury shares or make loans to its shareholders or partners. In addition, within six months of the capitalization, the shareholders of the company must repay any amounts owed to the company that are outstanding on the date of the capitalization. Dividends paid by free-zone companies out of income derived from re-export sales are not subject to dividend tax.

Withholdings. A 6% withholding tax is imposed on commissions, financial charges and taxable interest (see Section C for details concerning exempt interest) paid to nonresident companies. Lease payments and royalties paid abroad by companies not in the free zone are subject to withholding tax at the corporate rate. Payments for professional services rendered in Panama are subject to withholding tax at a rate of 30%. The withholding must be made by the enterprise that receives the benefits of the loans, leases or professional services, and so forth and must be remitted to the government 10 days after the withholding is made or the account is credited, whichever comes first.

Foreign Tax Relief. Because Panama taxes only income produced in Panama, regardless of where payment is received or the residence of the taxpayer, no credit or deduction is available for any foreign tax paid.

C. Determination of Trading Income

General. Revenues must be recognized during the year they are earned. Construction companies may recognize long-term contract revenues either by the percentage-of-completion method or by the completed-contract method, unless the cash basis of accounting is being used. The installment-sales method of recognizing revenue is not permitted by the Panamanian Fiscal Code.

Earnings derived from the following activities are not considered as originating in Panama:

- Invoicing, from an office established in Panama, sales of merchandise or goods for amounts greater than cost, provided the merchandise never comes into Panamanian territory;
- Directing, from an office established in Panama, transactions that are completed, consummated or take effect outside Panama; and
- Distributing dividends or participations derived from income not produced in Panama, including income derived from activities mentioned in the two items above.

The following income is specifically exempt from taxation in Panama:

- Income of natural or legal persons, which is exempt by virtue of public treaties or contracts authorized or approved by law;
- Revenues arising from international shipping commerce of national merchant ships legally registered in Panama, even if the shipping contract has been entered into in the country;
- Interest earned on, or gains derived from the sale of, government securities;
- Interest earned on savings or time deposit accounts maintained in banking institutions established in Panama;

- Interest paid to official or semiofficial institutions of international organizations or foreign governments;
- Interest paid to foreign investors if the capital of the loan is used exclusively for the construction of housing projects for low-income persons, as determined by the Ministry of Housing, or if the loan is guaranteed by a foreign government or institution;
- Royalties received or earned by persons or companies abroad from businesses established in the free zone; and
- Farming income if gross sales are less than B/. 100,000.

All expenses incurred wholly and exclusively in the production of assessable income or in the conservation of its source are allowed as deductions for income tax purposes, regardless of where the expense is incurred. Expenses of any one taxable year may not be deducted the following year, except those which, by their nature, cannot be determined precisely.

Interest is a deductible expense if it is incurred on loans or credits necessary for the production of taxable income. If nontaxable income on account of interest from savings accounts or from certificates of deposit is earned, the only interest deductible is the excess of the interest expense over the nontaxable interest income. Royalties are deductible, except for those paid abroad by free-zone companies.

Specified percentages of investments in reforestation are deductible. The applicable percentages are 60% for the 2004 fiscal year, 40% for the 2005 fiscal year and 20% for the 2006 fiscal year.

Inventories. Inventories may be valued by using the first-in, first-out (FIFO), last-in, first-out (LIFO) or average-cost method. Other methods may be allowed by the Director General of Internal Revenue. After a system of valuation is adopted, it may not be changed for five years.

Provisions. The only deductible reserves are those for depreciation, bad debts (1% of credit sales, up to 10% of total receivables) and certain fringe benefits. Reserves for personal insurance and contingencies are not deductible.

Depreciation and Amortization Allowances. Depreciation allowances are permitted on capital expenditures on assets used in the production of taxable income. Depreciation may be computed by the straight-line, declining-balance or sum-of-the-years' digits methods. Depreciation is computed over the useful lives of assets. The minimum useful lives are 3 years for movable assets and 30 years for buildings.

Start-up expenses may be amortized over a period of five years. Improvements to leased properties must be amortized over the period of the lease. Purchasers of intangible assets, such as patents and goodwill, may claim straight-line amortization deductions for such assets when they derive income from such assets.

Relief for Losses. Commercial enterprises incurring a loss in a fiscal year may deduct 20% of the loss in each of the five subsequent fiscal years. However, the deduction is limited to 50% of the taxable income in each subsequent fiscal year. Any portion of a loss not deducted because of this limitation may not be deducted in a later fiscal year. Loss carrybacks are not permitted.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on the sale or transfer of any chattel, on services and on the importation of goods; certain goods and services are specifically exempt, such as medical services and fixed telephony	5
Commercial and industrial licenses; paid annually on corporate net worth (up to a maximum tax of B/. 40,000)	1
Municipal tax, based on the nature of the business activity and the amount of sales (up to a maximum of B/. 1,000 a month)	Various
Social security contributions and education tax, based on wages or salaries; paid by	
Employer	12.25
Employee	8.5
Excise taxes	
Imports and sales of alcoholic beverages	10
Imports and sales of cigarettes	15
Imports of jewels, cars, motorcycles, jet skies, boats (including sailboats), noncommercial airplanes, cable and microwave television services and mobile phones	5

E. Miscellaneous Matters

Foreign-Exchange Controls. Panama does not impose foreign-exchange controls.

Transfer Pricing. Panama has transfer-pricing rules, which apply only to customs duties.

F. Tax Treaties

Panama has not entered into any tax treaties with other countries.

PARAGUAY

(Country Code 595)

ASUNCIÓN **GMT -3**

Ernst & Young - Paraguay
Mail Address:
Casilla de Correos 2295
Asunción
Paraguay

(21) 495-581, 447-529
Fax: (21) 447-529
(Voice Request Required)

Street Address:
Edificio Asubank
14 de Mayo N° 337
Piso 8
Asunción
Paraguay

Corporate Tax
Pablo Di Iorio **(21) 448-668**
E-mail: pablo.di-iorio@py.ey.com

A new government took over on 15 August 2003. As a result, tax legislation is expected to be enacted in the near future. Because of the possible changes to the tax law, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	35
Withholding Tax (%) (a)	
Dividends	5
Interest	17.5 (b)
Royalties from Patents, Know-how, etc.	17.5 (b)
Gross Income from Production and Distribution of Films and Television Programs	14
Gross Revenue of International News Agencies	5.25
Gross Income from a Concession on the Use of Containers	5.25
Gross Proceeds from Sales of Tickets, Radiograms, etc.	3.5
Insurance or Reinsurance Premiums	3.5
Gross Revenue from International Shipping	3.5
Other Income on Which No Specific Withholding Tax Is Imposed	35
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The rates shown are the effective rates. These effective rates are calculated by applying a 35% income tax rate to an assumed net profit. For example, the assumed net profit on interest payments is 50%, and consequently, the effective withholding rate on such payments is 17.5% (35% x 50%). The withholding taxes are final taxes imposed on payments out of Paraguay to nonresidents. Nonresident corporations are corporations not incorporated in Paraguay. Value-added tax (see Section D) is also imposed on payments for services and certain other payments subject to withholding tax.

(b) For payments by a branch to its home office, the rate is 35%.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Tax is levied on Paraguay-source income of corporations and commercial enterprises. Income is considered to be from a source in Paraguay if it is derived from capital, property or rights in Paraguay or from a business in Paraguay. Residence is not relevant.

Rate of Corporate Income Tax. The rate of corporate income tax is 30%. Branches of foreign companies are subject to tax at a rate of 35% (including a 5% tax on remittances by branches to their head office).

Capital Gains. Capital gains are taxed at the corporate income tax rate.

Administration. The tax year is the calendar year. Returns must be filed within four months of the financial year-end. Tax must be paid during the year in quarterly installments, each equaling 25% of the previous year's liability. Any balance is due five days after filing the return. Penalties are imposed for failure to comply with these regulations.

C. Determination of Trading Income

General. Taxable income is based on profits from the financial statements after tax adjustments. Expenses are generally deductible if they are incurred for the purposes of the business and in the production of taxable income.

Inventories. Inventory is valued at the cost of production or acquisition. The cost may be calculated under the average-cost, last-in, first-out (LIFO) or first-in, first-out (FIFO) methods. After choosing a method, a corporation may not change it without prior authorization.

Tax Depreciation. Depreciation must be calculated using the straight-line method.

Relief for Losses. Fiscal losses may be carried forward for three years. Losses may not be carried back.

Groups of Companies. There are no provisions for filing consolidated returns or for relieving losses within a group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods sold, including imports, and services rendered in Paraguay; exports are exempt; in certain circumstances, payments of interest and royalties are subject to the tax	10
Selective tax on consumption, on certain manufactured and imported goods, such as cigarettes, liquor and petroleum products	5 to 10 and 50
Stamp tax, on certain acts and documents relating to financial and banking transactions	1 to 1.74
Social security contributions, on payroll; paid by	
Employer	16.5
Employee	9

E. Foreign-Exchange Controls

The central bank does not control the foreign-exchange market. A free-market rate of exchange prevails.

F. Tax Treaties

Paraguay has not concluded tax treaties with any other jurisdiction, except for international freight agreements with Argentina and Chile to avoid double taxation.

PERU

(Country Code 51)

LIMA	GMT -5

Valle & Grimaldo Abogados
Av. Pardo y Aliaga 699
Piso 6 – San Isidro
Lima 27
Peru

(1) 411-4400
Fax: (1) 411-4401

International Tax

David de la Torre	**(1) 411-4471** **E-mail: david.de-la-torre@pe.ey.com**
Marcial García	**(1) 411-4424** **E-mail: marcial.garcia@pe.ey.com**
Andrés Valle	**(1) 411-4440** **E-mail: andres.valle@pe.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	27
Capital Gains Tax Rate (%)	27
Branch Tax Rate (%)	27
Withholding Tax (%)	
Dividends	4.1 (a)
Interest	30 (b)(c)
Royalties	30 (b)
Branch Remittance Tax	4.1 (a)
Net Operating Losses (Years)	
Carryback	0
Carryforward	4 (d)

(a) The Dividend Tax, which is imposed at a rate of 4.1% and is generally withheld at source, is imposed on profits distributed to nonresidents and individuals. For further details regarding the Dividend Tax, see Section B.
(b) This tax applies to payments to nonresidents.
(c) A reduced rate of 4.99% applies to certain interest payments. For details, see Section B.
(d) The carryforward period begins in the first subsequent year in which taxable income arises.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to income tax on their worldwide income. Resident companies are those incorporated in Peru. Branches and permanent establishments of foreign companies are taxed on income from Peruvian sources only.

Tax Rates. The corporate income tax rate is 27%.

A Dividend Tax at a rate a 4.1%, which is generally withheld at source, is imposed on distributions of profits to nonresidents and individuals by resident companies and by branches, permanent establishments and agencies of foreign companies. In certain circumstances, the company pays the tax directly. For details, see *Dividends* below.

Tax Incentives. Various significant tax incentives are available for investments in the following: mining enterprises; oil and gas licenses and services contracts; and certain agricultural enterprises. They are also available for investments in manufacturing industries located in the jungle, in designated tax-free zones and in borderline areas of the country.

Capital Gains. Capital gains are treated as ordinary income. Capital gains derived from transactions on stock or commodity exchanges are exempt from income tax.

Administration. The mandatory closing date for business enterprises is 31 December. Tax returns must be filed by 31 March.

Companies must make monthly advance payments of income tax. In general, these payments are based on the monthly net revenue multiplied by a fraction, the numerator of which is the income tax of the preceding fiscal year before tax credits and the denominator of which is, in general, the net revenue for the preceding fiscal year. For the months of January and February, however, the income tax before tax credits and the net revenue used are from the fiscal year two years before the current fiscal year. However, companies that are beginning their operations or did not calculate income tax for the preceding year must make monthly advance payments equal to 2% of monthly net revenue.

In addition to the advance payments described above, agencies, branches and permanent establishments of foreign entities, as well as resident individuals engaged in business activities, must make advance payments under a separate regime. These additional advance payments must be made regardless of whether the taxpayer incurs a tax loss or whether it may carry forward income tax credits to the current year to offset income tax due. The additional advance payments may offset the advance payments required under the general regime or may be claimed as a credit against the income tax payable for the fiscal year. Any balance of additional payments that are not used in the current year may be carried forward to future years. Otherwise, the taxpayer may request that the tax authorities refund such amount.

The total of the additional payments are calculated by applying progressive rates to the value of the net assets of the taxpayer as of 31 December of the preceding year, adjusted by inflation as of 31 March of the current year. The applicable progressive rates are 0%, 0.25%, 0.5%, 0.75%, 1% and 1.5%. The total of the additional payments is divided into nine equal payments, which must be paid from April though December of the current year.

Entities exempt from these additional monthly prepayments are companies that have not begun productive activities (the requirement is triggered in the year following the year in which these activities begin), companies engaged in electricity generation, transmission or distribution that provide service to the general public and companies in the process of liquidation.

Monthly payments are due from the ninth to the fifteenth business day, according to a schedule. Taxes and related penalties not paid by due dates are subject to interest charges, which are not deductible for tax purposes.

Dividends. A Dividend Tax at a rate of 4.1% applies to profits distributed to nonresidents and individuals, if a distribution agreement is adopted by the relevant corporate body on or after 1 January 2003. All profits distributed, including those corresponding to prior years, are subject to this tax. This tax applies to distributions by Peruvian companies, as well as to distributions by Peruvian branches, permanent establishments and agencies of foreign companies. The law specifies various transactions that are considered profits distributions by resident entities for purposes of the Dividend Tax. These transactions include the distribution of cash or assets, other than shares of the distributing company, and, under certain circumstances, a reduction in the capital of the company or a liquidation of the company. For permanent establishments, branches, and agencies of foreign companies, a distribution of profits is deemed to occur on the deadline for filing their annual corporate income tax return (usually at the end of March of the year following the tax year).

The law also provides that if a resident company, or a branch, permanent establishment or agency of a foreign company, pays expenses that are not subject to further tax control or does not declare income that is discovered as a result of a tax audit, the amount of the payment or income is subject to the Dividend Tax. Dividend Tax for these items is paid directly by the resident entity or the branch or permanent establishment. The capitalization of equity accounts, such as profits and reserves, is not subject to the Dividend Tax.

Interest. Interest paid to nonresidents is generally subject to withholding tax at a rate of 30%. For interest paid to unaffiliated foreign lenders, the rate is reduced to 4.99% if all of the following conditions are satisfied:

- The proceeds of the loan are brought into Peru as foreign currency through local banks or are used to finance the import of goods.
- The proceeds of the loan are used for business purposes in Peru.
- The interest rate does not exceed either the U.S. prime rate plus six percentage points or the LIBOR (London interbank offer rate) plus seven percentage points. The additional six or seven percentage points cover expenses, commissions and any other charges related to the loan.
- The participation of the foreign bank is not primarily intended to avoid the measures on transactions between related parties (back-to-back loans) or to obtain the reduced withholding tax rate.

If the first two conditions described above are satisfied and the interest rate exceeds either the U.S. prime rate plus six points or the LIBOR plus seven points, the excess interest is subject to withholding tax at the regular rate of 30%.

A 1% withholding tax is imposed on interest paid by financial institutions resident in Peru for the use of overseas credit lines in Peru.

Interest derived from deposits in Peruvian banks is exempt from tax. Interest earned on bonds is exempt from tax if the bonds are issued by the government or by a Peruvian leasing company or a Peruvian corporation through a public offering in accordance with the requirements of Peruvian company law.

Foreign Tax Relief. Tax credits are permitted, within certain limits, for taxes paid abroad on income earned in foreign countries.

C. Determination of Trading Income

General. Taxable income of business enterprises is generally computed by reducing gross revenue by the cost of goods sold and all expenses necessary to produce the income or to maintain the source of income. Certain types of revenue, however, must be computed as specified in the tax law, and some expenses are not fully deductible for tax purposes. Business transactions must be recorded in legally authorized books of account that are in full compliance with International Accounting Standards (IAS). The books must be maintained in Spanish and must generally use Peruvian currency. However, under certain circumstances, foreign investors who invest foreign currency may sign an agreement with the state or with state-owned corporations that permit them to maintain their books of account in foreign currency.

The minimum taxable income derived by Peruvian branches from petroleum industry activities performed partly in Peru and partly abroad, including exploration, drilling, development and transportation, is deemed to be 15% of the branch's gross income from such activities.

Inflation Adjustments. Because the use of historical currency in the financial statements prevents a timely recognition of the effects of inflation, the amounts recorded in historical currency are restated to reflect the effects of the loss of purchasing power of the Peruvian currency. Such adjustments are based on the changes in the National Wholesale Price Index (WPI) published by the National Institute of Statistics and Computing (Instituto Nacional de Estadistica e Informatica). This accounting treatment, which conforms with International Accounting Standard No. 29 and with Peruvian professional standards, restates all components of nonmonetary assets (inventories, prepaid taxes and expenses, installations, machinery and equipment and other assets), shareholders' equity, income, costs and expenses. Such components are restated from the date of inception or acquisition through the date of the latest financial statements, by applying appropriate factors derived from the WPI. The restated amounts may not exceed estimated recoverable amounts. The restated amounts must be recorded in the accounting records and, within certain limits, are acceptable for tax purposes. Inflation gains or losses are reflected in taxable income.

Special Activities. Nonresident corporations, including their branches and agencies, engaged in certain specified activities are subject to tax on only a percentage of their gross income derived from such activities. This tax is withheld at source. The following are the applicable percentages for some of these specified activities.

Activity	Applicable Percentage (%)
Air transportation	1 (a)(b)
Marine transportation	2 (a)(b)
Leasing of aircrafts	60 (c)(d)
Leasing of ships	80 (c)(d)
International news agencies	10 (a)
Technical services	40 (a)(b)(d)
Services related to exploration, drilling, development and transportation for the petroleum industry	25 (a)(b)(d)

(a) The withholding tax rate is 30%.
(b) This percentage applies to services rendered partly in Peru and partly abroad.
(c) The withholding tax rate is 10%.
(d) This percentage is not applicable to branches, permanent establishments and agencies of foreign companies.

Inventories. Inventories must be carried at cost as adjusted for inflation. Cost may be determined specifically or by the first-in, first-out (FIFO), average, retail or basic inventory method. The last-in, first-out (LIFO) method is not permitted.

Provisions. Provisions for bad debts, bonuses, vacations, employees' severance indemnities and other expenses are allowed if made in accordance with certain tax regulations.

Tax Depreciation. Depreciation is computed using the straight-line method. Depreciation rates are applied to the acquisition cost of fixed assets plus an inflation adjustment. The following are some of the maximum annual depreciation rates allowed by law.

Asset	Maximum Rate (%)
Buildings and structures	3*
Cattle and fishing nets	25
Vehicles	20
Machinery and equipment for construction, mining and oil activities	20
Machinery and equipment for other activities	10
Data processing equipment	25
Other fixed assets	10

* This is a fixed rate rather than a maximum rate.

At the taxpayer's request, the tax office may authorize other percentages or depreciation methods (such as methods based on machine hours or production units) for assets other than buildings and structures, taking into account the characteristics of the business. An accelerated depreciation method, such as declining-balance, is not acceptable.

Relief for Losses. Losses from Peruvian sources, as determined for tax purposes, may be carried forward for four years, beginning with the first subsequent year in which taxable income arises. Loss carryforwards are adjusted for inflation. Loss carrybacks are not allowed.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax, on the sale of goods, services and the import of most products	18
Excise tax, on goods and imports; the tax is either a fixed amount or an amount determined by applying a percentage rate	Various
Social security contributions to Peruvian Institute of Social Security (IPSS), on salaries and legal bonuses	
Health Care Fund; paid by employer	9
Pension Fund; paid by employee [Alternatively, employees may contribute 11.8% of their salaries to the Private Pension Funds Trustee (AFP).]	13
Extraordinary Solidarity Tax; paid by employer and withheld at source from independent professionals	2

Nature of Tax	Rate (%)
Employees' profit sharing; calculated on pretax income and deductible as an expense in determining taxable income; rate varies according to companies' taxable income	5 to 10

E. Miscellaneous Matters

Foreign-Exchange Controls. Peru does not impose foreign-currency controls. Exchange rates are determined by supply and demand.

Related-Party Transactions. Expenses incurred abroad by a non-domiciled parent company, affiliates or the home office of a Peruvian subsidiary or branch (or prorated allocations of administrative expenses incurred by those entities) are normally not deductible for tax purposes in Peru, because the tax law presumes that all expenses incurred abroad are related to the generation of foreign revenue, unless the contrary can be established.

Transfer Pricing. Peru has introduced transfer-pricing rules, which are consistent with the Organization for Economic Cooperation and Development (OECD) guidelines. Intercompany charges must be determined at arm's length. Regardless of the relationship between the parties involved, the fair market value (FMV) must be used in various types of transactions, including the following:
- Sales;
- Contributions of property;
- Transfers of property; and
- Performance of services.

In the event that the transactions are performed without using the FMV, the tax authorities may make the appropriate adjustments for the parties to the transaction.

The FMV of transactions between related parties is the value used by the taxpayer in identical or similar transactions with unrelated parties. The tax authorities may apply the most appropriate of the following transfer pricing methods to reflect the economic reality of the transactions:
- Cost-plus method;
- Resale price method; and
- Profit -based-method.

For the sale of merchandise (inventory), the FMV is the price typically charged to third parties in profit-making transactions. For frequent transactions involving fixed assets, the FMV is the value used in such frequent transactions by other taxpayers or parties. For sporadic transactions involving fixed assets, the FMV is the value provided by an authorized expert.

The transfer-pricing rules provide for advance price agreements between taxpayers and the Peruvian tax authorities.

Debt-to-Equity Rules. Interest paid on loans from related parties in excess of a 3:1 debt-to-equity ratio is not deductible.

Transactions with Residents in Low-Tax Jurisdictions (Tax Havens). Expenses incurred on transactions with residents in low-tax jurisdictions (tax havens) are not deductible for tax purposes, except for the following: toll payments for the right to pass across the

Panama Channel; and expenses related to credit operations, insurance or reinsurance, leasing of ships or aircrafts and freight services to and from Peru.

The following are considered low-tax jurisdictions: Alderney; Andorra; Anguila; Antigua and Barbuda; Aruba; Bahamas; Bahrain; Barbados; Belize; Bermuda; British Virgin Islands; Cayman Islands; Cook Islands; Cyprus; Dominica; Guernsey; Gibraltar; Granada; Hong Kong; Isle of Man; Jersey; Labuan; Liberia; Liechtenstein; Luxembourg; Madeira; Maldives; Marshall Islands; Monaco; Montserrat; Nauru; Netherlands Antilles; Niue; Panama; St. Kitts and Nevis; St. Vincent and the Grenadines; St. Lucía; Seychelles; Tonga; Turks and Caícos; U.S. Virgin Islands; Vanuatu; and Western Samoa.

In addition to the jurisdictions mentioned above, other jurisdictions are considered low-tax jurisdictions if the effective rate of income tax in the jurisdiction is 0% or if the effective rate that would apply to the relevant income is at least 50% less than the rate that would apply to the under the general income tax regime in Peru, and if one of the following additional conditions are met:

- The jurisdiction does not provide information regarding the taxation of companies in the jurisdiction;
- A tax benefit regime in the jurisdiction applies to nonresidents only;
- Beneficiaries of tax benefits in the jurisdiction may not carry out business activities in the jurisdiction; and
- The jurisdiction promotes itself as a jurisdiction that can assist companies reduce their taxation in their home countries.

F. Tax Treaties

Peru has entered into double tax treaties with Canada, Chile and Sweden. It has also signed an agreement to avoid double taxation with the other members of the Andean Community (Bolivia, Colombia, Ecuador and Venezuela). The treaties with Canada and Chile provide for a maximum withholding tax rate of 15% for dividends, interest and royalties. The tax treaty with Sweden provides for a maximum withholding tax rate of 20% for royalties.

PHILIPPINES

(Country Code 63)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.middleinitial.surname@ph.ey.com

The e-mail addresses for persons who have e-mail addresses varying from the standard format are listed below the respective persons' names.

MANILA **GMT +8**

SyCip Gorres Velayo & Co.
Mail Address:
P.O. Box 7658
Domestic Airport
Post Office
1300 Metro Manila
Philippines

(2) 891-0307
Fax: (2) 891-0429

Street Address:
SGV Building
6760 Ayala Avenue
1226 Makati City
Philippines

International Tax

★ Cirilo P. Noel	**(2) 894-8144** **Mobile: (917) 894-8144**
Emmanuel C. Alcantara	**(2) 894-8143** **Mobile: (917) 894-8143**
Ma. Fides A. Balili	**(2) 894-8113** **Mobile: (917) 894-8113** **E-mail: ma.fides.a.balili@ph.ey.com**
Jose A. Osana	**(2) 894-8142** **Mobile: (917) 894-8142**
Veronica A. Santos	**(2) 894-8172** **Mobile: (917) 894-8172**
Antonette C. Tionko	**(2) 894-8178** **Mobile: (917) 894-8178**
Ma. Victoria A. Villaluz	**(2) 894-8114** **Mobile: (917) 894-8114** **E-mail: ma.victoria.a.villaluz@ph.ey.com**

Human Capital

Ruben R. Rubio	**(2) 894-8141** **Mobile: (917) 894-8141**

Indirect Taxes

Mary Ann C. Capuchino	**(2) 894-8370** **Mobile: (917) 894-8370** **E-mail: mary.ann.c.capuchino@ph.ey.com**
Romulo S. Danao	**(2) 894-8392** **Mobile: (917) 894-8392**
Luis Jose P. Ferrer	**(2) 894-8362** **Mobile: (917) 894-8362** **E-mail: luis.jose.p.ferrer@ph.ey.com**
Jose A. Osana	**(2) 894-8142** **Mobile: (917) 894-8142**
Feliza A. Peralta	**(2) 894-8169** **Mobile: (917) 894-8169**
Noel P. Rabaja	**(2) 894-8147** **Mobile: (917) 894-8147**
Mark Anthony P. Tamayo	**(2) 894-8391** **Mobile: (917) 894-8391** **E-mail: mark.anthony.p.tamayo@ph.ey.com**
Henry M. Tan	**(2) 894-8350** **Mobile: (917) 894-8350**
Joel L. Tan-Torres	**(2) 894-8159** **Mobile: (917) 894-8159** **E-mail: joel.l.tan-torres@ph.ey.com**
Wilfredo U. Villanueva	**(2) 894-8180** **Mobile: (917) 894-8180**
Rafael C. Vinzon	**(2) 894-8129** **Mobile: (917) 894-8129**

A. At a Glance

Corporate Income Tax Rate (%)	32
Capital Gains Tax Rate (%)	
Real Property	6 (a)
Shares	5/10 (b)
Branch Tax Rate (%)	32 (c)
Withholding Tax (%)	
Dividends	0 (d)(e)
Interest on Peso Deposits	20 (d)(f)
Royalties from Patents, Know-how, etc.	20 (d)
Branch Remittance Tax	15

Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (g)

(a) See Section B.
(b) These rates apply to capital gains on shares not traded on a local stock exchange. See Section B for further details and for the rates applicable to gains derived from sales of shares traded on a local stock exchange.
(c) Certain Philippine-source income of foreign corporations is taxed at preferential rates (see Section B).
(d) Under domestic law, if the recipient is a nonresident foreign corporation, the final withholding tax rate is 32%.
(e) Dividends paid to nonresident foreign corporations are subject to a 15% withholding tax rate if certain conditions are met (see Section B).
(f) In practice, the withholding tax rate for interest on peso deposits derived by all corporations, including nonresident foreign corporations, is 20%. For preferential rates on interest derived from foreign currency deposits, see Section B.
(g) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Domestic corporations are taxed on their worldwide net taxable income. Domestic corporations are corporations incorporated under the laws of the Philippines. Resident foreign corporations are taxed on net taxable income derived from the Philippines, and nonresident foreign corporations are taxed on gross income derived from the Philippines. A resident foreign corporation (a branch) is one created under foreign laws and engaged in trade or business in the Philippines. Any other foreign corporation is considered a nonresident.

Rates of Corporate Tax. Domestic and foreign corporations are subject to tax at a rate of 32%.

Subject to certain exceptions, beginning in the fourth tax year following the year domestic and resident foreign corporations begin their business operations, such corporations must pay a minimum corporate income tax if this tax exceeds the tax computed under the normal tax rules. The minimum corporate income tax is 2% of gross income.

Philippine-source income of foreign corporations taxed at preferential rates includes the following.

Type of Income	Rate (%)
Interest income derived by offshore banking units (OBUs) from foreign-currency loans granted to residents	10
Income derived by OBUs authorized by the Central Bank (CB) from foreign-currency transactions with local commercial banks, including branches of foreign banks authorized by the CB to transact business with OBUs	10
Interest income of resident foreign corporations from peso bank deposits and yields or other monetary benefits from deposit substitutes and from trust funds or similar arrangements	20
Interest income of resident foreign corporations from depository banks under the expanded foreign-currency deposit system	7.5
Income of nonresidents from transactions with OBUs and depository banks under the expanded foreign-currency deposit system	0

Type of Income	Rate (%)
Royalties derived by resident foreign corporations from sources in the Philippines	20
Gross Philippine billings of international carriers doing business in the Philippines	2.5
Taxable income of regional operating headquarters of multinational companies engaged in the following: general administration and planning services; business planning and coordination; sourcing and procurement of raw materials and components; corporate finance and advisory services; marketing control and sales promotion; training and personnel management; logistic services; research and development services and product development; technical support and maintenance; data processing and communication; and business development	10
Rentals, charter fees and other fees derived by nonresident owners or lessors of vessels chartered by Philippine nationals	4.5
Rentals, charter fees and other fees derived by nonresident lessors of aircraft, machinery and other equipment	7.5
Gross income of nonresident cinematographic film owners, lessors or distributors	25
Interest on foreign loans	20

Domestic and foreign enterprises registered with the Board of Investments under the 1987 Omnibus Investments Code may be granted an income tax holiday and exemption from certain other taxes and duties. Enterprises located in special-economic zones that are registered with the Philippine Economic Zone Authority or the special-economic zones may be granted an income tax holiday or a special tax regime under which a 5% tax is imposed on gross income instead of all national and local taxes.

Profits remitted by a branch to its head office are subject to a 15% tax. This tax is imposed on the total profits remitted, or earmarked for remittance, without deduction of tax. The tax does not apply to profits from activities registered with the Philippine Economic Zone Authority (PEZA). Dividends, interest, royalties, rent and similar income received by a foreign corporation from sources in the Philippines are not treated as branch profits unless they are effectively connected with the conduct of a trade or business in the Philippines.

Capital Gains. A 6% tax is imposed on capital gains presumed to have been derived from the sale, exchange or disposition of land or buildings classified as capital assets. The tax is applied to the gross selling price or the fair market value, whichever is higher.

For sales of shares not traded on the stock exchange, the tax amounts to 5% of the net capital gain not exceeding P 100,000 and 10% of the gain in excess of P 100,000. If the shares are listed and traded on a local exchange, the tax is 0.5% of the gross selling price. A tax of 1%, 2% or 4% is imposed on the gross sales price of shares sold in an initial public offering.

Administration. A corporation may use the calendar year or a fiscal year as its tax year.

Corporations must file quarterly returns within 60 days from the close of each of the first three quarters of the tax year, and a final or adjusted return on or before the 15th day of the fourth month following the close of the tax year. The corresponding tax is paid at the time the return is filed.

Dividends. Dividends received by a domestic or resident foreign corporation from a domestic corporation are not subject to tax. If the recipient is a nonresident foreign corporation, the 32% tax may be reduced to 15% if the country of domicile of the recipient does not impose any tax on income derived from outside such country or if it allows a credit for taxes deemed paid in the Philippines equivalent to 17%. This credit represents the difference between the regular corporate income tax rate and the 15% preferential tax on dividends. The 15% rate also applies if the dividend is not taxed in the recipient's country of domicile.

Foreign Tax Relief. For domestic corporations, tax credits are allowed for income taxes paid or accrued to any foreign country, subject to certain limitations. Alternatively, such income taxes may be claimed as a deduction from taxable income. Resident foreign corporations are not allowed to credit tax paid to foreign countries against Philippine income.

C. Determination of Trading Income

General. The computation of income for income tax purposes must be in accordance with the accounting method regularly employed in maintaining the taxpayer's books of account, provided that method clearly reflects income.

Other allowable deductions include the usual, ordinary and necessary business expenses — interest, taxes, losses, bad debts, charitable and other contributions, and contributions to a pension trust — all of which are required to be directly attributable to the development, management, operation or conduct of a trade or business in the Philippines.

The deduction for interest expense is reduced by an amount equal to 38% of interest income that has been subject to final tax. Companies may elect to deduct immediately interest incurred to acquire property used in a trade or business or treat such interest as a capital expenditure.

Research and development expenses that are paid or incurred during the tax year in connection with a trade or business and that are not chargeable to capital account or treated as deferred expenses may be claimed as deductible expenses.

Inventories. Inventory valuation must conform as nearly as possible to the best accounting practice in the trade or business and must clearly reflect income. The most commonly used methods of inventory valuation are cost and the lower of cost or market valuation.

Tax Depreciation. Taxpayers may deduct a reasonable allowance for exhaustion and wear and tear (including obsolescence) of property used in a trade or business. The tax authorities have not specified permissible depreciation methods or rates. The only requirement is that the method used must be generally accepted in the particular industry. Depreciation methods that are generally acceptable include the straight-line method, declining-balance method, the sum-of-the-years' digits method or any other method that may be prescribed by the Secretary of Finance. Resident foreign corporations may claim depreciation only on property located in the Philippines.

Relief for Losses. Net operating losses may be carried forward three years to offset future income in those years. A net operating loss is defined as the excess of allowable deductions over gross income in a tax year. Net losses may not be carried forward if the losses are incurred in a year in which a corporation is exempt from tax or if a substantial change of ownership occurs.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, imposed on all persons who, in the course of their trade or business, sell, barter, exchange or lease goods or properties (including intangible personal properties and real properties), render services or import goods; services rendered in the Philippines by nonresident foreign persons are deemed to be rendered in the course of trade or business; specific goods and transactions are exempt; in general, exports of goods and services are subject to a 0% rate	10%
Improperly accumulated earnings tax; levied on accumulated income of corporations if the income was accumulated to avoid tax with respect to the shareholders of the corporation or other corporations; a corporation serving as a holding company or investment company is prima facie evidence of a purpose to avoid tax with respect to shareholders; publicly held companies, banks and nonbank financial intermediaries, and insurance companies are exempt	10%
Fringe benefits tax, on the grossed-up monetary value of fringe benefits received by managerial and supervisory employees; the grossed-up monetary value is determined by dividing the taxable value of the benefit by 68%; the employer must withhold the tax and pay it to the tax authorities; the tax does not apply if the benefit is required by or is necessary to the trade or business of the employer or if the benefit is granted for the convenience of the employer; this tax is considered to be a final tax	32%
Documentary stamp tax	
Loan agreements, promissory notes and government securities, on the face value of the document	P 0.30 per P 200

Nature of Tax	Rate
Stock certificates, on the par value or the consideration if no par value	
Original issue	P 2 per P 200
Transfer	P 1.50 per P 200
Other specified transactions and documents	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. The Philippines has liberal foreign-exchange controls. To ensure the availability of foreign exchange for the repatriation of capital and remittance of profits, foreign investments must be registered with the Central Bank.

Transfer Pricing. The method used by a corporation to fix prices should be consistent worldwide.

Related-Party Transactions. The tax treatment of transactions between related parties is generally the same as the treatment of transactions between unrelated parties. However, a deduction may not be claimed for losses on sales or exchanges of properties or for interest incurred on transactions between related parties. The Commissioner of the Philippine Bureau of Internal Revenue may reallocate gross income or deductions among related entities to prevent tax evasion.

F. Treaty Withholding Tax Rates

The table below lists the maximum withholding rates for dividends, interest and royalties provided under the treaties. Most of the treaties require that the recipient be the beneficial owner of the income for the preferential rates to apply.

	Dividends (t) %	Interest (u) %	Royalties %
Australia	25 (a)	15 (b)	25 (c)
Austria	25 (d)	15 (b)	15 (c)(e)
Belgium	15 (f)	10 (b)	15 (c)
Brazil	15 (i)	15 (b)	25 (g)
Canada	25 (d)	15 (b)(h)	25 (e)(h)
China	15 (f)	10	10 (s)
Denmark	15 (k)	10	15
Finland	15 (r)	15 (b)	25 (c)
France	15 (d)	15 (b)	15
Germany	15 (k)	15 (l)	15 (m)
Hungary	20 (d)	15	15 (e)
India	20 (d)	15 (b)	15 (c)
Indonesia	20 (k)	15 (b)	25 (c)
Israel	15 (o)	10	15 (e)
Italy	15	15 (b)	25 (c)
Japan	25 (d)	15 (b)	25 (c)
Korea	25 (k)	15 (b)	15 (c)
Malaysia	15 (i)	15	25 (c)
Netherlands	15 (k)	15 (l)	15 (c)
New Zealand	15 (i)	15 (b)	25 (c)
Norway	25 (d)	15	25 (e)(p)
Pakistan	25 (n)	15 (b)	25 (c)
Romania	15 (d)	15 (q)	25 (j)
Russian Federation	15	15	15
Singapore	25 (n)	15 (b)	25 (c)

	Dividends (t) %	Interest (u) %	Royalties %
Spain	15 (d)	15 (l)	15 (c)
Sweden	25 (n)	15 (b)	25 (c)
Switzerland	15 (f)	10	15
Thailand	15 (r)	15 (b)	25 (c)
United Kingdom	25 (d)	15 (b)	25 (c)
United States	25 (n)	15 (b)	25 (c)(e)
Nontreaty countries	15/32 (v)	20/32 (v)	20/32 (v)

(a) The rate is 15% if a rebate or credit is granted to the recipient.

(b) The rate is 10% if the interest is paid with respect to public issues of bonds, debentures or similar obligations (under the Belgium and Japan treaties, with respect to bonds, debentures and government securities). Under the Austria, Japan and Korea treaties, the 10% rate also applies to interest paid by a Board of Investments (BOI)-registered preferred pioneer enterprise. Under the India treaty, the 10% rate also applies to interest received by financial institutions, including insurance companies.

(c) The rate is 10% (Austria, Japan, Korea, Netherlands and Spain) or 15% (Australia, Finland, India, Indonesia, Italy, Malaysia, New Zealand, Pakistan, Singapore, Sweden, Thailand, the United Kingdom and the United States) for royalties paid by a BOI-registered preferred enterprise (under the Austria, Japan and Korea treaties, the enterprise must be a pioneer enterprise). The 15% rate also applies to royalties paid with respect to motion picture films or tapes for television or broadcasting under the treaties with Finland, Italy, Japan, Malaysia, Singapore, Sweden, Thailand and the United Kingdom. Under the Spain treaty, the rate is 20% for such royalties. Under the Finland and Sweden treaties, the rate is also 15% for royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works.

(d) The rate is 10% (Canada, Hungary, Norway and the United Kingdom, 15%) if the recipient holds 10% (Hungary, Japan and Romania, 25%) of the voting shares of the payer corporation. Under the treaties with Austria and Japan, the rate is also 10% if the payer holds 10% (Japan, 25%) of the total shares issued by the payer during the six months immediately preceding the dividend payment date. Under the Japan treaty, the rate is also 10% if the dividends are paid by a BOI-registered pioneer enterprise.

(e) This rate is subject to the "most-favored-nation" provision of the treaty.

(f) The rate is 10% if the recipient of the dividends holds directly at least 10% of the capital of the payer.

(g) The 25% rate applies to royalties paid for the use of, or the right to use, trademarks, cinematographic films, or films or tapes for television or radio broadcasting. A 15% rate applies to other royalties.

(h) This rate applies if the interest payments or royalties are taxable in Canada.

(i) The 15% rate applies if the recipient is a company (under the Brazil treaty, a partnership also qualifies). A 25% rate applies to other dividends under the Brazil and Malaysia treaties.

(j) The rate is 15% for royalties paid with respect to cinematographic films and tapes for television broadcasting. The rate is 10% if the payer is registered with the BOI.

(k) The rate is 10% (Indonesia, 15%) if the recipient holds 25% (Netherlands, 10%) of the capital of the payer. Under the Korea treaty, the 10% rate also applies if the dividends are paid by a BOI-registered preferred pioneer enterprise.

(l) The rate is 10% for interest paid in connection with the sale on credit of industrial, commercial or scientific equipment or with respect to public issues of bonds, debentures or similar obligations. Under the Germany and Netherlands treaties, the 10% rate also applies to interest on bank loans.

(m) This rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or broadcasting. The rate is 10% for royalties paid for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

(n) The rate is 15% (United States, 20%) if the recipient holds 25% (Singapore, 15%; Sweden and United States, 10%) of the capital of the payer during the two tax years preceding the year of the dividend payment.

(o) The rate is 10% if the beneficiary of the dividends owns at least 10% of the capital of the payer.

(p) The rate is 10% if the Philippine payer is registered with the BOI. The rate is 7.5% for payments for the use of containers.
(q) The rate is 10% for interest paid in connection with sales on credit of equipment, bank loans or public issues of bonds, debentures or similar obligations.
(r) The 15% rate applies if the recipient holds at least 10% (Thailand, 15%) of the voting shares of the payer.
(s) The 10% rate applies royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment or information, including related patents and trademarks. A 15% rate applies to royalties for literary, artistic or scientific works, including cinematographic films or tapes for television or broadcasting.
(t) A preferential rate of 15% under the National Internal Revenue Code may apply if the recipient's country of domicile allows a credit for taxes deemed paid in the Philippines equivalent to 17%. This credit represents the difference between the regular corporate income tax rate and the 15% preferential rate. The 15% rate also applies if the dividend is not taxed in the recipient's country of domicile.
(u) Under Philippine domestic law, interest on foreign currency deposits of nonresidents is exempt from tax.
(v) See Section A.

POLAND

(Country Code 48)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@pl.ey.com

The e-mail addresses varying from the standard format are listed below the respective persons' names.

WARSAW **GMT +1**

Ernst & Young	**(22) 557-7000**
ul. Emilii Plater 53	**Fax: (22) 557-7001**
00-113 Warsaw	**E-mail: ernst.young@pl.ey.com**
Poland	

International Tax Services

Peter de Ruiter	**(22) 557-8990**
	Mobile: 502-030-030
	E-mail: peter.deruiter@pl.ey.com
Monika Dziedzic	**(22) 557-8973**
	Mobile: 502-029-029

International Tax Services – Real Estate

Piotr Wielinski	**(22) 557-7840**
	Mobile: 602-415-738

International Tax Services – Global Financial Solutions

Jaroslaw Kozinski	**(22) 557-7306**
	Mobile: 602-415-723

Corporate Tax

Radoslaw Czarnecki	**(22) 557-7305**
	Mobile: 602-509-849
Renata Dluska	**(22) 557-8988**
	Mobile: 502-032-032
★ Renata Hayder	**(22) 557-7282**
	Mobile: 602-415-703
Katarzyna Sawicka-Hughes	**(22) 557-7324**
	Mobile: 602-415-733
	E-mail: katarzyna.sawicka-hughes@pl.ey.com

Corporate Tax – Transfer Pricing

Karen Chaczbabian	**(22) 557-8990** **Mobile: 502-444-633**

Indirect Taxes

Tomasz Michalik	**(22) 557-8981** **Mobile: 502-031-031**
Krzysztof Sachs	**(22) 557-7262** **Mobile: 604-993-520**

Litigation

Jacek Kedzior	**(22) 557-7263** **Mobile: 602-415-721**

KATOWICE — GMT +1

Ernst & Young
ul. Chorzowska 50
40-121 Katowice
Poland

(32) 760-7700
Fax: (32) 760-7710
E-mail: katowice@pl.ey.com

Corporate Tax

Arkadiusz Patryas	**(32) 200-6441** **Mobile: 602-509-874**
◆ Anna Strzelecka *(resident in Krakow)*	**(12) 431-1220** **Mobile: 602-421-835**

KRAKOW — GMT +1

Ernst & Young
ul. Krupnicza 3
31-123 Krakow
Poland

(12) 431-1220
Fax: (12) 431-1251
E-mail: krakow@pl.ey.com

Corporate Tax

◆ Anna Strzelecka	**(12) 431-1220** **Mobile: 602-421-835**

POZNAN — GMT +1

Ernst & Young
ul. Paderewskiego 8
61-770 Poznan
Poland

(61) 856-2900
Fax: (61) 856-3000
E-mail: poznan@pl.ey.com

International Tax Services

◆ Andreas Luecke, *German Desk*	**(61) 856-2901** **Mobile: 606-327-428**

WROCLAW — GMT +1

Ernst & Young
Pl. Dominikanski 3
50-159 Wroclaw
Poland

(71) 375-1000
Fax: (71) 375-1010
E-mail: wroclaw@pl.ey.com

Corporate Tax

Artur Wolny	**(71) 375-1065** **Mobile: 602-709-932**

Poland joins the European Union (EU), effective from 1 May 2004. This will significantly affect the Polish tax system, particularly with respect to value-added tax (VAT). It will also affect the corporate tax treatment of cross-border transactions, such as payments of dividends, interest and royalties, and restructurings (mergers and divisions). Because of Poland's impending EU membership and the rapidly changing regulatory framework in Poland, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	19
Capital Gains Tax Rate (%)	19
Branch Tax Rate (%)	19
Withholding Tax (%)	
Dividends	19 (a)(b)
Interest	20 (b)(c)
Royalties	20 (b)(c)
Services	20 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) Imposed on dividends paid to residents and nonresidents.
(b) The rate of this tax may be reduced by a tax treaty.
(c) This rate applies only to interest and royalties transferred abroad.
(d) In general, a foreign service provider based in a treaty country is exempt from this tax if it submits a certificate of residency to the service recipient.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies (including companies in the process of incorporating or registering) are subject to corporate tax on their worldwide income and capital gains. Nonresident companies are taxed only on income earned in Poland. A company is resident in Poland for tax purposes if it is incorporated in Poland or managed and controlled in Poland. For this purpose, the concept of management and control is broadly equivalent to the effective management test in many treaties and is typically deemed to be exercised where the board of directors (or equivalent) meets. A branch of a nonresident company is generally taxed according to the same rules as a Polish company, but only on its Polish-source income.

Under most tax treaties, income from an overseas representative office or permanent establishment of a Polish resident company is exempt from tax. Alternatively, certain tax treaties grant a tax credit for the foreign tax imposed on the foreign-source income.

Tax Rates. The general corporate profits tax rate is 19%.

If the tax year of a company is different from the calendar year, the tax rate applicable to that tax year is the rate in effect during the calendar year in which the tax year begins. The general corporate profits tax rate applies to all business entities operating in Poland.

Under Poland's tax treaties, if the activities of a representative office include negotiating and signing agreements on behalf of its parent company, the office constitutes a permanent establishment in Poland, and consequently it is subject to corporate profits tax at the standard rate.

Withholding tax is not imposed on transfers of profits from a branch to its head office because from a legal perspective, a branch is regarded as an organizational unit of the foreign enterprise.

Capital Gains. Capital gains, including those derived from the sale of publicly traded shares and state bonds, are treated as part of a company's profits and are taxed at the regular corporate rate. Capital losses are deductible from normal business income.

In general, capital gains are calculated by subtracting the cost of the asset (or its net book value) and sales expenses from the sales proceeds. If the sales price differs substantially from market value, the tax office may require an independent expert valuation.

Administration. The Polish tax year is usually the calendar year. However, a company can change to a different tax year by notifying the relevant tax office. The first tax year after a change must extend for at least 12 months, but no longer than 23 months. A company incorporated in the second half of a calendar year may elect a period of up to 18 months for its first tax year. In the event of certain mergers or divisions of companies, the tax year may be shorter than 12 months.

In general, companies must submit monthly declarations, and they must pay monthly advances based on the preliminary income statements. However, they may elect a simplified regime. Under the simplified regime, the monthly advances are equal to one-twelfth of the tax shown in the annual tax return filed in the preceding year. If the company did not show tax liability in the preceding return, it may refer to the annual tax return filed two years before the current year. As a result of the significant decrease of the corporate tax rate for 2004, a reduction mechanism has been introduced for taxpayers using the simplified regime to compensate for the difference in rates.

Companies must file an annual income tax return within three months after the end of the company's tax year. They must pay any balance of tax due at that time.

An overpayment declared in an annual tax return is refunded within three months. However, before the overpayment is refunded, it is credited against any past and current tax liability of the company. If the company has no tax liability, it may request that the tax office credit the overpayment against future tax liabilities or refund the overpayment in cash. Overpayments earn interest at the same rate that is charged on late payments. Under the tax code, the rate of penalty interest on unpaid taxes varies according to the fluctuation of the Lombard credit rate. The interest rate on tax arrears is 200% of the Lombard credit rate. The current penalty interest rate is 13.5%.

Dividends. A 19% withholding tax is imposed on dividends and other profit distributions paid to residents and nonresidents. Under the draft 2004 tax law, this rate would be increased to 19% for 2004. Resident recipients may credit the dividend withholding tax against their corporate tax liability and carry forward any excess credit indefinitely. For nonresident recipients, the withholding tax is considered a final tax and, accordingly, the recipient is not subject to any further tax on the dividend received. A treaty may reduce the tax rate for distributions to nonresidents if the recipient provides the required certificate indicating that the recipient's tax residence is located in the other treaty country.

An exemption for dividends and other profit distributions will enter into effect when Poland joins the EU on 1 May 2004. Under this exemption, companies will be exempt from tax on dividends and other profit distributions received from Polish companies if they satisfy the following conditions:

- Their registered office or place of management is not located in Poland;
- They are subject to income tax in an EU member state on their total income, regardless of the source of the income; and
- For at least two years they hold directly at least 25% of the capital of the company paying the dividend.

The above exemption will not apply if the income results from the redemption of shares, disposal of shares for redemption or liquidation of a Polish company.

Interest, Royalties and Fees for Services. Under the domestic tax law in Poland, a 20% withholding tax is imposed on interest, royalties and fees for certain services paid abroad. This withholding tax may be eliminated or reduced if the following conditions are satisfied:

- The payer can document the tax residency of the recipient of the payment or the service provider with a certificate indicating that the recipient or service provider's tax residence is in a country that has concluded a double tax treaty with Poland; and
- The relevant treaty allocates taxing rights to the country of the service provider or provides a different rate.

Under most of Poland's tax treaties, the withholding tax on fees for services may not be imposed in Poland.

Foreign Tax Relief. Under its tax treaties, Poland exempts foreign-source income from tax or grants a tax credit (usually with respect to dividends). Foreign taxes are creditable against Polish tax only up to the amount of Polish tax that would have been imposed on the gross foreign income.

C. Determination of Trading Income

General. Taxable income equals the difference between revenues subject to tax and tax-deductible expenses. Accounts prepared in accordance with Polish accounting standards are the basic source of information for determining taxable income. In general, companies must recognize taxable revenue when issuing an invoice.

Expenses are generally allowed as deductions if they relate to taxable activities carried on within Poland, but certain expenses, such as nonpublic advertising and representation expenses exceeding certain limits, are specifically disallowed. In this context, nonpublic advertising expenses are expenses incurred on items available only to selected recipients.

If taxable income cannot be determined from the accounting records, estimates may be used. Branches and permanent establishments of foreign companies are taxed on income determined on the basis of the accounting records, which must be kept in Polish currency. However, regulations provide coefficients for specific revenue categories, which may be applied if the tax base for foreign companies cannot be determined from the accounting records.

Depreciation. For tax purposes, depreciation calculated in accordance with the statutory rates is deductible. Depreciation is computed using the straight-line method. However, in certain circumstances, the reducing-balance method may be allowed. The following are some of the applicable annual straight-line rates.

Asset	Rate (%)
Buildings	1.5 to 10
Office equipment	14
Computers	30
Motor vehicles	20
Plant and machinery	5 to 20

For certain types of assets, depreciation rates may be doubled. Companies operating in areas with high structural unemployment may triple tax depreciation rates for certain capital expenditures.

Companies may apply reduced depreciation rates within specified limits.

Companies may claim depreciation at a rate of 30% in the tax year in which certain new fixed assets are entered into the fixed asset register. In the following tax years, depreciation is calculated using the straight-line or reducing-balance methods at the normal rates.

Relief for Losses. Losses from one source of profits may offset income from other sources in the same tax year. Losses may be carried forward for five consecutive years to offset profits from all sources that are derived in those years. Up to 50% of the original loss may offset profits in any of the five tax years. Losses may not be carried back.

Groups of Companies. Groups of related companies may report combined taxable income or loss and pay one combined tax for all companies belonging to the group. To qualify as a tax group, related companies must satisfy several conditions, including the following:

- The parent company in the tax group must directly own 95% of the shares of the subsidiary companies;
- The tax group must remain in existence for at least three years;
- The taxable income of the group companies in each tax year must amount to at least 3% of the gross taxable revenues of the group companies; and
- The members of the group may not benefit from any tax exemptions with respect to corporate tax and value-added tax.

In practice, the applicability of the rules for tax groups is very limited, primarily as a result of the profitability requirement.

D. Value-Added Tax

Value-added tax (VAT) is imposed on goods sold and services rendered in Poland. Certain goods and services are exempt. The standard rate of VAT is 22%. Lower rates of 7% and 0% apply to specified goods and services. The 0% rate also applies to exports.

Poland must adopt the EU VAT rules, effective from 1 May 2004.

E. Miscellaneous Matters

Foreign-Exchange Controls. Polish-based companies may open foreign-exchange accounts. All export proceeds received in convertible currencies and receipts from most foreign sources may be deposited in these accounts. Businesses may open foreign-currency accounts abroad. However, restrictions apply to the opening of accounts in countries that are not members of the European Union

(EU) or the Organization for Economic Cooperation and Development (OECD). No permit is required for most loans obtained by Polish-based companies from abroad, including loans from foreign shareholders. Reporting requirements are imposed for certain loans and credits granted from abroad.

Antiavoidance Legislation. In applying the tax law, the tax authorities refer to the substance of the transaction and disregard the form. In addition, the tax authorities may disregard the tax consequences of the transaction if they prove that the taxpayer cannot expect significant benefits from the transaction other than tax benefits.

Debt-to-Equity Rules. Under thin-capitalization rules, if debts owed to specified related parties exceed three times the share capital of the borrower, interest paid on debts exceeding the limit is not deductible for tax purposes. For the purposes of these rules, share capital consists of paid-in capital only; it does not include debt converted into capital or contributed intangibles that are not depreciated for tax purposes (for example, goodwill under certain circumstances). The thin-capitalization rules do not apply to interest on loans granted by Polish entities unless these entities benefit from a tax exemption applicable to entities operating in special-economic zones. The rules cover the following loans:
- Loans granted by a shareholder that holds at least 25% of the voting rights in the borrower;
- Loans granted by shareholders that jointly hold at least 25% of the voting rights in the borrower; or
- Loans granted by one company to another company if the same shareholder or shareholders hold at least 25% of the voting rights in both the lender and the borrower.

Effective from 1 January 2004, the definition of loans covers any form of transfer of monies, including the issuance of bonds, and bank and nonbank deposits.

Transfer Pricing. The Polish tax law includes specific rules on transfer pricing. The fundamental rules, which are based on the OECD guidelines, are contained in the Corporate Profits Tax Law and the Personal Income Tax Law.

Under the Corporate Profits Tax Law, the following are related parties:
- A domestic entity (a legal or natural person having its registered office [place of management] or residence in Poland) and a foreign entity (a legal or natural person having its registered office or residence abroad), if any of the following circumstances exist:
  - The domestic entity participates, directly or indirectly, in the management, control or capital of the foreign entity;
  - The foreign entity participates, directly or indirectly, in the management, control or capital of the domestic entity; or
  - The same legal or natural persons participate, directly or indirectly, in the management, control or capital of both the domestic entity and the foreign entity.
- Two domestic entities, if the following circumstances exist:
  - The domestic entity participates, directly or indirectly, in the management, control or capital of the other domestic entity;
  - The same legal or natural persons participate, directly or indirectly, in the management, control or capital of both the domestic entity and the foreign entity; or

— Family, capital, property or employment relations exist between the entities or the management, supervision or control personnel of the entities, or the same persons carry out management, supervision or control functions in both of the entities.

The tax law provides for the following transfer-pricing methods:
• The comparable uncontrolled price method;
• The resale-minus method; and
• The cost-plus method.

If the above methods are inapplicable, the transaction profit method may be used.

Under the law, on the request of the tax authorities, taxpayers conducting transactions with related parties exceeding certain limits (relatively low) are required to prepare specific tax documentation regarding these transactions and present it to the tax authorities or tax inspection authorities within seven days of the date of the request. The documentation must contain the following:
• A description of the functions of the parties to the transaction (including assets used and risks taken);
• All expected costs of the transaction and the method and terms of payment;
• The method for calculating profits and a description of the transaction price;
• A description of the business strategy and any other related activity if this strategy affects the transaction value;
• An indication of any other factors that were taken into account when determining the transaction value; and
• A description of the benefits that the entity is required to prepare the documentation expects to obtain from transactions of an intangible nature, such as the rendering of advisory services or financial services, or the granting of licenses.

The documentation requirements apply if the total value of the transactions concluded between related parties exceeds the following amounts in a tax year:
• €100,000 if the value of the transactions is less than 20% of the company's share capital;
• €30,000 for transactions involving sales, the rendering of services or the providing of intangible assets; and
• €50,000 in all other circumstances.

The documentation requirements also apply to entities that enter into transactions involving payments to tax havens if the total value of the transactions exceeds €20,000 during the tax year.

If the tax authorities assess additional income to a taxpayer and if a taxpayer does not provide the transfer-pricing documentation required by the law, the additional income is taxed at a penalty tax rate of 50%.

Taxpayers must report foreign related-party transactions if the total amount of the transactions exceeds €300,000 in a tax year. If the foreign entity has a representative office or a permanent establishment in Poland, the reporting obligation applies to single transactions exceeding €5,000.

The required information must be submitted to the tax office by the end of the third month following the end of the tax year.

It is not possible to reach transfer-pricing agreements in advance with the tax authorities.

F. Treaty Withholding Tax Rates

The withholding tax rates for Poland's bilateral tax treaties are listed in the following table.

	Dividends %	Interest %	Royalties %
Albania	5/10 (d)	10	5
Australia	15	10	10
Austria (ee)	10	0	0
Bangladesh	10/15 (a)	0/10 (k)	10
Belarus	10/15 (e)	10	0
Belgium (bb)	10	0/10 (k)	10
Bulgaria	10	0/10 (k)	5
Canada	15	0/15 (k)	0/10 (f)
China	10	0/10 (k)	7/10 (h)
Croatia	5/15 (d)	0/10 (k)	10
Cyprus	10	0/10 (k)	5
Czech Republic	5/10 (c)	0/10 (k)	5
Denmark	0/5/15 (s)	0/5 (k)	5
Egypt	12	0/12 (k)	12
Estonia	5/15 (d)	0/10 (k)	10
Finland	5/15 (d)	0	0/10 (f)
France	5/15 (a)	0	0/10 (p)
Germany (dd)	5/15 (d)	0	0
Greece	19	10	10
Hungary	10	0/10 (k)	10
Iceland	5/15 (d)	0/10 (k)	10
India	15	0/15 (k)	20 (cc)
Indonesia	10/15 (c)	0/10 (k)	15
Ireland	0/15 (d)	0/10 (k)	0/10 (v)
Israel	5/10 (b)	5	5/10 (h)
Italy	10	0/10 (k)	10
Japan	10	0/10 (k)	0/10 (i)
Jordan	10	0/10 (k)	10
Kazakhstan	10/15 (c)	0/10 (k)	10
Korea	5/10 (a)	0/10 (k)	10
Kuwait	0/5 (z)	0/5 (k)	15
Latvia	5/15 (d)	0/10 (k)	10
Lithuania	5/15 (d)	0/10 (k)	10
Luxembourg	5/15 (d)	0/10 (k)	10
Macedonia	5/15 (d)	0/10 (k)	10
Malaysia	0	15	15
Malta	5/15 (c)	0/10 (k)	10
Mexico	5/15 (d)	0/5/15 (k)(aa)	10
Moldova	5/15 (d)	0/10 (k)	10
Mongolia	10	0/10 (k)	5
Morocco	7/15 (d)	10	10
Netherlands (r)	0/5/15 (a)(t)	0/5 (k)(u)	5
Norway	5/15 (d)	0	0/10 (f)
Pakistan	15 (j)	20	15/20 (n)
Philippines	10/15 (d)	0/10 (k)	15
Portugal	10/15 (o)	0/10 (k)	10
Romania	5/15 (d)	0/10 (k)	10
Russian Federation	10	0/10 (k)	10 (w)

	Dividends %	Interest %	Royalties %
Singapore	0/10 (z)	0/10 (k)	10
Slovak Republic	5/10 (c)	0/10 (k)	5
Slovenia	5/15 (d)	0/10 (k)	10
South Africa	5/15 (d)	0/10 (k)	10
Spain	5/15 (d)	0	0/10 (f)
Sri Lanka	15	0/10 (k)	0/10 (l)
Sweden	5/15 (d)	0	10
Switzerland	5/15 (d)	10	0 (y)
Syria (ee)	10	0/10 (k)	18
Thailand	19	0/10 (k)	5/15 (f)
Tunisia	5/10 (d)	12	12
Turkey	10/15 (d)	0/10 (k)	10
Ukraine	5/15 (d)	0/10 (k)	10
United Arab Emirates	0/5 (z)	0/5 (k)	5
United Kingdom	5/15 (g)	0	10
United States	5/15 (g)	0	10
Uzbekistan	5/15 (c)	0/10 (k)	10
Vietnam	10/15 (d)	10	10/15 (q)
Yugoslavia (m)	5/15 (d)	10	10
Zimbabwe	10/15 (d)	10	10
Nontreaty countries	15 (dd)	20	20 (x)

(a) The lower rate applies if the recipient of the dividends is a company that owns at least 10% of the payer.

(b) The lower rate applies if the recipient of the dividends is a company that owns at least 15% of the payer.

(c) The lower rate applies if the recipient of the dividends is a company that owns at least 20% of the payer.

(d) The lower rate applies if the recipient of the dividends is a company that owns at least 25% of the payer. Under the Ireland treaty, if Ireland levies tax at source on dividends, the 0% rate is replaced by a rate of 5%.

(e) The lower rate applies if the recipient of the dividends is a company that owns at least 30% of the payer.

(f) The lower rate applies to royalties paid for copyrights, among other items; the higher rate applies to royalties for patents, trademarks and industrial, commercial or scientific equipment or information.

(g) The lower rate applies if the recipient of the dividends is a company that owns at least 10% of the voting shares of the payer.

(h) The lower rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.

(i) The lower rate applies to cultural royalties.

(j) This rate applies if the recipient of the dividends is a company that owns at least one-third of the payer.

(k) The lower rate applies to, among other items, interest paid to government units, local authorities and central banks. In the case of certain countries, the rate also applies to banks (the list of exempt or preferred recipients varies by country). In the case of Denmark, Ireland and Korea, the 0% rate also applies to credit sales of commercial, scientific or industrial equipment; in the case of Ireland and Korea, the 0% rate also applies to credit sales of goods between companies.

(l) The 0% rate applies to royalties paid for, among other items, copyrights. The 10% rate applies to royalties paid for patents, trademarks and for industrial, commercial or scientific equipment or information.

(m) The treaty with Yugoslavia applies to the new republics of the former Yugoslavia until new treaties with these republics become effective.

(n) The lower rate applies to know-how; the higher rate applies to copyrights, patents and trademarks.

(o) The 10% rate applies if, on the date of the payment of dividends, the recipient of the dividends has owned at least 25% of the share capital of the payer for an uninterrupted period of at least two years. The 15% rate applies to other dividends.

(p) The lower rate applies to royalties paid for the following: copyrights; the use of or the right to use industrial, commercial and scientific equipment; services comprising scientific or technical studies; or research and advisory, supervisory or management services. The treaty should be checked in all cases.

(q) The lower rate applies to know-how, patents and trademarks.
(r) These are the withholding tax rates under a new treaty between Poland and the Netherlands, which replaces the prior treaty between the countries, effective from 1 January 2004.
(s) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the payer of the dividends for at least one year and if the dividends are declared within such holding period. The 5% rate applies to dividends paid to pension funds or other similar institutions operating in the field of pension systems. The 15% rate applies to other dividends.
(t) Until the EU Parent-Subsidiary Directive (90/435/EEC) becomes applicable between Poland and the Netherlands, the 0% rate applies if the dividends are paid to a company that owns at least 25% of the payer.
(u) Interest derived under contracts concluded before the new treaty with the Netherlands was executed (13 February 2002) are subject to the 0% rate during 2004.
(v) The lower rate applies to fees for technical services.
(w) The 10% rate also applies to fees for technical services.
(x) The 20% rate also applies to certain services (for example, consulting, marketing, management and controlling, and extending of guarantees).
(y) The rate is 10% if Switzerland imposes a withholding tax on royalties paid to nonresidents (currently, Switzerland does not impose such a tax).
(z) The lower rate applies to certain dividends paid to government units or companies.
(aa) The 5% rate applies to interest paid to banks and insurance companies and to interest on bonds.
(bb) Poland and Belgium have signed a new tax treaty to replace the existing treaty between the countries, but the new treaty has not yet been ratified.
(cc) Because the rate under the domestic law in Poland is 20%, the treaty rate of 22.5% does not apply.
(dd) Poland and Germany have signed a new tax treaty to replace the existing treaty between the countries, but the new treaty has not yet been ratified.
(ee) Poland has negotiated a new tax treaty with Austria.

PORTUGAL

(Country Code 351)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@pt.ey.com

The e-mail addresses for persons who are not resident in Portugal or who have e-mail addresses varying from the standard format are listed below the respective persons' names. For purposes of the e-mail addresses, accent marks are ignored.

LISBON **GMT**

Ernst & Young **217-912-000**
Mail Address: **Fax: 217-917-592**
Apartado 50602 **217-957-587**
1712-001 Lisbon
Portugal

Street Address:
Edificio República
Avenida da República, 90 – 3rd Floor
1649-024 Lisbon
Portugal

International Tax Services
Patrick Dewerbe **217-912-212**
Mobile: 937-912-212

Corporate Tax

Gonçalo Bastos Lopes	**217-912-290** **Mobile: 937-912-290** **E-mail: goncalo.bastos-lopes@pt.ey.com**
★ Fernando Brás	**217-912-037** **Mobile: 937-912-037**
João Jesus de Sousa	**217-949-305** **Mobile: 937-949-305** **E-mail: joao.sousa@pt.ey.com**
Paulo Mendonça	**217-912-045** **Mobile: 966-867-735**
António Neves	**217-912-249** **Mobile: 937-912-249**
José Silva Jorge	**217-912-044** **Mobile: 937-912-044** **E-mail: jose.silva-jorge@pt.ey.com**

Banking and Finance

Mónica Costa	**217-912-024** **Mobile: 937-912-024**
Pedro Marques	**217-912-039** **Mobile: 937-912-039**

Insurance

Ana Texeira de Sousa	**217-912-065** **Mobile: 919-199-212** **E-mail: ana.t.sousa@pt.ey.com**
★ Filomena Oliveira	**217-912-060** **Mobile: 937-912-060**
Gonçalo Schiappa	**217-912-056** **Mobile: 937-912-718**

Human Capital

★ Fernando Brás	**217-912-037** **Mobile: 937-912-037**
António Neves	**217-912-249** **Mobile: 937-912-249**

Indirect Taxes

Henrique Moreira	**217-949-317** **Mobile: 937-912-712**
Cláudia Rodrigues	**217-949-324** **Mobile: 937-912-708**

Offshore Free Zones

Gonçalo Bastos Lopes	**217-912-290** **Mobile: 937-912-290** **E-mail: goncalo.bastos-lopes@pt.ey.com**
Patrick Dewerbe *(resident in New York)*	**[1] (212) 773-9417** **E-mail: patrick.dewerbe@ey.com**

Portuguese-Speaking Africa

★ Fernando Brás, *Guinea-Bissau*	**217-912-037** **Mobile: 937-912-037**
★ Filomena Oliveira, *Angola*	**217-912-060** **Mobile: 937-912-060**

OPORTO **GMT**

Ernst & Young **Rua do Vilar, 235** **3rd Floor left** **4050-626 Oporto** **Portugal**	**226-002-015** **Fax: 226-000-004** **E-mail: eylis@ip.pt**

Corporate Tax

Pedro Paiva	**226-079-694** **Mobile: 936-615-043**

A. At a Glance

Corporate Income Tax Rate (%)	
Corporate Income Tax	30 (a)
Municipal Surcharge	10 (b)
Branch Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%) (c)	
Residents and Nonresidents with Permanent Establishments in Portugal	30
Nonresidents without Permanent Establishments in Portugal	25
Withholding Tax (%)	
Dividends	
Paid to Residents	15 (d)(e)
Paid to Nonresidents	25 (d)(f)
Interest	
Shareholders' Loans	
Resident Shareholders	15 (e)
Nonresident Shareholders	20 (f)
Bonds Issued by Companies	
Resident Holders	20 (e)
Nonresident Holders	20 (f)(g)(h)
Government Bonds	20 (i)
Bank Deposits	
Resident Depositors	20 (e)
Nonresident Depositors	20 (f)
Royalties	
Paid to Residents	15 (e)
Paid to Nonresidents	15 (f)
Payments for Services and Commissions	
Paid to Residents	0
Paid to Nonresidents	15 (j)
Rental Income	
Paid to Residents	15 (e)
Paid to Nonresidents	15 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

(a) Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or I.R.C.) applies to resident companies and nonresident companies with permanent establishments in Portugal. The rate is expected to be reduced to 25%, effective from 1 January 2004. See Section B for details of other rates.

(b) A municipal surcharge of 10% is generally imposed on the I.R.C. due. Certain municipalities do not levy the surcharge. For further details, see Section B.

(c) See Section B.

(d) A 5% substitute gift and inheritance tax may also be imposed on dividends paid by public joint stock corporations. For further details, see Section B.

(e) Income must be declared and is subject to the normal tax rates. Amounts withheld may be credited against the I.R.C due. See Section B.

(f) These rates may be reduced by tax treaties or by the European Union (EU) Parent-Subsidiary Directive.

(g) Applicable to interest from private and public company bonds.

(h) Applies to interest on bonds issued after 15 October 1994. A 25% withholding tax applies to interest on bonds issued on or before that date.

(i) Interest on certain government bonds traded on the stock exchange and paid to nonresidents not operating in Portugal through a permanent establishment may in certain circumstances be exempt from tax.

(j) This tax does not apply to communication, financial and transportation services. The tax is eliminated by most tax treaties.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or I.R.C.) is levied on resident and nonresident entities.

Resident Entities. Companies and other entities, including nonlegal entities, whose principal activity is commercial, industrial or agricultural, are subject to I.R.C. on worldwide profits, but a foreign tax credit may reduce the amount of I.R.C. payable (see *Foreign Tax Relief* below).

Companies and other entities, including nonlegal entities, that do not carry out commercial, industrial or agricultural activities, are generally subject to tax on their worldwide income (for details regarding the calculation of the taxable profit of these entities, see Section C).

Nonresident Entities. Companies or other entities that operate in Portugal through a permanent establishment are subject to I.R.C. on the profits attributable to the permanent establishments.

Companies or other entities without a permanent establishment in Portugal are subject to I.R.C. on income deemed to be obtained in Portugal.

For tax purposes, companies or other entities are considered to have a permanent establishment in Portugal if they have a fixed installation or a permanent representation in Portugal through which they engage in a commercial, industrial or agricultural activity. Under rules introduced in 2001, which generally conform to the Organization for Economic Cooperation and Development (OECD) model convention, a permanent establishment may arise from a building site or installation project that lasts for more than six months or from the existence of a dependent agent. Under these rules, commissionaire structures, dependent agents and services rendered in Portugal are more likely to result in a permanent establishment for I.R.C. purposes.

Double tax treaties may further limit the scope of a permanent establishment in Portugal.

Tax Rates. For 2003, I.R.C. is levied at the following rates.

Type of Enterprise	Rate (%)
Companies or other entities with a head office or effective management control in Portugal, whose principal activity is commercial, industrial or agricultural	30*
Companies or other entities with a head office or effective management control in the autonomous region of the Azores, or with a branch, office, premises or other representation there	21
Companies or other entities with a head office or effective management control in the autonomous region of the Madeira, or with a branch, office, premises or other representation there	27
Entities other than companies with a head office or effective management control in Portugal, whose principal activity is not commercial, industrial or agricultural	20

Type of Enterprise	Rate (%)
Permanent establishments	30*
Nonresident companies or other entities without a head office, effective management control or a permanent establishment in Portugal	25

* This rate is expected to be reduced to 25%, effective from 1 January 2004.

Certain types of income earned by companies in the last category of companies listed above are subject to the following withholding taxes.

Type of Income	Rate (%)
Copyrights and royalties	15
Technical assistance	15
Income from shares	25 (a)
Income from government bonds	20
Revenues derived from the use of, or the right to use, equipment	15
Other revenues from the application of capital	20
Payments for services rendered or used in Portugal, and all types of commissions	15 (b)

(a) A 5% substitute gift and inheritance tax may also be imposed on dividends paid by public joint stock corporations (see *Dividends* below).
(b) This tax does not apply to communications, financial and transportation services. It is eliminated under most tax treaties.

Applicable double tax treaties may reduce the above withholding tax rates.

A municipal surcharge (*derrama*) is imposed on resident companies and nonresident companies with a permanent establishment in Portugal. The surcharge is calculated on the I.R.C. on profits generated in each of the municipalities. The rate, which may be up to 10% of the tax due, is set by the respective municipalities. Consequently, the maximum combined rate of the I.R.C. and the surcharge on companies is 33%.

Companies established in the free zones of Madeira and the Azores may enjoy a tax holiday until the year 2011. The more important of the two, Madeira, is internationally known as the Madeira Free Zone (Zona Franca da Madeira). For entities licensed during the period of 2003 to 2006 to operate in the Madeira free zone, the I.R.C. tax exemption is replaced by a reduced rates system. Under this system, the rates are 1% in 2003, 2% in 2004 and 3% from 2005 to 2011. These rates apply to taxable income, subject to a cap, which is generally based on the number of jobs created. New requirements and limitations apply to the issuance of licenses for the Madeira free zone, effective from 2003.

Reduced I.R.C. rates of 15% and 25% apply for 2001 through 2003 to activities carried out in parts of the country specified by the government.

Significant incentives are also available for qualifying new investment projects established before 31 December 2010. To qualify for the incentives, the projects must satisfy the following requirements:
- They must have a value exceeding €4.99 million;
- They must develop sectors considered to be of strategic importance to the Portuguese economy; and

- They must be designed to reduce regional economic imbalances, create jobs and stimulate technological innovation and scientific research in Portugal.

Qualifying projects may enjoy the following tax benefits for 10 years:

- A tax credit of 5% to 20% of amounts invested in plant, equipment and intangibles used in the project. However, buildings and furniture qualify only if they are directly connected to the development of the activity.
- An exemption from, or a reduction of, the municipal real estate holding tax for buildings used in the project.
- An exemption from, or a reduction of, the property transfer tax (see Section D) for buildings used in the project.
- An exemption from, or a reduction of, the stamp duty for acts and contracts necessary to complete the project, including finance agreements.

Capital Gains. Capital gains derived from the sale of fixed assets and from the sale of financial assets are included in taxable income subject to I.R.C. The capital gain on fixed assets is equal to the difference between the sales value and the acquisition value, adjusted by depreciation and by an official index. The tax authorities may determine the sales value for real estate to be an amount other than the amount provided in the sales contract.

Capital losses from shares and other participations are not deductible for tax purposes.

Fifty percent of the capital gains derived from disposals of tangible fixed assets held for more than one year may be exempt if the sales proceeds are invested in similar assets during the period beginning one year before the date of the disposal and ending two years after the date of the disposal. A statement of the intention to reinvest the gains must be included in the annual tax return for the year of disposal. The remaining 50% of the net gains derived from the disposal is subject to tax in the year of the disposal. The above rules also apply to shares and other participations, but certain limitations apply.

If only a portion of the proceeds is reinvested, the exemption is reduced proportionally. If by the end of the second year following the disposal no reinvestment is made, the net capital gains remaining untaxed (50%) are added to taxable profit for that year, increased by 15%.

Pure holding companies (*sociedade gestora de participações sociais*, or SGPS) and venture capital companies (*sociedade de capital de risco*, or SCR) may benefit from special rules. Under these rules, capital gains may be fully exempt, while capital losses and interest expenses associated with the acquisition of shares and other participations are not deductible for tax purposes.

Nonresident companies that do not have a head office, effective management control or a permanent establishment in Portugal are subject to I.R.C. on capital gains derived from the sales of corporate participations, securities and financial instruments if any of the following apply:

- More than 25% of the nonresident entities are held, directly or indirectly, by resident entities;
- The nonresident entities are resident in territories listed on a black list issued by a Ministerial Order of the Finance Minister; or
- The capital gains arise from the transfer of shares held in a property company in which more than 50% of the assets comprise Portuguese real estate or in a holding company that controls such a company.

Nonresident companies that do not have a head office, effective management control or a permanent establishment in Portugal are taxed at a 25% rate on taxable capital gains derived from disposals of real estate, and shares and other securities. For this purpose, nonresident entities must file a tax return.

Administration. Companies with a head office, effective management control or a permanent establishment in Portugal are required to make estimated payments with respect to the current financial year. The payments are due in July, September and December. For companies with turnover of up to €498,797.90, the total of the estimated payments must equal at least 75% of the preceding year's tax. For companies with turnover exceeding €498,797.90, the total of the estimated payments must equal at least 85% of the preceding year's tax. The first payment is mandatory. However, the obligation to pay the other installments depends on the tax situation of the company. For example, a company may be excused from making the second and third installments if it establishes by adequate evidence that it is suffering losses in the current year. However, if a company ceases making installment payments and if the balance due exceeds by 20% or more the tax due for that year under normal conditions, compensatory interest is charged. Companies must file a tax return by 31 May of the following year. Companies must pay any balance due when they file their annual tax return.

Companies with a head office, effective management control or a permanent establishment in Portugal that have adopted a financial year other than the calendar year must make estimated payments as outlined above, but in the seventh, ninth and twelfth month of their financial year. They must file the declaration by the end of the fifth month following the end of that year.

In addition, companies must make a Special Payment on Account (SPA) in the third month of the financial year, or they can elect to pay the amount in the third and tenth months The SPA is equal to the difference between the following amounts:

- 1% of total revenues and gains (in general, only those that are taxable) of the preceding year, with a minimum limit of €1,250 and a maximum limit of €200,000; and
- The ordinary payments on account made in the preceding year.

The SPA may be subtracted from the tax liability in the following four years, or refunded if a petition for a tax inspection is filed.

A nonresident company without a permanent establishment in Portugal must appoint an individual or company, resident in Portugal, to represent it concerning any tax liabilities. The representative must sign and file the tax return using the general tax return form. I.R.C. on capital gains derived from the sale of real estate must be paid within 30 days from the date of sale. I.R.C. on rents from leasing buildings must be paid by 31 May of the following year.

Dividends. Dividends paid by public joint stock corporations (*sociedades anónimas*, or SAs) to nonresidents are generally subject to withholding tax at a rate of 30% (including a 5% substitute gift and inheritance tax [ISDA]). Until 31 December 1999, Portugal was allowed to impose withholding tax on dividends covered by the EU Parent-Subsidiary Directive at the rates of 15% until 31 December 1996, and 10% from 1 January 1997 to 31 December 1999. However, until 31 December 1999, Portugal imposed ISDA at a rate of 5% in addition to the authorized EU Parent-Subsidiary Directive withholding rates. The European Court of Justice (ECJ) held that the imposition of ISDA violated the EU Parent-Subsidiary Directive. It further held that the Portuguese tax authorities may not impose ISDA on dividends distributed between companies that qualify for the EU Parent-Subsidiary Directive, effective from 1 January 2000 because no withholding tax may be imposed on dividends covered by the EU Parent-Subsidiary Directive that are distributed on or after that date. Under an amendment to the Portuguese tax law, effective from 2002, an exemption from ISDA applies if the requirements for the corporate withholding tax exemption are met.

On distributions to resident parent companies, the 15% portion is treated as a payment on account of the final I.R.C. due; the 5% ISDA portion is treated as a tax-deductible expense. Only 50% of dividends on shares of companies privatized by the end of 2002 is subject to I.R.C. Consequently, the withholding tax rate levied on such dividends paid to nonresidents is 17.5% [5% + (50% x 25%)].

Dividends paid by private limited companies (*sociedades por quotas*) to nonresidents are generally subject to withholding tax at a rate of 25%. The rate is reduced to 15% if the recipient is a resident. For resident quota holders, this tax is treated as an advance payment of the final I.R.C. due.

A resident company subject to I.R.C. may deduct 100% of dividends received from another resident company if all of the following conditions apply:

- The recipient company owns directly at least 10% of the capital of the payer or the acquisition price for the shares held in the payer was at least €20 million;
- The recipient company holds the interest described above for an uninterrupted period of at least one year that includes the date of distribution of the dividends, or it makes a commitment to hold the interest until the one-year holding period is complete; and
- The payer of the dividends is a Portuguese resident company that is also subject to, and not exempt from, I.R.C. or Game Tax (tax imposed on income from gambling derived by entities such as casinos).

SCRs (see *Capital Gains* above) and regional development companies need only satisfy the third condition described above to qualify for the 100% deduction for dividends received on their holdings in Portuguese resident companies. SGPSs (see *Capital Gains* above) need only satisfy the second and third conditions.

A 100% dividends-received deduction is granted for dividends paid by entities from EU member countries to Portuguese entities if the above conditions are satisfied and if both the payer and recipient of the dividends qualify under the EU Parent-Subsidiary Directive.

If a recipient qualifies for the 100% deduction, the payer of the dividends need not withhold tax. As discussed above, this may require the satisfaction of a one-year holding period requirement.

If a resident company receiving dividends from another resident company does not satisfy the conditions for the 100% deduction, it may deduct 50% of the amount of the dividend before withholding taxes.

Foreign Tax Relief. Foreign-source income is taxable in Portugal. However, direct foreign tax may be credited against the Portuguese tax liability up to the amount of I.R.C. attributable to the income taxed abroad. Foreign tax credits allowed, but not used because of insufficient tax liability, may be carried forward five years.

C. Determination of Trading Income

General. Taxable profit is determined according to the following rules:
- For companies with a head office or effective management control in Portugal that are principally engaged in commercial, agricultural or industrial activities, the taxable profit is the net accounting profit calculated in accordance with Portuguese generally accepted accounting principles, as adjusted by the tax code.
- For companies with a head office or effective management control in Portugal that do not principally engage in commercial, industrial or agricultural activities, the taxable profit is the net total of revenues from various categories of income as described in the Personal Tax (I.R.S.) Code, less expenses.
- For permanent establishments, the taxable profit is determined as outlined in the first item. In calculating taxable profit, general administrative expenses that are attributable to the permanent establishment may be deducted as a cost if justified and acceptable to the fiscal authorities.

Expenses that are considered essential for the generation or maintenance of profits are deductible. However, the following expenses are not deductible:
- The tax depreciation of private cars, on the amount of the acquisition price exceeding €29,927.87, as well as all expenses concerning pleasure boats and tourism airplanes, except for those allocated to public transportation companies or used for rental purposes as part of the company's normal activities.
- Twenty percent of daily allowances and compensation for costs incurred in traveling in the employees' own vehicles at the service of the employer, provided they are not charged to clients. These expenses are completely disallowed as deductions if the company does not maintain a control map, such as a spreadsheet, of the expenses, allowing it to identify the place, length and purpose of the displacements, except for the amounts on which the beneficiary is subject to I.R.S.
- I.R.C. and municipal surcharge (see Section B).
- Penalties and interest charges.

Assets under financial leases are deemed to be owned by the lessee, and consequently the lessee may deduct only applicable tax depreciation and any interest included in the rent payments. Special rules apply to sale and leaseback transactions.

Although representation expenses and expenses related to private cars are deductible, they are subject to a special stand-alone tax at a rate of 6%. This rate is increased to 15% for expenses related to private cars if the acquisition price of the car exceeded €40,000 and if the company incurred tax losses in the two preceding tax years.

"Confidential" or undocumented expenses are not deductible. In addition, these expenses are subject to a special stand-alone rate of 50% (70% with respect to entities partially or totally exempt from I.R.C. or not principally engaged in commercial, industrial or agricultural activities). This tax is imposed regardless of whether the company earns a taxable profit or suffers a tax loss in the year it incurs the expenses. The tax authorities may classify an expense as undocumented if insufficient supporting documentation exists.

Inventories. Inventories must be consistently valued by any of the following criteria:
- Effective cost of acquisition or production;
- Standard costs in accordance with adequate technical and accounting principles;
- Cost of sales less the normal profit margin; and
- Any other special valuation considered basic or normal, provided that it has the prior approval of the tax authorities.

Changes in the method of valuation must be justifiable and acceptable to the tax authorities.

Provisions. The following provisions are deductible:
- Bad and doubtful debts, based on a judicial claim or on an analysis of the age of accounts receivable;
- Inventory losses (inventory values in excess of market value); and
- Technical provisions imposed by the Bank of Portugal or the Portuguese Insurance Institute.

Depreciation. In general, depreciation is calculated using the straight-line method. The declining-balance method may be used for new tangible fixed assets other than buildings, office furniture and automobiles not used for public transport or rental. Maximum depreciation rates are established by law for general purposes and for certain specific industries. If rates that are less than 50% of the official rates are used, total depreciation will not be achieved over the life of the asset. The following are the principal official straight-line rates.

Asset	Rate (%)
Commercial buildings	2
Industrial buildings	5
Office equipment	12.5 to 25
Motor vehicles	12.5 to 25
Plant and machinery	5 to 33.33

Companies may request the prior approval of the tax authorities for the use of depreciation methods other than straight-line or declining-balance or rates up to double the official rates. Approval is granted only if the request is justified by the company's business activities.

For tax purposes, the maximum depreciable cost of private motor cars is €29,927.87

Relief for Losses. Tax losses may be carried forward for six years. No carryback is allowed. If a company's activities are substantially changed from those carried on previously, any tax losses existing at the time of the change may not be carried forward.

Groups of Companies. Resident groups of companies may elect to be taxed on their consolidated profit. To qualify for tax consolidation, a group must satisfy the following conditions:

- The parent company must hold, directly or indirectly, at least 90% of the subsidiaries registered capital, provided that the holding accounts for more than 50% of the voting rights;
- The parent company may not be deemed to be dominated by other company;
- All companies belonging to the group must have their head office and place of effective management in Portugal;
- The parent company must hold the participation in the subsidiary for more than one year beginning from the date the regime begins to be applied; and
- All group companies must be subject to I.R.C. at the standard rate of 30%.

Applications for consolidated reporting must be submitted to the Ministry of Finance before the end of the third month of the year for which the application is intended to take effect. If the application is granted, consolidated reporting is valid for five consecutive years. Applications are not renewed automatically.

Losses may be offset against profits within the consolidated group, in accordance with the following rules:

- Losses incurred in years before the consolidation can only be offset up to the amount of the taxable profit derived by the company that incurred the losses;
- Consolidated losses may be offset against consolidated profits only;
- Consolidated losses may not be offset against profits generated by companies after they leave the group; and
- The consolidated group may not deduct losses incurred by companies after they leave the group.

The consolidated taxable profit equals the sum of the group's companies taxable profits or losses, as shown in each of the respective tax returns, adjusted for dividends distributed between group companies that are included in the tax bases of the individual companies.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (IVA), levied on goods and services, other than exempt services	
General rates	
Portugal	19
Madeira and the Azores	13
Intermediate rates	
Portugal	12
Madeira and the Azores	8

Nature of Tax	Rate (%)
Reduced rates	
Portugal	5
Madeira and the Azores	4
Social security contributions, on salaries, wages and regular bonuses but excluding meal subsidies, up to a specified amount; paid by	
Employer	23.75
Employee	11
Property transfer tax (Sisa); payable by purchaser	
Buildings	6.5
Farm land	5
Offshore companies	15
Municipal real estate holding tax; local tax imposed annually on the assessed tax value of the property on 31 December; tax payable by the owner of the property; tax rate for urban property established by the Municipal Assembly in the location of the property; if the Municipal Assembly does not set a rate, the rate is 0.7%	
Offshore companies	2
Other companies	0.7 to 1.3

E. Miscellaneous Matters

Foreign-Exchange Controls. Portugal does not impose foreign-exchange controls. No restrictions are imposed on inbound or outbound investments.

Both an entity that invests in Portugal and the entity in which the investment is made must notify the Portuguese Investments, Foreign Trade and Tourism Institute no later than 30 days after the date of the investment. This process is for registration purposes only.

Mergers and Reorganizations. Mergers and other types of corporate reorganizations may be tax-neutral in Portugal.

Controlled Foreign Companies. The following rules apply to controlled foreign companies (CFCs).

A Portuguese resident shareholder owning at least 25% of a CFC is subject to tax on its allocable share of the CFC's net income. However, if at least 50% of the CFC's shares are owned by Portuguese residents, the percentage described in the preceding sentence is reduced to 10%.

A company is deemed to be subject to a clearly more favorable tax regime if the company is not subject to corporate income tax or subject to tax at an effective rate of tax equal to or lower than 60% of the I.R.C. standard rate of 30% (this effective rate is currently 18%) or if its place of business is included in a black list of tax-haven territories provided in a Ministerial Order of the Finance Minister.

The income of the CFC is allocated to the first company subject to the regular I.R.C. rate. This prevents the imposition of a Madeira Free Zone company, which is exempt from tax but is considered to be resident in Portugal for tax purposes, between a CFC and a Portuguese resident company.

In general, payments made by Portuguese residents to nonresidents subject to a clearly more favorable tax regime are not deductible for tax purposes, and the payers are subject to a stand-alone tax at a rate of 35% (55% for entities partially or fully exempt from I.R.C. or not principally engaged in commercial, industrial or agricultural activities). However, these payments may be deducted and are not subject to stand-alone taxation if the payer establishes the following: the payments were made in real transactions; the payments are normal; and the amounts of the payments are not unreasonable.

Related-Party Transactions. For related-party transactions, the tax authorities may make adjustments to taxable profit that are necessary to reflect transactions on an arm's length basis. The I.R.C. Code contains transfer-pricing rules, which are applied on the basis of the Organization for Economic Cooperation and Development (OECD) guidelines. In addition, recent legislation had provided details regarding these rules.

Debt-to-Equity Rules. The I.R.C. code includes thin-capitalization rules, which apply to interest paid by a Portuguese company to a nonresident company if the payer has excessive indebtedness and if a special relationship exists between the debtor and the creditor. The thin-capitalization rules disallow tax deductions for interest paid on the excess debt, but they do not reclassify the interest as a dividend distribution.

In general, debt is considered excessive when the debt-to-equity ratio exceeds 2:1. However, if a company can demonstrate that its level of debt is normal for its type of activity, economic sector, size or another aspect of its operations, a higher ratio may be allowed for tax purposes.

A special relationship is deemed to exist if one entity has the capacity, directly or indirectly, to influence in a decisive manner the management decisions of another entity. This capacity is deemed to exist in the following relationships:

- Between one entity and its shareholders, or their spouses, ascendants or descendents, if they possess, directly or indirectly, 10% of the capital or voting rights of the entity;
- Between one entity and the members of its board, administration, management or fiscal bodies, as well as the members' spouses, ascendants and descendents;
- Between any entities bound by group relations;
- Between any entities bound by dominance relations; and
- Between one entity and the other if the first entity's business activities depend on the other entity as a result of a commercial, financial, professional or legal relationship.

F. Treaty Withholding Tax Rates

	Dividends (i) %	Interest %	Royalties %
Austria	15 (b)	10	5/10 (a)
Belgium	15 (b)	15	10
Brazil	10/15 (d)	15	15
Bulgaria	10/15 (d)	10	10
Canada	10/15 (d)	10	10
Cape Verde	10	10	10
China	10	10	10
Czech Republic	10/15 (d)	10	10

	Dividends (i) %	Interest %	Royalties %
Denmark	10	10	10
Finland	10/15 (b)(c)	15	10
France	15 (b)	10/12 (g)	5
Germany	15 (b)	10/15 (e)	10
Greece	15	15	10
Hungary	10/15 (d)	10	10
Iceland	10/15 (d)	10	10
India	10/15 (d)	10	10
Ireland	15 (b)	15	10
Italy	15 (b)	15	12
Korea	10/15 (d)	15	10
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg	15	10/15 (h)	10
Macau	10	10	10
Malta	10/15 (d)	10	10
Mexico	10	10	10
Morocco	10/15 (d)	12	10
Mozambique	15	10	10
Netherlands	10	10	10
Norway	10/15 (c)	15	10
Poland	10/15 (d)	10	10
Romania	10/15 (d)	10	10
Russian Federation	10/15	10	10
Singapore	10	10	10
Spain	10/15 (b)	15	5
Switzerland	10/15 (c)	10	5
Tunisia	15	15	10
Ukraine	10/15 (d)	10	10
United Kingdom	10/15 (b)(c)	10	5
United States	5/15 (j)	10	10
Venezuela	10/15	10	10/12 (f)
Nontreaty countries (l)	25 (b)	20/25	15

(a) The 10% rate applies if the recipient holds directly more than 50% of the capital of the payer. For other royalties, the rate is 5%.

(b) See Section B for details regarding a 0% rate for distributions to parent companies in EU member states.

(c) The 10% rate applies if the recipient holds directly at least 25% of the capital of the payer. The 15% rate applies to other dividends.

(d) The 10% rate applies if, at the date of payment of the dividend, the recipient has owned directly at least 25% of the payer for an uninterrupted period of at least two years. The 15% rate applies to other dividends.

(e) The 10% rate applies to interest on loans considered to be of economic or social interest by the Portuguese government. The 15% rate applies to other interest.

(f) The rate is 10% for technical assistance fees.

(g) The 10% rate applies to interest on bonds issued in France after 1965. The 12% rate applies to other interest payments.

(h) The 10% rate applies to interest paid by an enterprise of a contracting state if a financial establishment resident in the other contracting state may deduct such interest. The 15% rate applies to other interest payments.

(i) Dividends paid to residents and nonresidents are also subject to a 5% substitute gift and inheritance tax (however, see Section B).

(j) If the beneficial owner of the dividends is a company that owns 25% or more of the capital of the payer, and if, at the date of the distribution of the dividends, the participation has been held for at least two years, the withholding tax rate is 5%. For other dividends, the rate is 15%.

(k) See Sections A and B for details.

Portugal has also signed double tax treaties with Cuba, Pakistan and Sweden, but these treaties are not yet in force.

PUERTO RICO

(Country Code 1)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ey.com

SAN JUAN **GMT -4**

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
Hato Rey
Puerto Rico 00917-1989

(787) 759-8212
Fax: (787) 753-0813 (Tax)

Corporate Tax

Blanca Alvarez	**(787) 772-7061** **Mobile: (787) 306-2930**
★ Jorge M. Cañellas	**(787) 772-7064** **Mobile: (787) 397-0911**
Iris Nilsa Cortés	**(787) 772-7060** **Mobile: (787) 502-8586**
Teresita Fuentes	**(787) 772-7066** **Mobile: (787) 671-6468**
German Ojeda	**(787) 772-7080** **Mobile: (787) 370-4522**
María T. Riollano	**(787) 772-7077** **Mobile: (787) 398-9547**
Rosa M. Rodríguez	**(787) 772-7062** **Mobile: (787) 397-9259**

Human Capital

★ Carmen Hernández	**(787) 772-7081** **Mobile: (787) 501-6256**

A. At a Glance

Corporate Income Tax Rate (%)	39 (a)
Capital Gains Tax Rate (%)	25 (b)
Branch Income Tax Rate (%)	39 (a)
Withholding Tax (%)	
Dividends	10
Interest	0 (c)
Royalties	2 to 29
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	7

(a) This is the maximum rate. An alternative minimum tax, which is imposed at a rate of 22%, may apply instead of the regular tax. For details, see Section B.
(b) A 12.5% rate applies to long-term capital gains derived from the sale of property located in Puerto Rico, as defined by law. For details, see Section B.
(c) A 29% withholding tax is imposed on interest paid to foreign corporations on related-party loans.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies organized in Puerto Rico are subject to Puerto Rican tax on worldwide income. Foreign companies engaged in trade or business in Puerto Rico are taxable on income earned in Puerto Rico or effectively connected with the Puerto Rican operation. Partnerships are taxed in basically the same manner as corporations. However, special partnerships, which engage only in specified activities, are not taxed at the partnership level.

Rates of Corporate Income Tax. The corporate income tax rates range from 20% to 39%. The combined tax is approximately $96,750 on the first $300,000 and 39% on the excess.

Certain companies currently doing business in Puerto Rico are operating under the benefits of industrial tax exemption under various industrial incentives acts enacted by the government in 1963, 1978, 1987 and 1998. Under these acts, the period of tax exemption (10 to 25 years) is determined based on the degree of industrialization of the area or zone where the business is located. Under the 1963, 1978 and 1987 acts, businesses qualifying for industrial tax exemption are exempt from income taxes and property taxes at a rate of 90% and from municipal license taxes at a rate of 60% during the entire period of tax exemption. In addition, these corporations are not subject to alternative minimum tax (see *Alternative Minimum Tax* below) on their industrial development income (IDI), and they benefit from favorable withholding tax rates on profit remittances. Activities qualifying for exemption under the various tax incentives acts include manufacturing, tourism, agriculture and export of services.

The Puerto Rico Tax Incentives Act of 1998 (the 1998 Act) applies to the following:

- Eligible businesses engaged in the manufacturing or production of articles in Puerto Rico;
- Entities that intend to perform on a commercial scale in Puerto Rico services destined for foreign markets; and
- Entities engaged in the development and operation of ports and transshipment facilities, including supporting service businesses.

The 1998 Act provides for a flat tax rate ranging from 2% to 7% on IDI derived by companies that obtain exemption grants. For companies with pioneer status, the tax rate can be as low as 0%. In addition, the 1998 Act provides a 100% tax exemption for IDI derived from certain municipalities with high unemployment. It eliminates the tollgate tax on the repatriation of income. The 1998 Act provides that the rate of the withholding tax on royalties ranges from 2% to 10%. It grants certain special deductions and credits for the following: production payroll; expenses for training and development of personnel; research and development; net operating losses; investment in buildings, structures, machinery and equipment; and purchases of locally manufactured products.

Other Puerto Rican legislation grants tax exemptions to enterprises engaged in specified economic activities. For example, under the Puerto Rico Tourist Development Act of 1993, as amended, qualified tourist activities may enjoy exemption from income tax (90% to 100%), municipal license tax (90% to 100%), excise tax (100%) and real and personal property taxes (90%). In addition, under the Agricultural Tax Incentives Act of 1995, as amended, bona fide farmers may enjoy exemption from income tax (90%), municipal license tax (100%), excise tax (100%) and real and personal property taxes (100%).

Alternative Minimum Tax. The alternative minimum tax (AMT) is designed to prevent corporations with substantial economic income from using preferential deductions, exclusions and credits to substantially reduce or eliminate their tax liability. The rate of AMT is 22% and applies to the extent the AMT exceeds the regular tax liability.

Alternative minimum taxable income is determined by adding back certain tax preferential deductions to the taxable income computed for regular income tax purposes. In addition, 50% of adjusted financial statement income in excess of adjusted taxable income is included in determining the amount subject to tax.

Any AMT paid may be recovered in subsequent years as a credit to the regular tax when the regular tax is in excess of that year's AMT.

Capital Gains. Long-term capital gains for investment and other business assets held over six months are taxed at a maximum rate of 25%. Long-term capital gains derived from the sale of property located in Puerto Rico are taxed at a rate of 12.5%. For purposes of the reduced rate, property located in Puerto Rico includes only the following capital assets:
- Real property located in Puerto Rico;
- Shares of stock and participations in corporations and partnerships organized in Puerto Rico;
- Bonds, notes and other obligations issued by individuals who are residents of Puerto Rico and by corporations and partnerships that are organized in Puerto Rico;
- Bonds, notes and other obligations issued by the government of Puerto Rico and its instrumentalities, and by public authorities and corporations of Puerto Rico and its municipalities;
- Bonds, notes or other obligations guaranteed by real property located in Puerto Rico; and
- Shares of stock and participations in partnerships, as well as bonds, notes or other obligations, issued by foreign corporations or partnerships that derived 80% or more of their income from Puerto Rico sources during the three-year period ending with the tax year before the tax year of the sale.

Business assets that are not part of inventory are generally accorded capital gain treatment in the case of a gain and ordinary loss treatment in the case of a loss.

Capital losses can be carried forward for five years to offset capital gains.

Administration. Corporate tax returns are due on the fifteenth day of the fourth month after the close of the taxable year. Extensions are available for up to 90 days; the tax, however, must be fully paid by the original due date. U.S. corporations that have elected the benefits of U.S. Internal Revenue Code Section 936 (Puerto Rico and Possession Tax Credit) may request a six-month extension to file their income tax returns. Estimated tax payments, generally totaling 90% of the final liability or 100% of the preceding year's tax, are required on a quarterly basis.

Dividends. Corporations engaged in a trade or business in Puerto Rico may deduct 85% of the dividends they receive from domestic (Puerto Rican) corporations, subject to limitations. Dividends received by domestic corporations or partnerships from controlled domestic corporations or partnerships are 100%-deductible.

Dividends paid to nonresident corporations are subject to a 10% withholding tax.

Foreign Tax Relief. A tax credit is allowed for foreign taxes incurred, but is limited to the equivalent Puerto Rican tax on the foreign-source portion of taxable income. A foreign tax credit is also allowable under the AMT system.

C. Determination of Trading Income

General. Income for tax purposes is computed in accordance with generally accepted accounting principles, as adjusted for certain statutory provisions. Consequently, taxable income frequently does not equal income for financial reporting purposes.

Interest income derived from certain instruments issued by the governments of the United States or Puerto Rico is exempt from tax. Expenses related to the generation of this type of income are not deductible.

For expenses to be deductible, they must be incurred wholly and exclusively for the production of income. Statutory provisions limit the amounts of certain deductible expenses. Only 50% of travel and entertainment expenses is deductible. Deductions for charitable contributions may not exceed 5% of taxable income before deduction of charitable contributions.

Inventories. Inventory is valued for tax purposes at either cost or the lower of cost or market value. In determining the cost of goods sold, the two most commonly used methods are first-in, first-out (FIFO) and last-in, first-out (LIFO). The method chosen must be applied consistently, except that an election to change from FIFO to LIFO may be made without prior permission.

Tax Depreciation. A depreciation deduction is available for most property (except land) used in a trade or business. The time period over which an asset is depreciated generally depends on its useful life. The following three depreciation methods are allowed in Puerto Rico: straight-line; a method similar to the U.S. ACRS method; and flexible depreciation. Deductions for ACRS depreciation are allowed only for assets acquired in tax years beginning on or after 1 July 1995. Deductions for flexible depreciation are allowed only for assets acquired in tax years beginning before 1 July 1995. The flexible method is limited to the following types of businesses: construction; agriculture; selling or leasing of buildings; manufacturing; tourism; and shipping. Businesses enjoying tax exemption (see Section B) may not use the flexible depreciation method. The amount of the flexible depreciation deduction is limited to a percentage of taxable income.

In general, the maximum depreciable cost for an automobile is $25,000, which may be depreciated over a useful life of three to five years.

Depreciation computed under the straight-line depreciation method is not recaptured on the sale of an asset, but depreciation computed under the flexible depreciation and ACRS methods is subject to recapture.

Groups of Companies. Affiliated corporations doing business in Puerto Rico may not elect to file a single income tax return on a consolidated basis.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Payroll taxes	
Federal unemployment insurance (FUTA), imposed on first $7,000 of wages (a credit of 5.4% is given for Puerto Rican unemployment tax; the overall rate can be less than 6.2%)	6.2
Workmen's compensation insurance, varies depending on nature of employee's activities	Various
Social security contributions; subject to the same limitations as in the United States; imposed on	
Wages up to $87,900; paid by	
Employer	7.65
Employee	7.65
Wages in excess of $87,900; paid by	
Employer	1.45
Employee	1.45
Municipal license tax, on gross sales volume (if volume exceeds $1 million, a financial statement audited by a certified public accountant licensed in Puerto Rico must accompany the business volume declaration); rate varies by municipality; payable by	
Financial institutions	1 to 1.5
Other businesses	0.27 to 0.50
Property taxes (if volume exceeds $1 million, a financial statement audited by a Puerto Rican certified public accountant must accompany the return); rate varies by municipality	
Personal property	4.33 to 6.83
Real property	6.33 to 8.83

E. Miscellaneous Matters

Audited Financial Statements. Entities engaged in a trade or business in Puerto Rico that have a volume of business in excess of $1 million ($500,000 for special partnerships; see Section B) are required to submit, with their income, property and volume of business declaration tax returns, audited financial statements certified by a CPA licensed to practice in Puerto Rico. In addition, an audited balance sheet with relevant footnotes is required to be attached to the annual report filed with the Secretary of State in the case of a Puerto Rican corporation with a volume of business in excess of $1 million.

The $1 million level referred to above is not extended to the annual report required to be filed with the Secretary of State by non-Puerto Rican corporations. Consequently, an audited balance sheet with relevant footnotes, certified by a CPA licensed to practice in Puerto Rico, is required to accompany the annual report filed with the Secretary of State by a non-Puerto Rican corporation, regardless of the non-Puerto Rican corporation's volume of business.

If foreign corporations do not keep available books of account and supporting documents in Puerto Rico, all of their tax deductions may be denied. The use of audited financial statements showing separate Puerto Rican operations or subsidiaries in a supplementary section does not satisfy this requirement. A foreign corporation is deemed to be in compliance with this requirement if it can physically produce its books and records in Puerto Rico within 30 days. An extension of 15 days may be granted.

Foreign-Exchange Controls. Puerto Rico does not impose foreign-exchange controls, but large currency transfers must be reported to the U.S. Treasury Department.

Debt-to-Equity Rules. Puerto Rican law does not include any specific thin-capitalization provisions, but U.S. provisions in this area may be persuasive.

Transfer Pricing. Under the income tax law, the tax authorities may redistribute or reallocate income, deductions, credits and other items between related taxpayers to prevent tax evasion. The law does not prescribe transfer-pricing methods. However, regulations identify methods that may be used by the Secretary of Treasury to determine the actual net income derived from sales of tangible property between related taxpayers. In addition, these regulations provide guidance on other types of transactions between related taxpayers, such as intercompany loans, rendering of services and transfers of intangible property.

Possessions corporations, described in Section 936 of the U.S. Internal Revenue Code, may use transfer-pricing methods allowed under U.S. law.

F. Tax Treaties

Puerto Rico does not participate in U.S. income tax treaties and has not entered into any treaties with other countries.

QATAR

(Country Code 974)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@qa.ey.com

DOHA **GMT +3**

Ernst & Young **441-4599**
Mail Address: **Fax: 441-4649**
P.O. Box 164
Doha
Qatar

Street Address:
10th Floor
Al-Abdulghani Tower
Airport Road
Doha
Qatar

Corporate Tax

Alan Jones	**441-4599** **Mobile: 584-7972**
Akram Mekhael	**441-4599** **Mobile: 555-4692**
Finbarr Sexton	**441-4599** **Mobile: 536-4961**

A. At a Glance

Corporate Income Tax Rate (%)	35*
Capital Gains Tax Rate (%)	35*
Branch Tax Rate (%)	35*
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

* This is the maximum rate (see Section B).

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Foreign companies, including partnerships and joint ventures, carrying on business activities in Qatar are subject to tax. Tax is imposed on a foreign entity operating in Qatar, regardless of whether it operates through a branch or in a joint venture with a locally registered company. For a company with Qatari and foreign shareholders, tax is assessed on the total profits of the company. The resulting tax liability is apportioned between the foreign and Qatari shareholders. The foreign shareholders must pay their share of the tax liability to the tax authorities, but the Qatari shareholders are exempt from tax. Citizens of other Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Saudi Arabia and United Arab Emirates) are treated as Qatari citizens for the purposes of the tax law. Consequently, foreign companies wholly owned by Qataris and other GCC nationals are exempt from tax.

Rates of Corporate Income Tax. Income is subject to tax at the following progressive rates.

Taxable Income		
Exceeding (QR)	**Not Exceeding (QR)**	**Rate (%)**
0	100,000	0
100,000	500,000	10
500,000	1,000,000	15
1,000,000	1,500,000	20
1,500,000	2,500,000	25
2,500,000	5,000,000	30
5,000,000	–	35

Tax exemptions may be granted for certain projects, regardless of whether they are performed by Qataris or foreigners. A committee evaluates applications for tax exemptions. It considers the following factors in reviewing the applications:

- Whether the project provides social or economic benefits to Qatar;
- Whether the project falls within the planned development and economic objectives of the government and has the approval of the appropriate government department;
- Whether the project contributes to the national economy;

- Whether the project uses modern technology; and
- Whether the project creates employment opportunities for citizens.

The principal contractor involved in an exempt project applies for exemption from tax. The exemption normally does not flow through to the subcontractors.

Capital Gains. Capital gains are aggregated with other income and are subject to tax at the regular corporate income tax rates.

Administration. The tax year runs from 1 January to 31 December, and a taxpayer must use this accounting period unless approval is obtained for some other year-end. Approval to use an alternative accounting period is granted in exceptional cases only.

Tax declarations must be filed within four months after the end of the accounting period. The due date may be extended at the discretion of the tax administration, but the length of the extension may not exceed eight months.

The tax declaration must be certified by an accountant in practice in Qatar who is registered with the Ministry of Finance. If this requirement is not satisfied, the tax administration rejects the tax declaration. The tax declaration and supporting audited financial statements must be denominated in Qatari riyals.

Tax is payable on the due date for filing the tax declaration. The due date for payment of taxes may be extended if the filing date is extended and if the taxpayer provides reasons acceptable to the tax administration. Alternatively, the tax administration may allow taxes to be paid in installments during the extension period. Tax is payable in Qatari riyals.

Penalties for late filing or late payment of taxes are levied at the rate of QR 10,000 a month or 2% of tax due, whichever is greater.

The tax administration may issue tax assessments based on deemed profit in certain circumstances (see Section C). The tax law provides for a structured appeals process against such tax assessments. The appeals procedure consists of three stages — correspondence and negotiations with the tax administration; formal appeal to an Appeal Committee; and the commencement of a case in the judicial courts. In practice, virtually all assessments are agreed to at the correspondence and negotiation stage.

The tax administration may inspect a taxpayer's books and records, which should be maintained in Qatar. The books and records are not required to be maintained in Arabic. The accounting books and records must be maintained for at least five years from the date the annual tax declaration is filed with the tax administration.

Dividends. Dividends are not taxed. Tax is assessed on the share of profits allocable to foreign shareholders according to the financial statements of a company, as adjusted for tax purposes.

Foreign Tax Relief. Foreign tax relief is available under the tax treaties with the countries listed in Section E.

C. Determination of Trading Income

General. The following are some of the items included in taxable income:

- Profits derived from any project performed in Qatar;
- Commissions paid for activities as an agent in Qatar, regardless of whether the commission is paid in or outside Qatar;
- Fees paid for consultancy and related services performed in Qatar;
- Proceeds from the sale or license of concessions, trademarks, designs, know-how or copyrights;
- Rent for property located in Qatar; and
- Amounts received for debts that were previously written off.

Normal business expenses are allowable and must be determined under the accrual method of accounting. Agency fees paid to a Qatari agent are deductible if they are supported by a valid agreement and if they do not exceed 5% of the reported contract revenue for the year. Branches are limited in the deduction of head office expenses (see *Head Office Overhead* below).

The tax administration may issue an assessment based on deemed profit if one of the following applies:
- The tax administration determines that the declaration submitted by the taxpayer is not correct;
- The taxpayer fails to submit a declaration;
- The taxpayer does not maintain proper books and records; or
- The taxpayer does not provide information requested by the tax administration.

Inventories. Inventories may be valued using any internationally accepted method normally applied in the relevant industry.

Provisions. General provisions, such as bad debts and stock obsolescence, are not allowed. Specific bad debts that are written off are deductible to the extent they satisfy conditions set by the tax administration. Deductions by banks for loan loss provisions are the subject of periodic instructions from the Central Bank of Qatar.

Head Office Overhead. Charges of a general or administrative nature imposed by a head office on its Qatar branch are allowed as deductions, provided they do not exceed 3% of turnover less subcontract costs. For banks, the limit is 1%. If a project derives income from both Qatari and foreign sources, the limit is 3% of the total revenues of the project, less subcontract costs, revenues from the supply of machinery and equipment overseas, revenues derived from services performed overseas and other income not related to activities in Qatar.

Tax Depreciation. Depreciation is calculated using the straight-line method. The following are the annual rates of depreciation allowed by the income tax department.

Asset	Rate (%)
Buildings such as offices, houses, warehouses, hospitals and clubs	5
Roads and bridges inside a project	5
Storage tanks, pipelines and related facilities	5
Furniture and office fittings	15
Plant, machinery and mechanical devices for which no depreciation rate is specified	15
Automobiles and motorcycles	20
Lorries	20
Ships	7.5

Asset	Rate (%)
Airplanes	25
Drilling instruments	15
General service machinery (including fixed tooling and workshop machinery)	15
Buildings and roads of service stations	5
Machinery for servicing and lubricating service machinery	15
Trailers and carts	15
Refinery machines, pipelines inside a refinery and small tanks	10
Air conditioners	20
Electrical equipment	20
Computer equipment	33.33

Purchased intangible assets may be depreciated using the straight-line method over the estimated duration of the company.

Relief for Losses. Losses may be carried forward for up to three years. Carryback of losses is not allowed.

Groups of Companies. There are no tax regulations covering groups of companies; however, in practice, the tax authorities require a taxpayer to aggregate income from all Qatari sources.

D. Miscellaneous Matters

Foreign-Exchange Controls. Qatar does not impose foreign-exchange controls. Equity capital, loan capital, interest, dividends, branch profits, royalties and management fees are freely remittable.

Transfer Pricing. The tax regulations do not include provisions relating to transfer pricing. In practice, international market prices are considered the appropriate standard for transactions between related parties. The tax administration may require a taxpayer to justify charges between related parties that differ from prices determined at arm's length.

Supply and Installation Contracts. Profits from "supply only" operations in Qatar are exempt from tax because the supplier trades "with" but not "in" Qatar. The tax administration requires that a taxpayer engaged in both supply and installation contracts must report and account for income derived from both types of activities in the annual tax declaration. The supply value of the imported materials may be deducted from the total revenues reported in the tax declaration. The amount of this deduction must be supported by customs documents.

Withholding of Final Payments. All ministries, government departments, and public and semipublic establishments are required to withhold final payments due to foreign entities until such entities present a tax clearance from the tax administration. In addition, the following rules must be followed:

- Establishments, authorities and companies carrying on a trade or business in Qatar are required to give the tax administration details of the companies with which they are doing business as contractors, subcontractors or in any other form. Information to be provided includes the name and address of the company together with the value of the contract.

- The final payment due to the contractor or subcontractor must be withheld until the contractor or subcontractor presents a certificate from the tax administration confirming that all tax liabilities have been settled.
- The final payment withheld by the principal contractor pending receipt of a tax clearance certificate must be at least 5% of the contract value. Payments withheld from taxpayers engaged in long-term activities may be released based on the annual assessment notice (Form No. 5) issued by the tax department.
- The principal contractor must submit the tax clearance certificates furnished by subcontractors as support for its final tax declaration. The tax law does not specify the consequences for a failure to submit certificates. However, the tax administration has implied in directives that it will disallow subcontractor costs that are unsupported by the appropriate certificates.

E. Tax Treaties

Qatar has entered into double tax treaties with France, India, Pakistan and the Russian Federation. Qatar has initialed double tax treaties with Algeria, Armenia, Belgium, China, Cyprus, Egypt, Italy, Senegal, Tunisia, Turkey and the United Kingdom, but these treaties have not yet been ratified.

RÉUNION

(Country Code 262)

When dialing from France, the number "262" needs to be dialed only once.

SAINT-DENIS — **GMT +4**

EXA Ernst & Young
Société de Commissaires aux Comptes
4, rue Monseigneur Mondon
B.P. 830
97476 Saint-Denis Cedex
Réunion

(262) 30-41-00
Fax: (262) 30-27-96
E-mail: audit@exa-ey.fr

Corporate Tax
Norbert Tresfels — **(262) 30-82-44**

Réunion is a department of France, and its tax system is generally the same as France, with a few differences.

ROMANIA

(Country Code 40)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ro.ey.com

The e-mail address varying from the standard format is listed below the respective person's name.

BUCHAREST **GMT +2**

Ernst & Young S.R.L.
Str. Dr. Staicovici nr. 75
Cod 76202
Sector 5
Bucharest
Romania

(21) 402-4000, 402-4100
Fax: (21) 410-7052, 410-6987
E-mail: office@ro.ey.com

Corporate Tax

Venkatesh Srinivasan	**(21) 402-4000**
Anca Ionescu	**(21) 402-4000**
Alexander Milcev	**(21) 402-4000**

Legal Services

★ Charles Vernon	**(21) 402-4100** **E-mail: charles.vernon001@ro.ey.com**

At the time of writing, the new Romanian Fiscal Code was expected to take effect on 1 January 2004, replacing the existing corporate tax law. Because the new code may introduce changes to the tax rules described in this chapter, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (b)	
Dividends	5/10 (c)
Interest	10 (d)(e)
Royalties from Patents, Know-how, etc.	15 (d)
Income from Artistic, Literary or Scientific Works	20 (d)
Trade Commissions	15 (d)
Services	15 (d)
Commissions	15 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) See Section B.
(b) These withholding taxes are final withholding taxes.
(c) The 5% rate applies to resident and nonresident individuals; the 10% rate applies to resident and nonresident companies.
(d) This tax applies only to nonresidents without a permanent establishment in Romania.
(e) The following types of interest are not subject to withholding tax: interest related to loans granted to the Romanian government, the Romanian National Bank or banking institutions authorized to act on behalf of the Romanian state; and interest paid with respect to the issuance of treasury bonds.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. A company is resident in Romania if it is incorporated there. The location of effective management and control is not relevant to the establishment of Romanian residence.

Associations or consortia between Romanian legal entities, which are not considered legal persons in Romania, are taxable in Romania separately at the level of each participant. For such associations between Romanian legal entities and individuals or foreign entities, the tax is calculated and paid by the Romanian legal entities on behalf of the partners.

Nonresident companies are subject to tax on their Romanian-source income only, including capital gains derived from specified transactions (see *Capital Gains* below).

Rates of Corporate Income Tax. The standard rate of income tax for Romanian companies is 25%, regardless of whether the companies have foreign participation. Income derived by companies from nightbars, nightclubs, discos and casinos is normally taxable at a rate of 25%, but the amount of the tax payable may not be less than 5% of the gross income derived from such activities. If the profits tax payable in accordance with the 25% rate is below the threshold, the company must calculate the profits tax by applying a 5% rate to the gross income.

Nonresident companies are taxed in Romania at the standard rate of 25% on earnings derived from their operations in Romania through branches, other permanent establishments or consortia entered into with Romanian partners. A foreign company is considered to have a permanent establishment in Romania, without a legal presence there, if it has any of the following in Romania: an office; a branch; an agency; a factory; a mine; a place of extraction for gas or oil; or a building site that exists for a period exceeding 12 months. Foreign companies are also taxable in Romania at the standard profits tax rate on profits derived in Romania from real estate located in Romania, the exploitation of natural resources or certain capital gains (see *Capital Gains* below).

Representative offices are taxed at a rate of 38% on commissions, reduced by deductible expenses. However, the law provides for minimum levels of taxable income, based on the number of individuals employed by the representative office. The minimum amounts are updated annually for inflation. The following are the current minimum amounts.

Number of Employees* From	To	Minimum Annual Taxable Income Lei
0	2	162,830,000
3	5	509,380,000
6	8	997,950,000
9	–	2,025,725,000

* Secretaries, drivers and service personnel are not taken into consideration.

Tax Incentives. Romania offers various tax incentives, which are summarized below.

Profits Tax Law. The profits tax law contains measures allowing companies to claim accelerated depreciation or a 20% investment deduction (see Section C).

Value-Added Tax Law. Under the value-added tax (VAT) law, the payment of VAT is suspended at customs for up to 120 days for imports of industrial equipment and other fixed assets that are used with respect to new investments. VAT is also suspended at customs for up to 60 days for imports of raw materials that are scarce or not available in Romania if they are used with respect to new investments in Romania.

Small and Medium-Sized Enterprises. Several incentives are available to small and medium-sized enterprises (SMEs).

SMEs benefit from a deferral of VAT for domestic supplies and imports of industrial machines, means of transport for productive activities, technological assets, installations, equipment, measurement and control devices, automations, hardware and software products, if the assets were manufactured within one year before the date of acquisition or importation and were never previously used. VAT is generally deferred until the 25th day of the month following the month the investment begins functioning. However, the deferral period may not extend beyond 12 months from the date of the beginning of the investment.

SMEs also benefit from the exemptions from customs duties on the following items:
- Imports of machinery, industrial equipment and know-how that are acquired for operational and developmental purposes and are financed with the company's own funds and banks' credits; and
- Raw materials imported for production of goods that are exempt from the payment of import customs duty (the list of exempt products is issued by the government on an annual basis).

An SME is defined as a company with no more than 249 employees. To qualify for the incentives, an SME must satisfy the following conditions:
- Annual turnover of less than □8 million;
- 100% private capital (that is, no state ownership); and
- None of its shareholders holding more than 25% of the SME's share capital has more than 250 employees.

Banking companies, insurance companies, companies managing investment funds and securities trading companies may not qualify as SMEs.

Companies in Disfavored Economic Zones. Companies engaged in activities in disfavored economic zones (DEZs), which are designated by the government, benefit from several tax incentives.

Companies in DEZs benefit from the deferral of VAT on domestic supplies and imports of industrial machines, means of transport for productive activities, technological assets, installations, equipment, measurement and control devices, hardware and software products, if the assets were manufactured within one year before the date of acquisition and have not been previously used. The deferral extends for 12 months from the date of the beginning of the investment. Companies in DEZs are exempt from customs duties on imported raw materials and other components used in the production process, except for raw materials and components used in the production, processing and conservation of meat. They are also exempt from taxes arising from the removal of land used for purposes of the investment from agricultural usage.

Administrator Companies in Industrial Parks. Companies administering the industrial parks (administrator companies) may defer the payment of VAT on the acquisition of materials and equipment necessary to set up a system of utilities in an industrial park, as well to connect the park's system of utilities with existing public utilities. The suppliers of such goods may not deduct the output VAT until the output VAT is paid to the state budget.

Other incentives, including tax reductions, may also be granted.

Petroleum Companies. Companies engaged in petroleum operations may benefit from the following incentives:

- A deductible provision equal to 10% of the annual exploitation profit derived by title holders of oil and gas licenses relating to seaside areas with water deeper than 100 meters;
- Exemption from VAT on the supply of machinery and equipment and the performance of services related exclusively to the petroleum operations engaged in by nonresident entities that are title holders of oil and gas licenses;
- Exemption from import duties on assets required for petroleum activities engaged in by titleholders or their contractors;
- Exemption from import duties on household and personal goods required by the expatriate personnel of the title holder, its affiliated companies and foreign subcontractors (the exempted goods are designated in the annexes to the license); and
- Exemption from duties on exports of the title holder's share of petroleum and of goods described in the preceding bullet.

Free-Trade Zones. The following tax benefits are available to companies performing activities in free-trade zones:

- A 5% profits tax rate for the taxable income derived in free-trade zones by taxpayers performing activities in the zones on a license basis. This incentive applies until 31 December 2004.
- Profits tax exemption applicable until 30 June 2007 for companies operating in free-trade zones that, as of 1 July 2002, made investments in depreciable tangible assets used in the processing industry of at least US$1 million. This tax exemption ceases to apply if the shareholding structure of the taxpayer changes. For listed companies, such change occurs if, during one calendar year, more than 25% of the shareholding structure changes.
- Exemption from custom duties for foreign goods imported into the free-trade zones that are intended to be exported in the same condition.
- Exemption from the requirement of guaranteeing custom duties for raw materials and components imported into the free-trade zones for further processing or transformation and for export of the finished products.

Investments Having a Significant Impact on the Economy. Companies performing investments that are deemed to have a significant impact on the economy benefit from certain tax incentives. To qualify for the incentives, the following conditions must be satisfied:

- The amount of the investment must exceed US$1 million.
- The investment must contribute to the development and modernization of infrastructure, produce a positive effect for the economy and create new jobs.
- The investment must be a cash investment (in-kind investments do not qualify).
- An enterprise that benefits from the incentives may not be concurrently benefiting from any other tax incentives, including special tax incentives directly negotiated with the Romanian government.
- An enterprise that benefits from the incentives may not be liquidated within 10 years of a date on which it benefited from the provisions of the law. Enterprises liquidated within this time period are subject to repayment of the tax saved under the law and backdated penalties.

- An enterprise that benefits from the incentives may not alienate (as defined) goods acquired under the regime within two years of the earlier of the date on which the goods were introduced into Romania or the date of their purchase. Enterprises alienating the goods within this time period are subject to repayment of the tax saved under the law and backdated penalties.

Until 1 January 2005, companies engaged in investments that are deemed to have a significant impact on the economy benefit from a 20% deduction for investments in depreciable fixed assets and patents that are used in authorized activities and an accelerated depreciation regime for these assets. Effective from 1 January 2005, such companies may claim either the 20% deduction or accelerated depreciation, as provided in the normal profits tax rules (see Section C).

Companies engaged in qualifying investments benefit from a deferral of VAT on domestic supplies and imports of industrial machines, means of transport for productive activities, technological assets, installations, equipment, measurement and control devices, automations and software products, if the assets were manufactured within one year before the date of acquisition or importation and were never previously used. The incentive generally extends until the 25th day of the month following the commissioning of the investment. However, the deferral period may not exceed 30 months from the date of registration for statistical purposes with the Ministry of Development and Prognosis.

Such companies are also exempt from customs duties on imports of certain technological equipment, installations, measuring and control devices, automation and software products, if the assets satisfy the following conditions:
- They are necessary for the accomplishment of the incentive;
- They appear on a list approved by a Joint Order of the Minister of Development and Prognosis and of the Minister of Public Finance; and
- The items were manufactured within one year before the date of importation and have not been previously been used.

Capital Gains. Resident companies are not subject to a separate capital gains tax. Romanian companies include capital gains in taxable income and pay profits tax on the gains at the normal rate.

Nonresident companies are subject to profits tax at the normal rate of 25% on capital gains on capital derived from specified transactions, including sales of the following: Romanian real estate; shares in Romanian companies; shares in foreign companies whose assets primarily comprise Romanian real estate; and rights to natural resources located in Romania.

Administration. In general, the tax year is the calendar year.

Under the profits tax law, companies must file tax returns and pay profits tax quarterly (except for banks which pay monthly) by the 25th of the first month of the following quarter. The annual tax return is filed when the annual balance sheet is submitted. Companies must submit financial statements to the tax authorities within 90 days after the end of the financial year if they apply the Romanian Accounting Standards (RAS) or within 120 days after the end of the financial year if they apply both RAS and International Accounting Standards.

Companies ceasing to exist must submit a final tax return and pay the profit tax within 10 days before the registration of the cessation of their existence with the Trade Registry.

The failure to file tax returns by the deadline may result in the following fines:

- 10% of the tax due, if the tax return is filed within 30 days after the deadline;
- 30% of the tax due, if the tax return is filed between the 30th and 60th day after the deadline;
- 50% of the tax due, if the tax return is filed more than 60 days after the deadline, with a maximum penalty of Lei 50 million for legal entities; and
- Lei 500,000 for companies that have filing obligations, but no tax liability, for the relevant period.

Companies are liable for the payment of the fines for late filing of returns even if they pay the tax due.

Effective from 1 January 2003, late payment interest at a rate of 0.06% per day of delay is imposed for the failure to pay the tax due by the deadline. In addition, a penalty of 0.5% per month is also imposed on unpaid taxes.

In addition to the imposition of interest described above, delays in payment of certain taxes withheld (for example, income tax, social contributions and withholding tax) are subject to a fine of 10% on the unpaid tax if payment is delayed by more than 30 days after the deadline.

Dividends. Dividends received by a Romanian company from another Romanian company are subject to a 10% withholding tax and are not included in the taxable income of the recipient. Dividends paid by a Romanian company to individuals are subject to a 5% withholding tax.

Foreign Tax Relief. Foreign taxes may be credited against Romanian taxes.

C. Determination of Trading Income

General. In general, all income that is booked as revenue is included in taxable income. However, the following items are not taxable:

- Dividends received by a Romanian company from another Romanian company;
- Increases in the value of shares held in other companies, resulting from an increase of capital in those companies through the incorporation of reserves, premiums, profits and similar items; and
- Revenues from the reversal of expenses and provisions that were previously considered to be nondeductible.

In general, only expenses related to the earning of taxable income are deductible for tax purposes. However, the following items are deductible within specified limits:

- Sponsorship expenses, up to 5% of the adjusted accounting profit before tax.
- Protocol and entertainment expenses (for example, gifts to clients and business lunches), up to 2% of the adjusted annual accounting profit before tax.

• Employee-related expenses, up to 1.5% of the total salary cost (the limit is set annually through the Budget Law).
• Contribution to the legal reserve fund, generally up to 5% of the annual accounting profit before tax, until the reserve fund reaches 20% of capital. Special measures apply to insurance companies and banks.
• For permanent establishments, research and development expenses and management and administration expenses, up to 10% of the taxable salaries related to the permanent establishment, if the respective expenses were not accrued in Romania. The 10% limitation applies to the total of such expenses.
• Perishable goods, which are deductible within the limits set by the government.
• Expenses incurred with the daily allowance (amounts granted to employees traveling for business purposes for meals and other expenses) over 2.5 times the legal limits established for state institutions (for example, ministries).
• Provisions (see *Provisions* below).
• Interest on debt exceeding the prescribed debt-to-equity ratio (see Section E).

The following expenses are not deductible for tax purposes:
• Service expenses, including management and consultancy expenses, which cannot be substantiated by written contracts and documents proving the performance of the services.
• Losses in the value of shares held in other companies that result from the reduction of capital in those companies, except for losses realized through sales of such shares.
• Expenses relating to insurance, other than insurance relating to risks of work-related accidents and insurance that does not relate to assets owned by the company.
• Interest on loans granted by entities, other than authorized credit institutions, exceeding the following (also see the debt-to-equity rules discussed in Section E):
  — For loans denominated in lei, the level of the reference interest rate published by the National Bank of Romania (NBR) for the last month of the quarter.
  — For loans denominated in foreign currencies, an annual interest rate of 9% (2.25% per quarter) for the year 2003. The government periodically updates this interest rate.
• Penalties and fines paid to Romanian or foreign authorities, as well as commercial penalties paid to nonresidents, except for those that are treated as interest by double tax treaties.
• Losses from the reduction in the value of inventory and uninsured assets, as well as the related VAT.
• VAT related to certain nondeductible expenses.
• Romanian and foreign profits tax (however, a tax credit is allowed for taxes paid in other countries).
• Expenses incurred for the benefit of shareholders or associates, other than payments for goods and services at market value.
• Salary expenses that are not taxed at the level of the individual, unless the law provides otherwise.
• Amounts paid to a participant in a consortium in excess of the agreed profit-sharing ratio.
• Expenses related to nontaxable income.

Inventories. Under Romanian law, inventories of raw materials and merchandise are valued at historical cost, while inventories of finished goods and work-in-progress are valued at production cost. The cost is calculated using the first-in, first-out (FIFO), weighted-average or last-in, first-out (LIFO) methods.

Provisions. Under Romanian law, the following provisions are deductible for profits tax purposes:
- Bad debt provisions, if a court decision declares the bankruptcy of the debtor;
- Quarterly provisions for performance guarantees that are established for goods supplied and services performed, up to the limits provided in commercial contracts, but not exceeding the expenses incurred with respect to such performance guarantees in the preceding tax year; and
- Mandatory credit risk provisions, if established by banks in accordance with NBR norms.

Tax Depreciation. The straight-line, reducing-balance and accelerated methods may be used to calculate depreciation. The depreciation method must be applied consistently. Buildings must be depreciated using the straight-line method. Land may not be depreciated.

For tax depreciation purposes, useful lives are prescribed by law. The following are the useful lives that are generally applicable to major categories of assets.

Asset	Years
Buildings and constructions (for example, roads and fences)	10 to 50
Machinery and equipment	4 to 10
Furniture and fittings	5 to 10
Motor vehicles	5 to 9

It is possible to increase or decrease the useful life of the assets by up to 20% if this can be justified.

Intangibles are generally depreciated over a period of up to five years. Patents, licenses, know-how, manufacturers' brands, trademarks and service marks, as well as other similar industrial and commercial property rights, are depreciated for the period during which the purchaser intends to use the rights. Goodwill cannot be depreciated, unless a permanent reduction in value is observed, in which case a write-down to the new value is required.

Under the profits tax law, accelerated depreciation may be claimed without obtaining the prior approval of the tax authorities for technological equipment, machineries, tools, installations, computers and peripheral equipment placed in service on or after 1 July 2002. Under the accelerated depreciation method, the assets are depreciated at a 50% rate in the year of purchase, and the balance of the value is deducted using the straight-line method during the remaining useful life of the asset.

Companies may claim a 20% deduction for investments in depreciable fixed assets and patents that are used in authorized activities if they do not elect the accelerated depreciation regime described above and if they use the asset for at least half of the asset's useful life. This deduction also applies to fixed assets that are subject to a financial lease if the lease contains a definitive ownership transfer clause.

Companies performing export activities or operating in free-trade zones (see Section B) may elect at the beginning of the year to benefit from either the applicable reduced profits tax rate or the accelerated depreciation regime described above.

Revaluation of the book value of fixed assets that takes into account the inflation rate and the market value can be made on an annual basis if the cumulative inflation rate over the three preceding years exceeded 100%.

Relief for Losses. Tax losses may be carried forward for five years and are not adjusted for inflation. Losses of entities involved in a split-up or merger may not be carried forward. Losses may not be carried back.

Groups of Companies. Although Romanian law provides financial accounting rules for the consolidation of companies, the tax law treats each group company individually for tax purposes.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax; certain enterprises, products and services are exempt, including banks, financial intermediaries and insurance companies; standard rate	19
Special consumption (excise) taxes, on beverages, cigarettes, coffee and luxury products; taxes are imposed at percentage rates or at a specified amount per unit	2 to 50
Social security contributions; paid by employers on the total salary fund, which is capped at an amount equal to five times the national average salary multiplied by the number of employees	
Social Insurance Fund; rate varies according to work conditions	24.5 to 34.5
Health Fund	7
Unemployment Fund	3.5
Labor Chamber Commission; rate varies according to whether the Labor Chamber or the company maintains the labor books (these rates are subject to change for 2004)	0.25/0.75
National Insurance Fund for Labor Accidents and Professional Diseases	0.5 to 4

E. Miscellaneous Matters

Foreign-Exchange Controls. The Romanian currency is the leu. Romania is in the stage of limited convertibility of its currency. Regulation 3/1997 governs the foreign-exchange regime in Romania.

Payments between Romanian entities must be made in the Romanian currency, with limited exceptions. Payments between residents and nonresidents and payments between nonresidents must be made in hard currency through authorized bank accounts. Romanian legal entities may hold and use hard currency (for example, from exports) deposited with authorized banks.

Romanian legal entities may make payments on current-account transactions from their hard currency accounts without any prior approval. The current-account transactions include, among others, imports of goods and services, payments of dividends and repatriation of profits.

The treatment of the majority of capital account transactions was recently liberalized. The prior approval of the National Bank of Romania (NBR) is required for current-account transactions whose treatment has not been liberalized. The gradual liberalization with respect to capital account transactions will continue until Romania joins the European Union (EU). Certain of the liberalized capital account transactions must be reported for statistical purposes to the NBR. These transactions include, among others, medium- and long-term financial loans and foreign-trade credits, as well as medium- and long-term financing leases granted by nonresidents to Romanian residents. For this purpose, a medium term is a term of one to five years, while a long term is a term exceeding five years. The NBR does not require any notification for overseas investments made by residents.

Romanian and foreign entities may freely buy and sell hard currency on the interbank foreign-exchange market, but specific documentation is usually required.

Debt-to-Equity Rules. If the debt-to-equity ratio of a company exceeds 1:1, interest expenses are deductible up to the amount of interest income plus 10% of the other income of the company. The excess amount of interest is carried forward for future deduction.

Net foreign exchange losses with respect to long-term loans are regarded as interest expenses and, accordingly, are subject to the above deductibility limitation.

F. Treaty Withholding Tax Rates

The following table shows the applicable withholding rates under Romania's bilateral tax treaties.

	Dividends %	Interest %	Royalties %
Albania	10/15 (a)	10	15
Algeria	15	15	15
Armenia	10/15 (a)	10	10
Australia	5/15 (b)	10	15
Austria	15	10 (c)	10
Bangladesh	10/15	10	10
Belarus	10	10	15
Belgium	5/15 (a)	10	5
Bulgaria	10/15 (a)	15	15
Canada	15	15	10/15
China	10	10	7
Costa Rica (d)	5/15 (a)	10	10
Croatia	5	10	10
Cyprus	10	10	0/5 (e)
Czech Republic	10	7	10
Denmark	10/15 (a)	10	10

	Dividends %	Interest %	Royalties %
Ecuador	15	10	10
Egypt	10	15	15
Finland	5	5	2.5/5 (f)
France	10	10	10
Georgia	8	10	5
Germany (g)	10/15 (a)	10	10
Greece	20/45 (h)	10	5/7 (i)
Hungary	5/15 (j)	15	10
India	15/20 (a)	15	22.5
Indonesia	12.5/15 (a)	12.5	12.5/15 (k)
Iran (d)	10	8	10
Ireland	3	0/3 (l)	0/3 (i)
Israel	15	5/10 (m)	10
Italy	10	10	10
Japan	10	10	10/15 (i)
Jordan	15	12.5	15
Kazakhstan	10	10	10
Korea	7/10 (a)	10	7/10 (k)
Kuwait	1	1	20
Latvia	10	10 (z)	10
Lebanon	5	5	5
Lithuania (d)	10	10	10
Luxembourg	5/15 (a)	10 (c)	10
Macedonia	5	10	10
Malaysia	0/10 (o)	0/15 (p)	0/12 (q)
Malta	5/30 (h)	5	5
Mexico	10	15	15
Moldova	10	10	10/15 (l)
Morocco	15	10	10
Namibia	15	15	15
Netherlands	0/5/15 (r)	0/3 (s)	0/3 (s)
Nigeria	12.5	12.5	12.5
North Korea	10	10	10
Norway	10	10	10
Pakistan	10	10	12.5
Philippines	10/15 (a)	10/15 (m)	10/15/25 (t)
Poland	5/15 (a)	10	10
Portugal	10/15 (a)	10	10
Qatar (d)	3	3	5
Russian Federation	15	15	10
Singapore (d)	5	5	5
Slovak Republic	10	10	10/15 (k)
Slovenia (n)	5	5 (z)	5
South Africa	15	15	15
Spain	10/15 (a)	10	10
Sri Lanka	12.5	10	10
Sudan	15	10	10
Sweden	10	10	10
Switzerland	10	10	0 (u)
Syria	0	7.5	10/15 (v)
Thailand	15/20 (a)	10/20/25 (w)	15
Tunisia	12	10	12
Turkey	15	10	10
Ukraine	10/15 (a)	10	10/15 (k)
United Arab Emirates	3	3	0/3 (x)
United Kingdom	10/15 (a)	10	10/15 (i)

	Dividends %	Interest %	Royalties %
United States	10	10	10/15 (i)
Uzbekistan	10	10	10
Vietnam	15	10	15
Yugoslavia (Federal Republic of)	10	10	10
Yugoslavia (former) (y)	5	7.5	10
Zambia	10	10	15
Nontreaty countries	10	10	15

(a) The lower rate applies if the beneficiary of dividends is a company owning at least 25% of the capital of the payer.
(b) The lower rate applies if the beneficiary of dividends is a company owning at least 10% of the capital of the payer.
(c) A 0% rate applies to interest is paid to an Austrian or Luxembourg bank or financial institution.
(d) The Romanian parliament has ratified the treaty, but the treaty is not yet effective.
(e) The 5% rate applies to patents, brands, designs and models, as well as to know-how.
(f) The 2.5% rate applies to royalties relating to computer software or industrial equipment.
(g) The Romanian parliament has ratified a new tax treaty with Germany. Under the new treaty, the following are the withholding tax rates: dividends, 5% and 10%; interest, 0% and 3%; and royalties, 3%.
(h) The lower rate applies to dividends paid by companies resident in Romania.
(i) The lower rate applies to intellectual royalties.
(j) The lower rate applies if the beneficiary of dividends is a company owning at least 40% of the capital of the payer.
(k) The lower rate applies to payments received for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas and processes, or industrial, commercial or scientific equipment, and for information concerning industrial, commercial or scientific experience.
(l) The 0% rate applies to the following types of interest: interest paid in connection with the sale on credit of industrial, commercial or scientific equipment; interest on a loan granted by a bank or other financial institution (including an insurance company); and interest on a loan with a term of greater than two years.
(m) The lower rate applies to interest paid on loans used to purchase machinery and equipment for industrial, commercial or scientific purposes.
(n) This treaty is effective from 1 January 2004.
(o) The 0% rate applies to dividends paid by a company resident in Malaysia to a Romanian resident; the 10% rate applies to dividends paid by a company resident in Romania to a Malaysian resident.
(p) The 0% rate applies to interest paid on long-term loans to Romanian residents.
(q) The 0% rate applies to industrial royalties paid in Malaysia by Romanian residents.
(r) The 0% rate applies if the beneficiary of the dividends is a company owning at least 25% of the capital of the payer. The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer. The 15% rate applies to other dividends.
(s) Romania will not impose withholding tax on interest and royalties paid to Dutch residents as long as Dutch domestic law does not impose withholding tax on these types of payments.
(t) The 10% rate applies to royalties paid by a company that is registered as a foreign investor and is engaged in an activity in a priority economic field. The 15% rate applies to royalties related to film or television production. The 25% rate applies to other royalties.
(u) This withholding tax rate is provided by the protocol to the Switzerland–Romania treaty.
(v) The 10% rate applies to cultural royalties.
(w) The 10% rate applies if the beneficiary of the interest is a financial company, including an insurance company. The 20% rate applies to interest with respect to sales on credit. The 25% rate applies to other interest payments.
(x) The 3% rate applies to royalties for copyrights and artistic rights; other royalties are not subject to withholding tax.
(y) This treaty applies to Bosnia-Herzegovina, Montenegro and Serbia.
(z) A 0% rate applies to interest paid to the government, local authorities and the national bank, as well as to interest paid on loans guaranteed by the government.

RUSSIAN FEDERATION

(Country Code 7)

The e-mail addresses for the persons listed below who are resident in the Russian Federation are in the following standard format:

firstname.surname@ru.ey.com

The e-mail addresses for persons who are not resident in the Russian Federation or who have addresses varying from the standard format are listed below the respective persons' names.

MOSCOW **GMT +3**

Ernst & Young (CIS) Limited
Sadovnicheskaya nab., 77
Building 1 Aurora
115035 Moscow
Russian Federation

(095) 755-9700
Fax: (095) 755-9701

Director of Tax and Legal Services for the Commonwealth of Independent States (CIS) Practice

★ Lisa Gialdini — **(095) 755-9689**, **Mobile: (095) 997-1444**, **E-mail: lisa.a.gialdini@ru.ey.com**

International Tax Services

Evgeny Astakhov	**(095) 938-6887** **Mobile: (095) 790-0137**
Julia Maximovskaya	**(095) 755-9688** **Mobile: (095) 763-2873**
Nicolas Vertes	**(095) 755-9678** **Mobile: (095) 233-0675**

Financial Services

Alexei Kuznetsov	**(095) 755-9687** **Mobile: (095) 102-7712**
Yuri Nechuyatov	**(095) 755-9936** **Mobile: (095) 364-7005**

Energy, Chemical and Utilities

Victor Borodin	**(095) 755-9760** **Mobile: (095) 764-8468**
Richard Lewis	**(095) 705-9704** **Mobile: (095) 991-1381**
Maureen O'Donoghue	**(095) 938-6670** **Mobile: (095) 991-0129** **E-mail: maureen.odonoghue@ru.ey.com**
Vladimir Zheltonogov	**(095) 705-9737** **Mobile: (095) 991-0127**

Retail Consumer and Industrial Products

Tatyana Dermeneva	**(095) 938-6682** **Mobile: (095) 760-2474**
Reece Jenkins	**(095) 705-9736** **Mobile: (095) 728-8481**
Alexandra Lobova	**(095) 705-9730** **Mobile: (095) 790-2139**
Igor Venediktov	**(095) 755-9852** **Mobile: (095) 999-4773**
Maxim Vladimirov	**(095) 755-9676** **Mobile: (095) 773-0235**

Technology, Communications and Entertainment

Vladimir Abramov	**(095) 755-9680** **Mobile: (095) 767-6276**
Alexey Semenov	**(095) 705-9726** **Mobile: (095) 799-1894**

Human Capital

Valentina Balykova	**(095) 705-9746** **Mobile: (095) 799-1915**
Tim Carty	**(095) 755-9753** **Mobile: (095) 102-3885**
Peter Reinhardt	**(095) 705-9738** **Mobile: (095) 790-1754**

Legal Services

Scott Antel	**(095) 755-9679** **Mobile: (095) 769-1927** **E-mail: scott.c.antel@ru.ey.com**
Lisa Gialdini	**(095) 755-9689** **Mobile: (095) 997-1444** **E-mail: lisa.a.gialdini@ru.ey.com**
★ Constantine Lusignan-Rizhinashvili	**(095) 755-9682** **Mobile: (095) 970-4847** **E-mail: constantine.lusignan-rizhinashvili@ru.ey.com**

ST. PETERSBURG **GMT +3**

Ernst & Young (CIS) Limited
Malaya Morskaya Street, 23
St. Petersburg 190000
Russian Federation

(812) 103-7800
Fax: (812) 103-7810

Corporate Tax and Legal Services

◆ Olga Litvinova	**(812) 103-7837** **Mobile: (812) 961-8126** **E-mail: olga.v.litvinova@ru.ey.com**
Yulia Smolina	**(812) 103-7862** **Mobile: (812) 908-8357**
Ruslan Vasutin	**(812) 103-7838** **Mobile: (812) 961-8130**

New chapters continue to be added to the second part of the Tax Code. A new Assets Tax chapter takes effect on 1 January 2004, replacing the Assets Tax Law. Further chapters of the Tax Code are in the process of being developed and enacted and will likely enter into effect on 1 January 2004. Because of the developments mentioned above, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Profits Tax Rate (%)	20/24 (a)
Capital Gains Tax Rate (%)	20/24 (a)
Branch Tax Rate (%)	20/24 (a)
Withholding Tax (%)	
Dividends	6/15 (b)
Interest on Certain Types of State and Municipal Securities	15 (c)
Other Interest	20 (c)
Royalties from Patents, Know-how, etc.	20 (c)
Income from the Operation, Maintenance or Rental of Vessels or Airplanes in International Traffic	10 (d)
Payments of Other Russian-Source Income to Foreign Companies	20 (c)
Branch Remittance Tax	0

Net Operating Losses (Years)	
Carryback	0
Carryforward	10

(a) The basic corporate profits consists of a 5% rate payable to the central government, rates ranging from 13% to 17% payable to the regional governments and 2% payable at the local level. The regional governments set the rates applicable to their respective regions.
(b) The 15% rate applies if either the payer or recipient of the dividends is a foreign legal entity.
(c) This tax applies to payments to foreign legal entities that are not attributable to a permanent establishment in the Russian Federation. The tax is considered final.
(d) This withholding tax applies if the income is not associated with activities carried out in the Russian Federation through a permanent establishment. The tax is considered final.

B. Taxes on Corporate Income and Gains

Corporate Profits Tax. Russian enterprises and foreign legal entities operating through a permanent establishment are subject to tax. The definition of "permanent establishment" is similar to the definition of the same term in the model treaty of the Organization for Economic Cooperation and Development. Russian legal entities are subject to tax on their worldwide income. Russian legal entities are those registered in the Russian Federation. Foreign legal entities are subject to tax on their profits earned through a permanent establishment.

Foreign investment is permitted in various forms, including investment through 100% subsidiaries, share participation in joint stock companies and other types of Russian legal entities, branches and representative offices.

Tax Rates. For both Russian legal entities and foreign legal entities, the basic corporate profits tax rate consists of a 5% rate payable to the central government, rates ranging from 13% to 17% payable to the regional governments and 2% payable at the local level. The regional governments set the rates applicable to their respective regions. As a result, the basic corporate profits tax rate varies from 20% to 24%, depending on the rate set by the regional government.

Capital Gains. Capital gains are included in taxable income and taxed at regular rates. Losses on sales of fixed assets and other property are generally deductible, subject to certain restrictions. The deductibility of losses on sales of securities is limited.

Administration. The tax year is the calendar year. All taxpayers, except foreign legal entities, are required to make advance tax payments monthly. Each payment must equal one-third of the total advance payments for the preceding quarter. Alternatively, taxpayers may make payments by the 28th day of each month based on profits actually earned in the preceding month. Foreign legal entities must make quarterly tax payments. The final return for the year and the tax liability are based on actual results. Taxpayers' final returns are due on 28 March following the end of the tax year. Significant penalties are imposed for failure to file returns by this deadline, which cannot be extended.

Taxpayers may apply to have excess payments of tax offset against future tax liabilities or refunded by the tax authorities. In principle, offsets are performed within five days and refunds are granted within one month after the written application is received by the tax authorities. However, in practice, refunds may be difficult to obtain.

Taxpayers must register with the tax authorities at the following locations: the location where they were organized; the location of any economically autonomous subdivisions; and the location of any immovable property or means of transport owned by them.

Dividends. Dividends received are subject to withholding tax and are excluded from taxable profits. Dividends paid between Russian entities or to individuals who are residents of the Russian Federation are subject to withholding tax at a rate of 6%. Dividends received by a foreign entity from a Russian entity or by a Russian entity from a foreign entity are taxable at a rate of 15%. Russian individuals include dividends received from foreign legal entities in their income. No withholding tax is imposed on these dividends. Tax withheld from dividends received by a Russian legal entity from another Russian legal entity may be offset against the tax that would normally be withheld from dividends paid to Russian legal entities by the recipient.

Foreign Tax Relief. Foreign withholding taxes may be credited against Russian tax imposed on the same income, up to the amount of Russian tax on the income. Credit for tax on dividend income is available only if this is allowed by an applicable double tax treaty.

C. Determination of Trading Income

General. Taxable profit is determined by computing the profit or loss from business activities and adding income from nonselling operations, such as leasing income and capital gains, but excluding dividends received from Russian enterprises. Income received in foreign currency is translated into rubles according to the relevant daily exchange rate determined by the Central Bank.

The profits tax chapter of the Tax Code does not include most of the profits tax exemptions contained in the prior law and provides a rather restricted list of possible exemptions.

The Tax Code provides an open list of expenses that are deductible for tax purposes.

Interest on debts is deductible if the amount of interest does not deviate by more than 20% from the average level of interest charged on debts issued in the same quarter under comparable conditions. If no comparable loans were issued in the same quarter, the maximum deductible interest on ruble loans is calculated using the official Central Bank of Russia refinancing rate increased by a factor of 1.1 and the maximum deductible interest on debts in foreign currency is calculated using a 15% rate. In certain circumstances, the deductibility of interest on intercompany loans is restricted by thin-capitalization measures.

For details on tax depreciation, see *Tax Depreciation* below.

Foreign legal entities doing business in the Russian Federation through a permanent establishment are taxed on actual profits. The taxable profit equals income received as a result of carrying out activities in the territory of the Russian Federation through a permanent establishment, minus the amount of expenses incurred by the permanent establishment. General and administration expenses allocated by a foreign legal entity's head office to a Russian permanent establishment are deductible only if this is specifically allowed by an applicable double tax treaty. If a permanent establishment of a foreign entity provides for no charge services of a preparatory or auxiliary nature to third parties, the taxable profit derived from such activities is deemed to be 20% of the amount of the expenses incurred by the permanent establishment in such activities.

Tax Depreciation. All depreciable assets must be allocated to their relevant depreciation group and depreciated over their useful lives. The taxpayer determines the relevant depreciation group by using the "Classifier of Fixed Assets" issued by the Russian government. The "Classifier of Fixed Assets" provides for 10 depreciation groups and useful lives of 2 to more than 30 years for the depreciable assets in the groups. Based on the useful lives, the taxpayer calculates the depreciation deductible for profits tax purposes. Depreciation may be calculated using either the reducing-balance or straight-line methods.

Relief for Losses. Enterprises may carry forward unrelieved operating losses to the following 10 years. Loss relief may not reduce the tax base in any year by more than 30%.

Groups of Enterprises. Related enterprises may not offset profits and losses among members of a group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods sold and services rendered, excluding exports and charter capital contributions	
Standard rate	18
Certain food products and children's goods	10
Many exports of goods and certain services	0
Assets tax; effective from 1 January 2004, the tax base is the net book value of fixed assets; under prior law, the tax base also included intangible assets and inventory; maximum rate	2.2
Tariffs	
Export, rate varies by type of good	Various
Import	Various
Social tax, on salaries of Russian employees; imposed on employers; tax is imposed on both Russian companies and permanent establishments of foreign entities; a regressive tax scale is used; the tax rate varies depending on the amount of gross income received by the employee	35.6 to 2
Supplementary contributions for workplace accidents; rate varies by industry	0.2 to 8.5
Income tax withholding by employers	
Residents	13
Nonresidents	30
Mineral extraction tax; imposed on the value or volume of extracted commercial minerals	Various
Transport tax	Various

E. Foreign-Exchange Controls

The Russian government requires Russian enterprises to sell up to 30% of their foreign-currency receipts for rubles. The Central Bank sets the exact percentage and may change it at any time to a percentage of between 0% and 30%. In July 2003, it set the percentage at 25%. Foreign-currency receipts may be sold through authorized banks licensed by the Central Bank on interbank currency exchanges or to the Central Bank itself if a prior agreement has been reached with the Central Bank's foreign operations department.

F. Treaty Withholding Tax Rates

Russian legislation currently states that the double tax treaties of the former USSR are still valid. The withholding rates under the USSR's treaties and the Russian Federation's treaties are listed in the following table. Like most double tax treaties, the treaty rates do not apply if domestic withholding tax rates (see Section A) are lower.

	Dividends %	Interest %	Royalties %
Albania	10	10	10
Armenia	5/10 (a)	0	0
Austria	5/15 (b)	0	0
Azerbaijan	10	10	10
Belarus	15	10	10
Belgium	10	10	0
Bulgaria	15	15	15
Canada	10/15 (c)	10	0/10 (d)
China	10	10	10
Croatia	5/10 (e)	10	10
Cyprus	5/10 (f)	0	0
Czech Republic	10	0	10
Denmark	10	0	0
Egypt	10	0/15 (g)	15
Finland	5/12 (h)	0	0
France	5/10/15 (i)	0	0
Germany	5/15 (j)	0	0
Hungary	10	0	0
Iceland	5/15 (jj)	0	0
India	10	10	10
Indonesia	15	0/15 (k)	15
Iran	5/10 (e)	7.5	5
Ireland	10	0	0
Israel	10	10	10
Italy	5/10 (l)	10	0
Japan	15	10	10 (m)
Kazakhstan	10	10	10
Kuwait	5	0	10
Kyrgyzstan	10	10	10
Lebanon	10	5	5
Luxembourg	10/15 (n)	0	0
Macedonia	10	10	10
Malaysia	15	15	10/15 (o)
Mali	10/15 (p)	15	0
Moldova	10	0	10
Mongolia	10	10	20 (q)

	Dividends %	Interest %	Royalties %
Morocco	5/10 (r)	10	10
Namibia	5/10 (e)	10	5
Netherlands	5/15 (s)	0	0
New Zealand	15	10	10
North Korea	10	0	0
Norway	10	0/10 (t)	0
Philippines	15	15	15
Poland	10	10	10
Portugal	10/15 (u)	0/10 (v)	10
Qatar	5	5	0
Romania	15	15	10
Slovak Republic	10	0	10
Slovenia	10	10	10
South Africa	10/15 (w)	10	0
South Korea	5/10 (x)	0	5
Spain	5/10/15 (y)(z)	5 (z)	5 (z)
Sri Lanka	10/15 (aa)	10	10
Sweden	5/15 (bb)	0	0
Switzerland	5/15 (cc)	5/10 (dd)	0
Syria	15	10	4.5/13.5/18 (kk)
Turkey	10	10	10
Turkmenistan	10	5	5
Ukraine	5/15 (ee)	10	10
United Kingdom	10	0	0
United States	5/10 (ff)	0	0
Uzbekistan	10	10	0
Vietnam	10/15 (gg)	10	15
Yugoslavia	5/15 (hh)	10	10
Nontreaty countries	15	15/20 (ii)	20

(a) The 5% rate applies if the recipient of the dividends has invested at least US$40,000 or the equivalent in local currency in the payer's charter capital. The 10% rate applies to other dividends.

(b) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) holds directly at least 10% of the capital of the payer of the dividends and if the participation exceeds US$100,000. The 15% rate applies to other dividends.

(c) The 10% rate applies if the beneficial owner of the dividends owns at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 15% rate applies to other dividends.

(d) The 0% rate applies to royalties for the following: copyrights of cultural works (excluding films and television rights); the use of computer software; and the use of patents or information concerning industrial, commercial or scientific experience, if the payer and the beneficiary are not related persons. The 10% rate applies to other royalties.

(e) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer more than US$100,000 or the equivalent amount in local currency. The 10% rate applies to other dividends.

(f) The 5% rate applies to dividends paid to shareholders that have invested in the payer at least US$100,000 or the equivalent amount in local currency. The 10% rate applies to other dividends.

(g) The 0% rate applies if the recipient of the interest is the other contracting state or a bank that is more than 51%-owned by the other contracting state. The 15% rate applies to other interest payments.

(h) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 30% of the capital of the payer of the dividends and if the foreign capital invested exceeds US$100,000 or its equivalent in the national currencies of the contracting states at the moment when the dividends become due and payable. The 12% rate applies to other dividends.

(i) The 5% rate applies if the recipient of the dividends has invested in the payer at least FF 500,000 or the equivalent amount in other currency and if the beneficiary of the dividends is a company that is exempt from tax on dividends in its state of residence. The 10% rate applies if only one of these conditions is met. The 15% rate applies to other dividends.
(j) The 5% rate applies to dividends paid to corporations that hold a 10% or greater interest in the capital of the payer and have invested in the payer at least DM 160,000 or the equivalent amount in rubles. The 15% rate applies to other dividends.
(k) The 0% rate applies if the recipient of the interest is the government of the other contracting state, including local authorities thereof, a political subdivision or the central bank. The 15% rate applies to other interest payments.
(l) The 5% rate applies to dividends paid to corporations that hold at least 10% of the capital of the payer and have invested in the payer at least US$100,000 or the equivalent amount in other currency. The 10% rate applies to other dividends.
(m) The rate is 0% for royalties for copyrights of cultural works.
(n) The 10% rate applies if the recipient of the dividends holds at least 30% of the capital of the payer and has invested in the payer more than ECU 75,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
(o) The 15% rate applies to royalties for copyrights, including film and radio broadcasts. The 10% rate applies to other royalties.
(p) The 10% rate applies if the recipient of the dividends has invested more than FF 1 million in the payer. The 15% rate applies to other dividends.
(q) Royalties are subject to tax in the country of the payer in accordance with that country's law.
(r) The 5% rate applies if the beneficial owner of the dividends owns at least US$500,000 of the shares of the payer. The 10% rate applies to other dividends.
(s) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested at least ECU 75,000 or an equivalent amount in local currency. The 15% rate applies to other dividends.
(t) The 0% rate applies if the recipient of the interest is the government of the other contracting state including local authorities thereof, an instrumentality of that state that is not subject to tax in that state or the central bank. The 10% rate applies to other interest payments.
(u) The 10% rate applies if the beneficial owner is a company that, for an uninterrupted period of two years before the payment of the dividends, owned directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
(v) The 0% rate applies if the interest is derived and beneficially owned by the other contracting state, a political or administrative subdivision or a local authority thereof or any institution specified and agreed to in an exchange of notes between the competent authorities of the contracting states in connection with any credit granted or guaranteed by them under an agreement between the governments of the contracting states. The 10% rate applies to other interest payments.
(w) The 10% rate applies if the beneficial owner of the dividends owns at least 30% of the charter capital of the payer and has directly invested at least US$100,000 in the charter capital of the payer. The 15% rate applies to other dividends.
(x) The 5% rate applies to dividends paid to corporations that hold at least 30% of capital of the payer and have invested in the payer at least US$100,000 or the equivalent amount in local currency. The 10% rate applies to other dividends.
(y) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) has invested at least US$100,000 in the charter capital of the payer and if the country of residence of the beneficial owner of the dividends does not impose taxes on the dividends. The 10% rate applies if one of these conditions is met. The 15% rate applies to other dividends.
(z) The treaty does not provide relief for Spanish companies receiving dividends, interest or royalties from Russian sources if more than 50% of the Spanish company is owned (directly or indirectly) by non-Spanish residents.
(aa) The 10% rate applies if the beneficial owner of the dividends owns at least 25% of the charter capital of the payer. The 15% rate applies to other dividends.
(bb) The 5% rate applies to corporations that hold 100% (at least 30% if the recipient corporation is a part of joint venture) of the payer and have invested in the payer at least US$100,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.

(cc) The 5% rate applies if the recipient of the dividends is a corporation that holds at least 20% of the capital of the payer and if, at the time the dividends become due, the amount of the recipient's investment exceeds CHF 200,000. The 15% rate applies to other dividends.
(dd) The 5% rate applies to interest on bank loans. The 10% rate applies to other interest.
(ee) The 5% rate applies to dividends paid to corporations that have invested in the payer at least US$50,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
(ff) The 5% rate applies to dividends paid to corporations holding at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 10% rate applies to other dividends.
(gg) The 10% rate applies to dividends paid to shareholders that have invested at least the equivalent of US$10 million in the payer. The 15% rate applies to other dividends.
(hh) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least US$100,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
(ii) The 15% rate applies to interest on certain types of state and municipal securities; the 20% rate applies to other interest.
(jj) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least US$100,000 or an equivalent amount in local currency. The 15% rate applies to other dividends.
(kk) The 4.5% rate applies to royalties paid to entities for copyrights of cinematographic films, programs and recordings for radio and television broadcasting. The 13.5% rate applies to royalties paid to entities for copyrights of works of literature, art or science. The 18% rate applies to royalties paid to entities for patents, trademarks, designs or models, plans, secret formulas or processes and computer software, as well as for information relating to industrial, commercial or scientific experience.

The Russian Federation has ratified a tax treaty with Tajikistan. However, this treaty is not yet in force.

The Russian Federation is planning to ratify tax treaties with Argentina, Australia, Cuba, Estonia, Greece, Laos, Lithuania, Mauritius, Oman and Singapore.

The Russian Federation is negotiating tax treaties with Algeria, Bahrain, Bangladesh, Botswana, Latvia, Madagascar, Malta, Nigeria, Taiwan, Thailand and Tunisia.

RWANDA

(Country Code 250)

KIGALI **GMT +2**

Ernst & Young
Mail Address:
BP 3638
Kigali
Rwanda

Street Address:
Rugigana House
Avenue de la Paix
Kigali
Rwanda

572-634, 572-557
Fax: 572-528
E-mail: ey@rwanda1.com

Corporate Tax

Herbert Gatsinzi	**572-634** **Mobile: 08-521-249**
Geoffrey G. Karuu *(resident in Nairobi)*	**[254] (20) 715-300** **Mobile: 0722-806-437** **E-mail: geoffrey.g.karuu@ke.ey.com**

The 2004 budget may introduce major tax changes in Rwanda. Because of these possible tax changes, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	20*
Interest	20*
Royalties	20
Sports and Entertainment Fees	35
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

* This withholding tax is a final tax.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident and nonresident companies are subject to tax on their income arising or deemed to arise in Rwanda.

Rates of Corporate Tax. The corporate tax rate is 35% for resident and nonresident companies.

Capital Gains. Capital gains are included in taxable income and are subject to the normal corporate income tax rate. Capital losses may be used to offset ordinary income, and ordinary losses may offset capital gains.

Administration. The tax year is the calendar year. However, companies may request permission from the Minister of Finance to adopt a financial year that differs from the calendar year.

Companies must submit a tax declaration accompanied by proof of payment provided by the tax collector within six months after the end of the financial year. The taxpayer calculates the tax payable on the tax declaration form. The tax paid equals the tax payable less trade license fees paid (see Section D) and installment payments made (see below). The tax due must be paid with the declaration.

Companies must make quarterly installment payments, which are each equal to 25% of the tax due for the previous financial year. The installment payments are subtracted from tax due at the end of the financial year. Any overpayment is generally treated as a prepayment of future income tax liabilities or other tax liabilities. However, if a company is dissolved and its activities completely cease, the overpayment is refunded.

Dividends. Dividends paid to residents and nonresidents are subject to a final withholding tax at a rate of 20%.

Foreign Tax Relief. Relief for foreign taxes paid is granted in accordance with tax treaties with other countries.

C. Determination of Trading Income

General. Taxable income is accounting income adjusted for nontaxable income and for nondeductible expenses. Expenses are deductible if they are incurred wholly and exclusively in the production of income.

Provisions. General and specific provisions, which are reflected in the computation of financial accounting income are generally not deductible for tax purposes. However, banks and financial institutions may deduct specific provisions for bad and doubtful debts.

Tax Depreciation. Depreciation charged in the financial statements is not deductible for tax purposes. It is replaced by tax depreciation allowances. The following are straight-line tax depreciation rates prescribed by law.

Asset	Rate (%)
Buildings	
In lasting materials	4
In semi-lasting materials	10
In non-lasting materials	20
Equipment and tools	
Fixed equipment (industrial machinery)	15
Computer equipment	33$^1/_3$
Office equipment	20
Other fixed assets	
Private cars	20
Trucks and commercial vehicles	25
Furniture	10
Installations	10
Patents	20

However, companies may use higher depreciation rates if they establish that their assets are subject to faster depreciation because of the type of activity carried out by the company.

The declining-balance method is used for the calculation of tax depreciation allowances on specified assets whose useful life is at least three years.

Groups of Companies. The income tax law does not allow the filing of consolidated returns, the combining of profits and losses of affiliated companies or the transfer of losses from loss companies to profitable members of the same group of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, on the supply of goods and services in Rwanda and on imports of goods and services	
Standard rate	18%
Other rate	0%

Nature of Tax	Rate
Social Security Fund of Rwanda (Caisse Sociale Du Rwanda, or CSR) contributions	
Employer	5%
Employee	3%
(both amounts are refunded to expatriates when they leave Rwanda)	
Trade licenses; varies by nature and location of business; maximum amount	Frw 240,000
Fund for the Genocide Survivors (Fond d'Aide aux Rescapes du Gēnocide, or FARGE); annual minimum contributions; paid by	
Retailers	Frw 10,000
Professionals	Frw 50,000
Wholesalers	Frw 50,000
Manufacturers, importers and international transporters	Frw 100,000
Partnerships and joint ventures	Frw 100,000
Limited companies	Frw 200,000

E. Miscellaneous Matters

Foreign-Exchange Controls. The currency in Rwanda is the Rwandese franc (Frw). Rwanda does not impose foreign-exchange controls.

Debt-to-Equity Rules. Rwanda does not impose debt-to-equity rules.

F. Tax Treaties

Rwanda has entered into a double tax treaty with Mauritius. It has signed a double tax treaty with South Africa, but this treaty has not yet been ratified. It is in the advanced stages of signing double tax treaties with member countries of the Common Market for Eastern and Southern Africa (COMESA).

SAUDI ARABIA

(Country Code 966)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@sa.ey.com

The e-mail address varying from the standard format is listed below the respective person's name.

AL KHOBAR **GMT +3**

Ernst & Young
Mail Address:
P.O. Box 3795
Al Khobar 31952
Saudi Arabia

(3) 882-5414
Fax: (3) 882-7224

Street Address:
4th Floor
Al Jufali Building
Al Khobar
Saudi Arabia

International Tax

Naveed Jeddy	**(3) 882-5414, Ext. 102** **Mobile: (5) 686-3585**

JEDDAH **GMT +3**

Ernst & Young **(2) 667-1040, 665-2076**
Mail Address: **Fax: (2) 667-2129**
P.O. Box 1994
Jeddah 21441
Saudi Arabia

Street Address:
4th Floor, Al-Nakheel Center
Medina Road
Palestine Square
Jeddah
Saudi Arabia

International Tax

Mohammed Desin	**(2) 667-1040, Ext. 113**

RIYADH **GMT +3**

Ernst & Young **(1) 273-4740**
Mail Address: **Fax: (1) 273-4730**
P.O. Box 2732
Riyadh 11461
Saudi Arabia

Street Address:
Al Faisaliah Office Tower – Level 6
King Fahd Road
Olaya, Riyadh
Saudi Arabia

International Tax

Gaafar Eisa	**(1) 273-4708** **Mobile: (5) 528-4231**
Kevin C. O'Brien	**(1) 273-4706** **Mobile: (5) 446-7786** **E-mail: kevin.obrien@sa.ey.com**

At the time of writing, the Saudi Arabian government was reviewing new corporate and personal tax regulations. The Shoura (Consultative) Council was studying these regulations. Because of the possible introduction of the new regulations, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (a)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	0
Interest	– (b)
Royalties from Patents, Know-how, etc.	– (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) This is the maximum rate. See Section B.
(b) Withholding tax is imposed on payments to nonresidents. In general, the normal corporate income tax rates are applied to a deemed profit element of at least 15%. However, certain types of payments are taxed on 100% deemed profit. For details, see Section E.

B. Taxes on Corporate Income and Gains

Income Tax. Income tax is assessed on profits arising or deemed to arise in Saudi Arabia that are earned by foreign partnerships and foreign corporate entities and on the share of a foreign shareholder in the profits of a Saudi corporate entity. However, for income tax purposes, foreigners do not include citizens (nationals) of countries that are the members of the Gulf Cooperation Council (GCC). Members of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. In the case of a company incorporated in a GCC state, the share of profits attributable to interests owned by GCC nationals in that company is subject to zakat (see Section D). The share of profits attributable to interests owned by non-GCC nationals in that company is subject to income tax. Income is deemed to arise in Saudi Arabia if services are performed in Saudi Arabia or performed inside and outside Saudi Arabia at the same time.

Rates of Taxation. The following are the corporate rates of tax applicable to non-Saudis (excluding citizens of GCC states).

Taxable Income		Tax on	Rate on
Exceeding SR	Not Exceeding SR	Lower Amount SR	Excess %
0	100,000	0	25
100,000	500,000	25,000	20
500,000	1,000,000	105,000	25
1,000,000	–	230,000	30

The tax holidays that were available under the prior Foreign Capital Investment Regulations have been withdrawn. Under these regulations a 5- or 10-year tax holiday was granted to foreign investors in agricultural, industrial or other projects, if Saudi participation in the capital was at least 25%. The tax holiday period was 10 years for agricultural and industrial projects, and 5 years for other projects. Projects that were granted tax holidays under the prior regulations may continue to benefit from the tax holidays for the approved period.

Capital Gains. Capital gains are treated as ordinary income and taxed at the regular corporate rates.

Administration. Unless extensions are requested and approved, companies with foreign participation must file final tax returns and pay the corporate tax due on the 15th day of the third month after the end of the accounting period. If the payments are not made by that date, fines are payable on the total amount of corporate tax due.

Dividends. Dividends are not taxable. Tax is assessed on the share of profits attributable to the foreign shareholder based on audited financial statements, as adjusted for tax purposes.

Foreign Tax Relief. Saudi Arabia does not provide relief for foreign taxes paid.

C. Determination of Tax Payable

Taxable Profits. The most acceptable basis to the Department of Zakat and Income Tax (DZIT) for assessing tax liabilities is the audited financial statements, as adjusted for tax purposes. In exceptional cases, tax is assessable under the arbitrary basis. Under the arbitrary basis, no financial statements are presented, and the liability is calculated on a deemed profit at a minimum of 15% of gross revenue. The DZIT may increase this percentage at any time, depending on the nature and circumstances of the contract and the DZIT's view of profitability of the contract. The DZIT discourages the arbitrary basis, preferring the financial statements method.

Allocation of Overhead/Indirect Expenses. The allocation of costs by a head office to a branch is not allowed. However, certain certifiable direct costs incurred abroad are deductible.

Technical Costs. Technical costs, generally expenses that relate to engineering, chemical, geological or industrial work and research — even if incurred wholly abroad by the main office or other offices — are deductible provided they can be substantiated by certain documents, such as technical services agreements, local employer's certificate, head office auditors' certificate and invoices. If technical services are rendered in Saudi Arabia by third parties (including foreign shareholders, regardless of whether they are enjoying a tax holiday), payment for such services is subject to deemed profit tax at a minimum rate of 15%. The DZIT may increase this profit percentage depending on the nature of the agreement, and a rate of 20% is now frequently applied.

Agency Fees. In a meeting on 30 July 2001, the Council of Ministers cancelled the law governing the relationship between a foreign contractor and a Saudi service agent. A foreign contractor may now operate in Saudi Arabia and contract with government agencies without appointing a Saudi service agent. Accordingly, the DZIT does not allow a deduction for agency fees paid to Saudi agents with respect to contracts entered into with government bodies after 30 July 2001.

Management Fees and Royalties. Under the DZIT's current practice, management fees, royalties, license fees and similar payments are taxed on a 100% deemed-profit basis (see Section E).

Depreciation. Depreciation is generally computed using the straight-line method. Statutory maximum depreciation rates are established by the tax regulations, and if the rates used in the financial statements are greater than the prescribed rates, the excess is disallowed. An additional claim is not permitted if the account rates are lower. After assets have been fully depreciated for book purposes, they may continue to be depreciated for tax purposes until the assets are fully depreciated using tax depreciation rates. The following are some of the statutory straight-line depreciation rates.

Asset	Rate (%)
Commercial and industrial buildings	3
Office equipment	15
Motor vehicles	25
Plant and machinery	7.5 to 12.5

Higher rates (up to 50% above the statutory depreciation rates) may be negotiated if the equipment is clearly subject to identifiable abnormal wear and tear. A certificate is required from the contract owner confirming that the equipment was subject to extended usage, such as for 24 hours a day and 365 days a year.

Amortization of Preoperational Costs. Preoperational costs are deductible over three to five years when amortized in the audited financial statements. Details of such costs, when incurred, are required to be submitted with the annual income tax return.

Contributions to Foreign Social Insurance, Pension and Savings Plans. Any charge with respect to payments for foreign social insurance, employee pension plans and savings plans, and contributions to Saudi social insurance with respect to an employee's share are not deductible from Saudi-source revenue.

Relief for Losses. Losses may be carried forward indefinitely. Saudi tax regulations do not provide for the carryback of losses.

D. Zakat

Zakat is a religious levy on Saudi or GCC nationals and companies that are wholly owned by Saudi or GCC nationals. The rate of *zakat* is 2.5% of capital employed — not invested in fixed assets, long-term investments and deferred costs — as adjusted by net results of operations for the year. Complex rules apply to the calculation of *zakat* liabilities, and it is therefore suggested that *zakat* payers seek specific advice suited to their circumstances.

E. Miscellaneous Matters

Foreign-Exchange Controls. Saudi Arabia does not impose foreign-exchange controls.

Supply and Erection Contracts. Profits from "supply only" operations to the Kingdom are exempt from income tax (whether the contract is made inside or outside the Kingdom) because the supplier trades "with" but not "in" the Kingdom. The net profits of operations that include supply, erection or maintenance are subject to tax, and the contractors are required to submit financial statements for their operations. The financial statements must indicate in detail the value of imported materials, freight, insurance and any other expenses. This enables a contractor to claim a deduction for the supply portion and the DZIT to assess tax on the operations of the contractor in the Kingdom. The value of the imported materials deducted should be supported by customs documents and the taxpayer's overseas auditors' certificate confirming that the value of the material supplied is in accordance with the international market price prevailing at the date of dispatch.

Payments to Nonresidents. When payments are made by a taxpayer to nonresidents for activities in the Kingdom, the taxpayer is required to withhold tax on a deemed profit basis and to remit the withheld tax to the DZIT when it files its own tax return. Payments to nonresidents that are taxable include the following: equipment rental; payments to subcontractors; management fees; consulting fees; legal fees; royalties; and bank interest, commission and charges (provided that the foreign banks have local representation in the Kingdom). Payments to nonresident companies are subject to tax on a minimum rate of 15% deemed profit, except for management fees, royalties and similar payments, which are taxed on 100% deemed profit.

Subcontractors. Payments to subcontractors, reported by a taxpayer in its tax return, are subject to close scrutiny by the DZIT.

The taxpayer is expected to withhold tax due on payments to nonresident subcontractors and to deposit it with the DZIT, unless the taxpayer can provide a tax file number or tax clearance certificate as evidence that such subcontractor is settling its tax liability.

Tax is not required to be withheld from payments to subcontractors resident in Saudi Arabia. However, a taxpayer is required to retain 10% of the subcontract value until the subcontractor furnishes evidence that it has fulfilled its tax and *zakat* obligations to the DZIT with respect to the contract.

If payments are reported to have been made to a nonresident subcontractor for services performed wholly and exclusively outside the Kingdom, the payments are not normally subject to Saudi Arabian tax, provided the main contractor's approval for the work abroad is submitted.

Imports from Head Office/Affiliates. When a Saudi mixed company deals with its foreign shareholders or any affiliated company of its foreign shareholders, it is expected to trade on an arm's length basis. The company is required to submit to the DZIT a certificate from the seller's auditors confirming that the materials and goods supplied to the Saudi Arabian company were sold at the international market price prevailing at the date of dispatch. This requirement is also extended to foreign branches importing materials and goods from the head office for the fulfillment of their Saudi contracts.

F. Tax Treaties

Saudi Arabia has entered into a double tax treaty with France, which covers corporate tax, personal tax, inheritance tax, capital tax and *zakat*. The treaty is effective through 31 December 2003, and is expected to be renewed. The treaty does not provide for reduced withholding tax rates. Saudi Arabia is negotiating double tax treaties with Germany, the Netherlands and the United Kingdom.

Saudi Arabia has entered into limited tax treaties with the United Kingdom, United States and certain other countries for the reciprocal exemption from tax on income derived from the international operation of aircraft and ships.

SENEGAL

(Country Code 221)

DAKAR **GMT**

FFA
22, rue Ramez Bourgi
B.P. 2085
Dakar
Senegal

849-2222
Fax: 823-8032

Corporate Tax

Daniel Gauthier

849-2203
Fax: 823-4335
(Voice Request Required)
E-mail: daniel.gauthier@sn.eylaw.com

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	10 (c)
Directors' Fees and Nondeductible Expenses	16 (d)
Interest	6/8/16 (e)
Royalties from Patents, Know-how, etc.	20
Payments to Nonresidents for Certain Services and Activities	20 (f)
Branch Remittance Tax	10 (g)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) The minimum tax is FCFA 500,000 (FCFA 1 million if annual turnover exceeds FCFA 500 million a year).
(b) In certain circumstances the tax is deferred or reduced (see Section B).
(c) See Section B for special rules applicable to certain dividends.
(d) See Section C for a list of nondeductible expenses.
(e) The 6% rate applies to interest on long-term bonds; the 8% rate applies to bank interest; the 16% rate applies to other interest.
(f) This tax is imposed on technical assistance fees and certain other payments to nonresident companies and nonresident individuals that do not carry on a trade or business in Senegal. The rate is 15% for payments to French individuals or corporations.
(g) Unless modified by a tax treaty. See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Senegalese companies are taxed on the territoriality principle. As a result, companies carrying on a trade or business outside Senegal are not taxed in Senegal on the related profits. Foreign companies with activities in Senegal are subject to Senegalese corporate tax on Senegalese-source profits only.

Tax Rates. The corporate income tax rate is 35%, and the minimum tax (*impôt minimum forfaitaire*, or IMF) payable is FCFA 500,000 (FCFA 1 million if annual turnover exceeds FCFA 500 million).

The profits realized in Senegal by branches of foreign companies that have not been reinvested in Senegal are deemed to be distributed and are therefore subject to a 10% withholding tax. This system is subject to treaty modification.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies depending on the nature of the project and the level of investments (including free industrial zone facilities).

Capital Gains. Capital gains are generally taxed at the regular corporate rate. The tax, however, can be deferred if the proceeds are used to acquire new fixed assets in Senegal within three years or in the event of a merger (or other corporate acquisition).

If the business is totally or partially transferred or discontinued, only one-half of the net capital gain is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gain is taxed if the event occurs five years or more after the business was begun or purchased.

Capital gains on sales or transfers of land and buildings are also subject to land tax (see Section D).

Administration. The tax year is the calendar year. Companies must file their tax returns by 30 April of the year following the tax year.

Corporate tax must be paid in two installments (each equal to one-third of the previous year's tax) by 15 February and 15 April. The 15 February installment may not be less than FCFA 500,000 (or FCFA 1 million, if applicable). The balance must be paid by 15 June.

Late payments are subject to interest of 10% (plus a 100% penalty for the late payment of the FCFA 500,000 or FCFA 1 million minimum tax).

Dividends. Dividends paid are subject to a 10% withholding tax.

A parent corporation may exclude the net dividends received from a subsidiary if all of the following apply:
- The parent corporation and the subsidiary are either joint stock companies or limited liability companies;
- The parent corporation has its registered office in Senegal and is subject to corporate income tax;
- The parent corporation holds at least 20% of the shares of the subsidiary; and
- The shares of the subsidiary have been held by the parent corporation since the formation of the subsidiary or for two years in registered form.

Dividends distributed by a Senegalese parent company that consist of dividends received from a Senegalese subsidiary that is at least 20% owned are not subject to dividend withholding tax on the second distribution.

Foreign Tax Relief. In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from Senegalese tax under the territoriality principle is taxable net of the foreign tax. However, the tax treaty with France provides a tax credit for French tax paid on dividends.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the OHADA Accounting Plan.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:
- Foreign head-office overhead, limited to 20% of Senegalese taxable profits before deduction of foreign head-office overhead (unless otherwise provided for by tax treaties);
- The amount of interest paid to shareholders in excess of two percentage points above a standard annual rate set by the central bank and the amount of interest on loans in excess of the capital stock amount;
- Certain specific charges over specified limits; and
- Taxes, penalties, gifts and most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director).

Inventories. Inventory is normally valued at the lower of cost or market value.

Provisions. In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or for expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Provision for equipment replacements is also allowed in accordance with the annual legal rate of the Provision for Renewal of Equipment and Material (*Provision pour Renouvellement de l'Outillage et du Matériel*, or PROM) index issued each year by the Ministry of Finance.

Capital Allowances. Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated. The straight-line method is generally allowed. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Commercial and industrial buildings	3 to 5
Office equipment	10 to 15
Motor vehicles	20 to 25
Plant and machinery	10 to 20

In certain circumstances, plant and machinery as well as other assets may be depreciated using the declining-balance method or an accelerated method.

Relief for Tax Losses. Losses may be carried forward three years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of Companies. There is no fiscal integration system equivalent to a consolidated filing position in Senegal.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Internal turnover tax, a value-added tax, on goods sold and services rendered	18
Business activity tax (*patente*), based on the business rental value of tangible assets and equipment and the number of employees	Various
Registration duties, on transfers of real property or businesses	2 to 15
Land tax, on capital gains resulting from sales or transfers of land and buildings	15
Payroll taxes; paid by the employer	
Senegalese employee	3
Foreign employee	6
Social security contributions	
Paid by the employer on each employee's annual gross salary, up to FCFA 720,000	7 to 11

Nature of Tax	Rate (%)
Regular pension, paid on each employee's gross salary, up to FCFA 2.4 million; paid by	
Employer	8.4
Employee	5.6
Additional pension, paid on an executive's gross salary, up to FCFA 7.2 million; paid by	
Employer	3.6
Employee	2.4

E. Foreign-Exchange Controls

Exchange control regulations exist in Senegal for financial transfers outside the West African Countries Economic and Monetary Union (UEMOA).

F. Treaty Withholding Tax Rates

Senegal has signed a multilateral tax treaty with the other members of the West African Economic Community (CEAO), which are Burkina Faso, Côte d'Ivoire, Mali, Mauritania and Niger. It has also signed the Organisation Commune Africaine Mauricienne (OCAM) multilateral tax treaty. OCAM no longer exists, but under the principles of international law, the multilateral agreements promulgated by OCAM continue to have effect. Senegal has entered into bilateral treaties with Belgium, France, Italy, Norway and Tunisia.

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties %
Belgium	10	16	10
Benin	10	16	0
Burkina Faso	10	16	0
Central African Republic	10	16	0
Congo	10	16	0
Côte d'Ivoire	10	16	0
France	10	15	15
Gabon	10	16	0
Italy	10	15	15
Mali	10	16	0
Mauritania	10	16	0
Mauritius	10	16	0
Niger	10	16	0
Norway	10	16	16
Rwanda	10	16	0
Togo	10	16	0
Tunisia	10	16	0
Nontreaty countries	10	6/8/16*	20

* The 6% rate applies to interest on long-term bonds; the 8% rate applies to bank interest; the 16% rate applies to other interest.

Senegal has signed a tax treaty with Qatar, but this treaty has not yet been ratified.

SERBIA AND MONTENEGRO, UNION OF

(Country Code 381)

BELGRADE **GMT +1**

Ernst & Young Belgrade d.o.o.
Trg Republike 5/IV
11000 Belgrade
Serbia and Montenegro

(11) 328-4571
Fax: (11) 328-4559
E-mail: eybgd@eunet.yu

Corporate Tax
Rodney J. Milford — **(11) 328-4589**
E-mail: rodney.j.milford@yu.ey.com

The Republic of Serbia and the Republic of Montenegro are the constituent parts of the Union of Serbia and Montenegro, which succeeded the Federal Republic of Yugoslavia in February 2003. A new Constitutional Charter regulates the relationship between Serbia and Montenegro for the first three years of the union. Under the charter, Serbia and Montenegro may unilaterally leave the union based on a public referendum after the three-year period has elapsed. Both Serbia and Montenegro have their own parliament and government.

The majority of the regulations, including monetary, political, currency, fiscal and customs regulations, are established at the level of member republics. The member republics' policies in these areas are often very different. The first part of this chapter describes the tax system in the Republic of Serbia, while the second part of the chapter describes the tax system in Montenegro. Because of the rapidly changing economic and political situation in the two republics, readers should obtain updated information before engaging in transactions.

PART 1: REPUBLIC OF SERBIA

A. At a Glance

Corporate Income Tax Rate (%)	14
Capital Gains Tax Rate (%)	14
Branch Tax Rate (%)	14
Withholding Tax (%)	
Dividends	20 (a)
Interest	20 (b)
Royalties from Patents, Know-how, etc.	20 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

(a) This tax applies to resident and nonresident companies and individuals. For individuals, the withholding tax is imposed on only 50% of the dividends.
(b) This tax applies to nonresident companies and to resident and nonresident individuals.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in the Republic of Serbia (RS) are subject to tax on their worldwide income. A company is resident in the RS if it is incorporated in the RS or if its central management and control is actually exercised in the RS. Nonresident companies are subject to tax only on their income derived from the RS. Nonresident companies are companies registered in other countries that have a permanent place of business in the RS.

Foreign representative offices may not derive profits from their activities in the RS. However, if they do derive such profits, the profits are subject to tax in the RS.

Rate of Corporate Income Tax. The rate of corporate income tax in the RS is 14%.

Tax Incentives. A company investing in fixed assets within the scope of its registered business may decrease its calculated tax by an amount equal to 20% of these investments, but the tax credit may not exceed 50% of the calculated tax for the year of the investment. For small enterprises, the percentage of the tax credit is increased to 40%, but the tax credit may not exceed 70% of the calculated tax. The amount of the tax reduction that is not allowed as a result of this limitation may be carried forward and used as a tax credit, subject to the limitation, in the following 10 years.

A company qualifies for a 10-year tax exemption if it invests CSD 600 million (approximately €8.98 million) in its own fixed assets and if it employs at least 100 new workers in the period of investment.

Under certain conditions, a company may apply for a five-year tax exemption if it performs activities in a region of "extraordinary importance" (an underdeveloped area of the country, which has not yet been identified) and if it invests CSD 6 million (approximately €89,800) and employs five new workers in such a region.

A company qualifies for a tax credit if it establishes a new business unit in an undeveloped region. The amount of the credit is determined by applying against the corporate income tax due the percentage of the total profit of the company that is attributable to the new business unit. The incentive applies for a two-year period.

Companies that hire new employees may decrease their taxable income by 100% of the total amount of salaries paid to the new employees for a two-year period beginning on the date of employment.

Capital Gains. Capital gains are included in taxable income and are subject to tax at the regular corporate income tax rate. Capital gains may be offset by capital losses incurred in the same year, and net capital losses may be carried forward to offset capital gains in the following 10 years.

Administration. The tax year is the calendar year. A company may not elect a different tax year.

Companies must file annual tax returns by 8 March of the year following the tax year.

Companies must make monthly advance payments of tax by the 15th day of the month following the month for which the payment is due. These payments must be adjusted in accordance with the monthly inflation rate. The tax authorities determine the amount of the advance payments of tax based on the income tax return for the preceding year. The advance payments may be based on interim tax returns if the tax authorities issue a relevant assessment or if the company makes a request to calculate the payments in such a manner.

At the time of submission of the annual tax return, companies must pay any difference between the tax liability calculated by the company and the total of the advance payments. If the tax authorities amend the tax calculation, any additional tax due must be paid within eight days of receipt of the final tax determination.

Dividends. Dividends received by resident companies from other resident companies and from nonresident companies are included in taxable income.

A 20% withholding tax is imposed on dividends paid to residents and nonresidents. Residents may credit the withholding tax on dividends received from resident companies against their income tax.

Foreign Tax Relief. Companies resident in the RS that perform business activities outside the RS may claim a tax credit for corporate income tax paid to other jurisdictions. The credit is equal to the lower of the foreign tax and the Serbian tax paid on the foreign-source income.

C. Determination of Trading Income

General. Taxable income is the difference between income and expenses. For tax purposes, income consists of income from the following: sales of products, goods and services; financial income; capital gains; and income resulting from transfer-pricing adjustments.

Tax-deductible expenses include expenses incurred in performing business activities. Certain expenses, such as depreciation (see *Tax Depreciation* below) and donations, are deductible up to specified limits.

Inventories. Inventories must be valued using average prices.

Provisions. Legal entities may deduct as expenses adjustments or write-offs of particular claims if such actions are in conformity with the law on accounting. If a debt is payable by a legal entity to the person who owed the debt that was adjusted or written off, the legal entity is subject to tax on the debt owed to it. In addition, legal entities may deduct provisions made for long-term capital maintenance of fixed assets if the expenditure is made in accordance with a capital maintenance plan approved by the tax authorities. Legal entities may also deduct provisions for the coverage of other expenses and risks that are made in conformity with the law on accounting. Banks may deduct any surplus of special reserves for covering losses made in conformity with the regulations of the National Bank.

Tax Depreciation. In general, assets may be depreciated using either the straight-line, declining-balance or functional methods over their useful lives. Under the functional method, depreciation is calculated based on the estimated use of the asset over its useful life. Approval of the tax authorities for adoption of the functional method is required if the method results in a depreciation charge that exceeds by 5% or more the charge calculated under the straight-line method.

The accounting law specifies the useful lives for various types of assets. The following are the straight-line rates for major categories of assets.

Asset	Rate (%)
Buildings and structures	1 to 4
Plant and equipment	3.3 to 20
Motor vehicles	15.5

Accelerated depreciation may be claimed at rates up to 25% higher than the normal rates for computer equipment as well as for fixed assets that are used for specified ecological purposes, science research or staff education or training.

Relief for Losses. Tax losses incurred in business operations may be carried forward for 10 years. Loss carrybacks are not allowed.

Groups of Companies. Under group relief provisions, companies in a group that consists only of companies resident in the RS may offset profits and losses for tax purposes. The group relief provisions are available if a parent company holds directly or indirectly at least 75% of the shares of subsidiaries. To obtain group relief, a group must file a request with the tax authorities. If group relief is allowed, the group companies must apply the group relief rules for five years. Each group company files its own annual income tax return and the parent company files a consolidated tax return based on the subsidiaries' tax returns. Any tax liability after consolidation is paid by the group companies with taxable profits on a proportional basis.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax, on goods sold for final consumption, including imports, and on services provided by legal entities, including wholesalers; certain goods are exempt, including exports; in general, tax is not payable on goods purchased for resale or for use in production, but each sale of alcohol, tobacco and coffee products is subject to tax; the tax paid by prior purchasers of such products is treated as a tax credit	20
(Value-added tax is expected to replace the sales tax in 2004.)	
Property tax, on rights in immovable property in the RS, including residential and business buildings, apartments, garages, buildings and rooms for resting and recreation, and other buildings; the tax also applies to registered shares in companies and ownership interests in limited liability companies; certain immovable property is exempt; tax is due within 10 days after receipt of property and is thereafter imposed annually based on the market value of the property as of 31 December of the preceding year	
Tax rates for rights in immovable property held by taxpayers that are required to maintain business books	0.4

Nature of Tax	Rate (%)
Tax rates for rights in immovable property held by other taxpayers; progressive rates	0.4 to 2
Registered shares in companies and ownership rights in limited liability companies	0.25
Absolute rights transfer tax, on transfers of rights to immovable property (generally the same definition as for the property tax described above) in the RS; certain transfers are exempt; tax base is the higher of the price stated in the contract for the transfer of the rights or the market value of the rights; tax is imposed on the transferor	
Registered shares in companies and ownership rights in limited liability companies	0.3
Other rights	5
Tax on financial transactions	0.22
Payroll taxes, on monthly gross salaries	
Tax on income; paid by employee	14
Tax on total amount of salaries; paid by employer	3.5
Social security contributions (for health and pension/disability funds); paid by	
Employer	16.25
Employee	16.25
Employment fund contributions; paid by	
Employer	0.55
Employee	0.55
Contributions for Serbian commercial chamber; paid by employer	0.19
Contributions for Belgrade commercial chamber; paid by employer	0.255

E. Miscellaneous Matters

Foreign-Exchange Controls. In the RS, the currency is the dinar (CSD).

In the RS, all payments, collections and transfers must generally be effected in dinars, but a “currency clause” may allow conversion from hard currency on the date of payment. In addition, the following transactions may be effected using foreign currencies:
- Sale and rental of flats, office space and other real estate;
- Debt servicing of foreign-currency loans in the RS;
- Collection of insurance premiums from nonresidents;
- Collection of premiums and transfers based on life insurance contracts, as well as transfers of amounts with respect to damage claims based on compulsory insurance of owners of motor vehicles that have a foreign registration plate;
- Purchase and sale of national securities denominated in foreign currency; and
- Payments into the guarantee fund of a member of a center for the registration, deposit and clearance of securities.

Residents and nonresidents may open foreign-currency accounts in RS banks or in foreign banks authorized to operate in the RS. Foreign currency may be held in such accounts and used for payments out of the RS, such as dividends and payments for purchases of imports, as well as for authorized foreign-currency payments in the RS.

Transfer Pricing. Under general principles, transactions between related parties must be made on an arm's-length basis.

Thin-Capitalization Rules. Tax deductions for loan interest and related expenses paid in dinars to related entities are limited by the following formula: four times the value of the taxpayer's own capital multiplied by 110% of the interest rate set by the National Bank for loans granted to commercial banks on 31 December of the preceding year. For foreign-currency loans, the multiplier of 110% is applied to the rate of the central bank of the state that issued the relevant currency. For banks and other financial organizations, the multiplier for capital is increased to 10%. Amounts exceeding these limitations may be deducted in the following year.

F. Treaty Withholding Tax Rates

The withholding tax rates under the former Federal Republic of Yugoslavia and the former Yugoslavia's tax treaties that remain in force are listed in the table below. It is suggested that taxpayers check with the tax authorities before relying on a particular tax treaty.

	Dividends %	Interest %	Royalties %
Belarus (a)	5/15	8	10
Belgium (b)	10/15	15	10
Bulgaria (a)	5/15	10	10
China (a)	5	10	10
Cyprus (b)	10	10	10
Czechoslovakia (d)	5/15	0	10
Denmark (b)	5/15	0	10
Egypt (b)	5/15	15	15
Finland (b)	5/15	0	10
France (b)	5/15	0	0
Germany (b)	15	0	10
Hungary (c)	10	0	10
Italy (b)	10	10	10
Macedonia (a)	5/15	10	10
Netherlands (b)	15	0	10
Norway (b)	10	0	10
Poland (c)	5/15	10	10
Romania (a)	10	10	10
Russian Federation (a)	5/15	10	10
Slovak Republic	5/15	10	10
Slovenia	5/10	10	5/10
Sweden (b)	5/15	0	0
Ukraine	5/10	0/10	10
United Kingdom (b)	5/15	10	10
Nontreaty countries	20 (e)	20	20

(a) The Federal Republic of Yugoslavia entered into this treaty.
(b) The former Yugoslavia entered into this treaty.
(c) The former Yugoslavia entered into this treaty. A new treaty was signed by the Federal Republic of Yugoslavia, but it has not yet been ratified.
(d) This treaty applies to the Czech Republic until the Union of Serbia and Montenegro enters into a new tax treaty with that country. The Federal Republic of Yugoslavia entered into a treaty with the Slovak Republic. See the above table for the withholding tax rates under the Slovak Republic treaty.
(e) For individuals, the withholding tax is imposed on only 50% of the dividends.

PART 2: REPUBLIC OF MONTENEGRO

A. At a Glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (a)(b)
Branch Tax Rate (%)	20 (a)
Withholding Tax (%)	
Dividends	15 (c)
Interest	5 (d)
Royalties from Patents, Know-how, etc.	15 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) This rate applies to taxable income exceeding €100,000. A 15% rate applies to taxable income up to €100,000.
(b) A 15% withholding tax is imposed on capital gains derived by nonresident companies and individuals (see Section B).
(c) This tax applies to resident and nonresident companies and individuals.
(d) This tax applies to nonresident companies and nonresident individuals.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in the Republic of Montenegro (RM) are subject to tax on their worldwide income. A company is resident in the RM if it is founded in the RM or if its actual management and control is exercised in the RM. Nonresident companies are companies founded and having their seat of actual management and control in other countries, but carrying on business in the RM. Nonresident companies are subject to tax only on their income derived from the RM.

Rates of Corporate Income Tax. Corporate income tax is imposed in the RM at progressive rates. The rates are 15% for taxable income up to €100,000, to 20% on taxable income in excess of €100,000.

Tax Incentives. Companies making investments in fixed assets (except passenger cars) are entitled to a reduction of corporate income tax equal to 25% of the investment made in such assets in the tax year, subject to a maximum limitation of 30% of the tax for the year.

A 100% tax credit for three years is granted to a newly established company in an underdeveloped municipality that is registered as a company undertaking a production activity.

A company that establishes a new business unit in an underdeveloped municipality qualifies for a tax credit for three years, which is prorated in accordance with the contribution of that unit to the company's total profit.

Capital Gains. Capital gains are included in taxable income and are subject to tax at the regular corporate income tax rates. Capital losses can be offset against capital gains arising on other transactions in the same year. Excess capital losses may be carried forward to offset future capital gains in the following five years.

A 15% withholding tax is imposed on capital gains derived by nonresident companies and individuals (see *Other Withholding Taxes* below).

Administration. The tax year in Montenegro is the calendar year except in the case of the dissolution of a company or the establishment of a new company during the year. Companies must file annual tax returns by 31 March of the year following the tax year.

Companies must make monthly advance payments of tax by the end of the month following the month for which the payment is due.

If the total amount of monthly payments is less than the amount of declared tax at the end of the year, the difference is paid to the tax authorities at the same time as the filing of the tax return. If the amount of total monthly payments exceeds the declared tax, the company receives a refund or the difference is treated as a prepayment of future monthly payments.

Dividends. A 15% withholding tax is imposed on all dividend distributions or participations in profits. This tax applies to resident and nonresident companies and individuals.

Other Withholding Taxes. For nonresident companies and individuals, a 5% withholding tax is imposed on interest, and a 15% withholding tax is imposed on capital gains, royalties, and fees for leasing of immovable property. For nonresident individuals, withholding tax is imposed on only 50% of the capital gains.

Foreign Tax Relief. Companies resident in the RM that perform business activities outside the RM may claim a tax credit for corporate income tax paid to other jurisdictions.

C. Determination of Trading Income

General. The amount of taxable income is determined by deducting allowable expenses from income received. Most business expenses, including costs of materials used in production and related services, are fully deductible for tax purposes. In addition, property taxes, contributions for mandatory social insurance paid by employers, fees and other public charges and contributions with the exception of penalties are allowed as deductible expenses.

The deductibility of certain business expenses is limited. The deductibility of the following types of expenses is limited to specified percentages of total taxable income.

Expenses	Percentage (%)
Medical, cultural, educational, scientific, religious, sports and humanitarian purposes	3
Protocol expenses (client-related entertainment expenses and gifts)	1*
Membership fees for chambers and unions	0.1

* Amounts paid to related parties are not deductible.

In addition, distributions to reserves for banks are considered deductible expenses up to the amount prescribed by the provisions of the Law on Banks.

The following expenses are not deductible for tax purposes:
- Expenses that are not related to a company's business activities;
- Expenses that cannot be documented;
- Interest for late payments of taxes and contributions, and penalties and fines;

- Interest paid to nonresidents and related parties at a higher than usual rate;
- Administrative expenses paid by a permanent establishment to its home office;
- Profit-sharing distributions made to employees; and
- Donations to political organizations.

Inventories. Inventories must be valued using the average price or first-in, first-out (FIFO) methods.

Tax Depreciation. For tax depreciation purposes, assets are grouped in five categories. The assets in the first category, as well as intangible assets, are depreciated using the straight-line method. The assets in the other categories are depreciated using the declining-balance method. The following are the five categories of depreciable assets and the applicable depreciation rates.

Category	Assets	Rate (%)
1	Buildings and structures	5
2	Motor vehicles (for example, cars, airplanes and boats) and specified equipment (for example, office equipment)	15
3	Tools, inventory, specified motor vehicles (buses and trucks) and equipment not included in the other categories	20
4	Specified equipment (for example, telephone and telegraph equipment and oil-drilling equipment)	25
5	Equipment for advertising (for example, billboards)	30

Relief for Losses. Losses incurred in business activities, with the exception of capital losses, may be carried forward for a period of five years to offset future taxable income. If a company changes its status, such as through a merger or takeover, losses can also be carried forward. Loss carrybacks are not allowed.

Groups of Companies. Groups of companies can consolidate their tax results if the companies are residents of the RM. A company is considered to be part of a group if another company controls at least 75% of that company. Under the group relief measures, each company must file its own tax balance sheet and the parent company must also file a consolidated tax balance sheet. Losses of one or more associated companies can be offset against profits of related companies in the consolidated tax balance sheet. After tax consolidation is approved, the group companies must remain part of the consolidated group for a period of at least five years.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (effective from 1 April 2004); imposed on sales of goods and rendering of services in the RM and on imports; basic products for human nutrition and public services, such as health services, are exempt	
Standard rate	17
Exports	0

Nature of Tax	Rate (%)
Real estate tax; rates vary depending on various factors regarding the property, including its nature, size, location and quality	0.08 to 0.8
Payroll taxes	
Tax on income; paid by employee (withheld by the employer at source)	0 to 25
Tax on gross amount of salaries; paid by employer (rate for Podgorica, the capital of the RM, is 2%)	Various
Social security contributions (for health and pension and disability funds); paid by	
Employer	19.5
Employee	19.5
Employment fund contributions; paid by	
Employer	0.5
Employee	0.5

E. Miscellaneous Matters

Foreign-Exchange Controls. The official currency in the RM is the euro (€).

A foreigner, together with another foreign investor or an RM investor, may establish a new company or invest in an existing company. Investments can be in the form of currency, assets, services or property rights and securities. A company in which a foreign investment is made can freely make payments abroad that represent a return of investment, repatriation of net assets or profits earned.

Under measures preventing money laundering, legal entities and entrepreneurs must report transactions involving a total amount exceeding €15,000 to the competent authority.

Transfer Pricing. Under general principles, transactions between related parties must be made on an arm's length basis.

F. Treaty Withholding Tax Rates

Section F in Part 1 of the chapter regarding the RS also applies to the RM. However, the nontreaty countries withholding tax rates for dividends, interest and royalties differ in the RS and the RM. For a listing of the domestic withholding tax rates in the RM, see Section A of this part of the chapter.

SEYCHELLES

(Country Code 248)

VICTORIA **GMT +4**

A.J. Shah & Associates*
Chartered Accountants
The Creole Spirit
Quincy Street
P.O. Box 18
Victoria, Mahé
Seychelles

612-612
Fax: 612-300
E-mail: ajshah@seychelles.net

* Technical Assistance firm

Corporate Tax

★ A.J. Shah	**612-612** **Mobile: 51-5050**
◆ Sunil Shah	**612-612** **Mobile: 71-7171**
Rajesh Mathur	**612-612** **Mobile: 71-5121**

A. At a Glance

Corporate Income Tax Rate (%)	40 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	40 (a)
Withholding Tax (%)	
Dividends	15 (b)
Interest	10/40 (c)
Royalties from Patents, Know-how, etc.	0/15 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) This is the maximum rate. See Section B.

(b) This withholding tax applies to dividends paid to nonresidents. The withholding tax is considered to be a final tax. Dividends paid to residents are not subject to tax.

(c) The 10% rate applies to interest paid to nonresidents other than banks, finance companies or other enterprises whose principal business is lending money. The 40% rate applies to interest paid to a resident or nonresident holder of a bearer security issued by a financial institution in Seychelles at the time of redemption or surrender of the security. The 10% and 40% withholding taxes are considered to be final taxes.

(d) The 0% rate applies to royalties paid to residents. The 15% rate applies to royalties paid to nonresidents for the following: the use of, or right to use, copyrights, patents, designs, models or trademarks; the use of secret formulas, processes or know-how; and scientific, industrial or commercial knowledge, information or services to the extent social security contributions (see Section D) have not been made on the payments. Social security contributions are payable on royalties for services performed in the Seychelles.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Under the Business Tax Act, resident and nonresident corporate and noncorporate businesses are subject to business tax on their income derived from the Seychelles.

A company is a resident of the Seychelles if it is incorporated there. In addition, a company not incorporated in the Seychelles that carries on business in the Seychelles is a resident if its central management and control are located in the Seychelles or if its voting power is controlled by shareholders who are residents of the Seychelles.

Rates of Corporate Income Tax. The same progressive business tax rates apply to corporate and noncorporate businesses. The following are the business tax rates.

Taxable Income Exceeding SR	Taxable Income Not Exceeding SR	Tax on Lower Amount SR	Rate on Excess %
0	24,000	–	0
24,000	48,000	0	25
48,000	96,000	6,000	30
96,000	–	20,400	40

The Investment Promotion Act 1994 offers various tax incentives to encourage investment in the Seychelles. These incentives include reduced rates of business tax, tax credits, special deductions and accelerated depreciation. The Ministry of Finance and Communications grants to investors Certificates of Approval if projects under the Investment Promotion Act 1994 are approved. An entity's Certificate of Approval specifies the incentives for which the entity is eligible and is subject to review every two years.

Capital Gains. Capital gains are not taxable in the Seychelles.

Administration. The tax year is the calendar year.

Annual tax returns are due on 31 March. However, the Commissioner of Taxes may allow tax agents to submit tax returns by 31 July for businesses declaring taxable income and by 31 October for businesses declaring taxable losses.

The tax shown on the annual tax return is payable by the date shown in the notice of assessment.

Companies must make monthly provisional tax payments during the tax year, based on the income for the preceding year. The payments are due by the 15th day of the month following the month for which a payment is due. At the beginning of each tax year, the Commissioner of Taxes issues a provisional tax assessment, which sets out the required provisional payments.

Dividends. A 15% withholding tax is imposed on dividends paid to nonresidents. Dividends paid to residents are not subject to tax. Dividends received from nonresident companies are not taxable.

Foreign Tax Relief. Seychelles does not grant relief for foreign taxes paid.

C. Determination of Trading Income

General. Taxable income is the income reported in companies' financial statements, subject to adjustments required by the tax law.

Interest derived from financial institutions and income derived from renting a building or part of a building for use exclusively as a residence are exempt from taxation.

Expenses incurred to earn taxable income are deductible, unless they do not pertain to the business of the taxpayer.

Social security contributions (see Section D) may be deducted from taxable income.

Inventories. For tax purposes, inventory may be valued at the lower of cost or market value, or at replacement cost.

Provisions. Provisions are not deductible for tax purposes.

Tax Depreciation. Under the Business Tax Act, office buildings are depreciated at a rate of 50% for the first year, and 25% for the second and third years. Hotels are depreciated at a rate of 20% for the first year and 10% for the following eight years. Other buildings are depreciated at a straight-line rate of 4%. For other assets, normal depreciation is calculated using the following straight-line rates.

Asset	Rate (%)
Plant and machinery	20
Office equipment	20
Vehicles	20
Computers	33*
Furniture and fittings	10

* The rate is 34% for the first year of depreciation.

Businesses may elect in writing to apply accelerated depreciation rates to a particular category of assets. This election must be made by the due date for the business tax return for the year in which the election is made or within an additional time period allowed by the Commissioner of Taxes. It may not be revoked during the period of ownership of the category of assets.

For depreciation purposes, the maximum value of a passenger salon car is SR 100,000 if Trades Tax (see Section D) does not apply to, or is not paid on, the vehicle. For all other passenger salon cars, the maximum value for depreciation purposes is SR 300,000.

In the year of acquisition, depreciation is allowed for the full year for assets acquired on or before 30 June. For assets acquired after that date, depreciation is calculated proportionally based on the period that the asset was installed or used.

Capital expenditure of up to SR 5,000 on the assets described above, other than buildings, is fully deductible in the year of expenditure.

Relief for Losses. Business tax losses may be carried forward for five years. Unabsorbed depreciation may be carried forward indefinitely. Tax losses may not be carried back.

Groups of Companies. Consolidated returns are not allowed. Each company must submit its own tax return.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Goods and services tax	
Locally manufactured goods listed in Schedules 1 and 2 of the regulations	12
Imported goods; imposed in addition to customs duty	12
Local service providers listed in Schedule 3 of the regulations and tourism-related service providers listed in Schedule 4 of the regulations	7 to 15
Social security contributions, on monthly salaries and benefits paid to employees; paid by	
Employer	
On first SR 1,000	10
On next SR 1,000	20
On next SR 8,000	35
On amounts exceeding SR 10,000	40
Employee	5
Trades Tax (customs duty), on imported goods	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. The Seychelles currency is the Seychelles rupee (SR).

Under the Foreign Earnings (Regulation) Act, 1996, persons (except for the persons described below) engaging in a trade or business or other activity with a nonresident must require the nonresident to make payment with respect to such trade, business or activity in a designated currency. The currency must be remitted or offered to sale to a financial institution within the earlier of 90 days from the date the person engages in a trade, business or activity or 21 days from the date of the payment, or within a longer period determined by the Central Bank of Seychelles based on the relevant circumstances. Persons excluded from these requirements are financial institutions, international business companies incorporated under the International Business Companies Act, holders of licenses under the International Trade Zone Act and persons carrying on nondomestic insurance business under the Insurance Act.

Debt-to-Equity Rules. Seychelles does not impose any thin-capitalization rules.

Transfer Pricing. Seychelles does not have transfer-pricing rules.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
China	5	10	10
Indonesia	10	10	10
South Africa	0	0	0
Nontreaty countries*	15	10/40	0/15

* For details, see Section A.

SINGAPORE

(Country Code 65)

SINGAPORE **GMT +8**

Ernst & Young
Mail Address:
P.O. Box 384
Singapore 900734

Street Addresses:
(Tax Department)
10 Hoe Chiang Road #18-00 **6220-4377**
Keppel Towers **Fax: 6223-4795**
Singapore 089315

(All Other Departments)
10 Collyer Quay #21-01 **6535-7777**
Ocean Building **Fax: 6532-7662 (General)**
Singapore 049315

International Tax Services

★ Lisa C. Lim, *International Tax and Tax-Effective Supply Chain Management/Transfer Pricing*
6421-8643
Mobile: 9048-6306
Fax: 6223-4795
E-mail: lisa.lim@sg.ey.com

Corporate Tax

★ Pok Soy Yoong	**6421-8899** **E-mail: soy-yoong.pok@sg.ey.com**
Ang Siew Lian	**6421-8807** **E-mail: siew-lian.ang@sg.ey.com**
Cheong Choy Wai	**6421-8226** **E-mail: choy.wai.cheong@sg.ey.com**
Chong Lee Siang	**6421-8202** **E-mail: lee.siang.chong@sg.ey.com**
Choo Eng Chuan	**6421-8212** **E-mail: eng.chuan.choo@sg.ey.com**
William Chua	**6421-8700** **E-mail: william.chua@sg.ey.com**
Jean de Souza	**6421-8636** **E-mail: jean.de-souza@sg.ey.com**
Kang Choon Pin	**6421-8204** **E-mail: choon.pin.kang@sg.ey.com**
Robert S.C. Lee	**6421-8688** **E-mail: robert.lee@sg.ey.com**
Winnie Liew	**6421-8225** **E-mail: winnie.liew@sg.ey.com**
Low Weng Keong	**6421-8686** **E-mail: weng-keong.low@sg.ey.com**
Latha Mathew	**6421-8609** **E-mail: latha.mathew@sg.ey.com**
Juliana Ng	**6421-8207** **E-mail: juliana.ng@sg.ey.com**
Tan Lee Khoon	**6421-8679** **E-mail: lee-khoon.tan@sg.ey.com**

Indirect Tax

Kor Bing Keong	**6421-8606** **E-mail: bing-keong.kor@sg.ey.com**
Yeo Kai Eng	**6421-8208** **E-mail: kai.eng.yeo@sg.ey.com**

Human Capital

Greg Schupp	**6421-8600** **E-mail: greg.schupp@sg.ey.com**
Jacinta Loi	**6421-8214** **E-mail: jacinta.loi@sg.ey.com**
Jeffrey Teong	**6421-8610** **E-mail: jeffrey.teong@sg.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	22 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	22 (a)
Withholding Tax (%) (b)	
Dividends	0 (c)
Interest	15
Royalties from Patents, Know-how, etc.	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (d)

(a) Various tax exemptions and reductions are available (see Section B).
(b) See Section F.
(c) See Section B.
(d) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Income tax is imposed on all income derived from sources in Singapore, together with income from sources outside Singapore if received in Singapore. However, a nonresident company that is not operating in or from Singapore is generally not taxed on foreign-source income received in Singapore. A company is resident in Singapore if the control and management of its business is exercised in Singapore; the place of incorporation is not relevant.

Effective from 1 June 2003, remittances of foreign income in the form of dividends, branch profits and services income are exempt from tax if the income is earned from jurisdictions with headline tax rates of at least 15%. Only persons resident in Singapore qualify for the tax exemption, and such foreign income must be subject to tax in the foreign jurisdiction from which it is received.

Rates of Corporate Income Tax. The standard corporate income tax rate is 22%. Seventy-five percent of the first S$10,000 of chargeable income, excluding Singapore dividend income, is exempt from tax, and 50% of the next S$90,000 is exempt from tax. The balance of chargeable income, including Singapore dividend income, exceeding S$100,000 is fully taxable at the standard rate of 22%. Singapore dividend income is exempt from tax if the dividend is paid by a company that falls under the one-tier system of taxation (see *Dividends* below).

Tax Exemptions and Reductions. The following tax exemptions and tax reductions are available in Singapore.

Pioneer Companies and Pioneer Service Companies. A pioneer enterprise is exempt from company tax on its qualifying profits for a period of 5 to 10 years.

Development and Expansion Incentive. The Development and Expansion Incentive is available to companies that engage in high value-added operations in Singapore but do not qualify for pioneer incentive status and to companies whose pioneer status has expired. Qualifying income of these companies is taxed at a rate of not less than 5%. The maximum initial relief period is 10 years, with possible extensions of up to 5 years at a time and a maximum total incentive period of 20 years.

Investment Allowances. Investment allowances are available as an alternative to pioneer status and other incentives. The allowances, which are granted in addition to the normal tax depreciation allowances, are calculated as a specified percentage (up to 100%) of expenditure on productive equipment.

Approved Royalties, Technical Assistance Fees, and Contributions to Research and Development Costs. Approved royalties, technical assistance fees, and contributions to research and development costs paid to nonresidents may be exempted from withholding taxes.

All the above incentives are also available under the *Headquarters Program* (see below).

Payments for Software, Information and Digitized Goods. Exemption from withholding tax applies to the following payments to nonresidents: payments accruing on or after 1 January 2001 for shrink-wrap software; payments accruing on or after 23 February 2001 for site licenses, software downloaded from the Internet by end-users and software bundled with computer hardware; and payments made by end-users on or after 28 February 2003 for the providing of information and digitized goods.

Payments for Use of Submarine Cable Capacity. Effective from 28 February 2003, payments for the use of capacity on submarine cable operated by nonresidents are exempt from withholding tax for an initial period of five years.

Foreign Royalties and Interest Income Used for Research and Development. Effective from 1 June 2003, companies approved under a new research and development (R&D) incentive are granted a tax exemption for an initial period of five years on foreign-source royalties and interest income that are used for R&D purposes.

Headquarters Program. The Headquarters Program (previously classified into Operational Headquarters, Business Headquarters, Global Headquarters and Manufacturing Headquarters) has been streamlined into an International Headquarters (IHQ) Award and a Regional Headquarters (RHQ) Award. The program applies to entities incorporated or registered in Singapore that provide headquarters services to their network companies on a regional or global basis. Under the IHQ and RHQ Awards, companies may enjoy incentive rates of 0% to 15% for a specified period on incremental qualifying income, depending upon the amount of commitment to Singapore. This commitment is demonstrated by various factors, including headcount, business spending and quality of people hired. Qualifying income includes foreign income from sales, services, royalties, franchise fees, management fees, commissions, and potentially dividends and interest income. These items must be earned from non-Singapore customers or payers.

Finance and Treasury Center Incentive. Income from specified treasury activities and services provided to related companies overseas is subject to a 10% tax for a period of up to 10 years, with possible extensions of up to 10 years at a time.

Approved Financial Institutions. Approved banks, merchant banks, fund managers, securities companies, trustee companies, futures companies, insurance companies and leasing companies pay a 10% tax on their qualifying profits. Under certain circumstances, a 5% tax rate or a tax exemption applies to specified income derived by some of these institutions.

Under a new Financial Sector Incentive Scheme that will be effective from 1 January 2004, several of the above incentives will be merged, and qualifying activities will be categorized into Enhanced Tier (ET) and Standard Tier (ST) activities. ET activities will be taxed at 5%, while ST activities will be taxed at 10%.

Shipping Incentives. Income derived from the operation of Singapore-flagged vessels in international waters is exempt from tax. Income derived by approved shipping enterprises from the operation of non-Singapore flagged vessels in international waters is exempt from tax for a period of 10 years, with possible extensions of up to 10 years at a time.

Approved International Freight and Logistics Operators. Approved ship agencies, ship management companies and logistics providers are taxed at a rate of 10% on their qualifying incremental income for a period of five years.

Global Trader Program. The Global Trader Program merges two previous incentive schemes, the Approved International Trader incentive and the Approved Oil Trader incentive. Under the program, approved companies enjoy a concessionary tax rate of 10% on qualifying transactions conducted on qualifying commodities and products, for the duration of the incentive period. Qualifying products include energy, agricultural, building, industrial, electrical, and consumer products, as well as commodity and product derivatives, including exchange-traded futures and over-the-counter derivatives.

Effective from 28 February 2003, an approved global trading company is granted concessionary tax rates of 5% and 10% on qualifying offshore trading income, depending on the level of its turnover and business spending. In addition, the Global Trader Program is expanded to include high-growth, medium-sized trading companies.

Approved Cybertrader Incentive. Approved companies in Singapore are taxed at a rate of 10% on their incremental income derived from qualifying electronic commerce transactions. The incentive is granted for a period of up to five years.

Venture Capital Funds Incentive. Gains derived from the disposal of approved local and overseas investments, interest on convertible loan stocks and dividends derived from approved overseas investments are exempt from tax or taxed at a concessionary rate of not more than 10% for a period of up to 10 years. Extension periods of up to five years each may be available, but the maximum total incentive period is 15 years.

Art and Antiques Incentive. Various types of tax relief are granted to certain businesses and transactions related to the art and antiques market. A tax rate of 10% applies for up to five years (with possible extensions) on qualifying income derived by approved art and antique dealers. Approved auction houses are exempt from tax on income derived from substantial auction activities in Singapore for the first five years, with possible extensions.

Capital Gains. Capital gains are not taxed in Singapore. In certain circumstances, the Singapore Revenue considers transactions involving the acquisition and disposal of real estate, stocks or shares to be the carrying on of a trade, and, as a result, gains arising from such transactions are taxable.

Administration. The tax year, known as a year of assessment, runs from 1 January to 31 December. The period for which profits are identified for assessment is called the basis year. Therefore, income earned during the 2003 basis year is assessed for taxation in the 2004 year of assessment. For companies engaged in business in Singapore that adopt an accounting period other than the calendar year, the assessable profits are those for the 12-month accounting period ending in the year preceding the year of assessment. However, investment income, such as dividends, earned by such companies is assessed on a calendar-year basis.

A company is normally required to file an income tax return by 31 July of the year of assessment. An estimate of the taxable income of the company must be filed within three months of the end of the accounting year.

Income tax is due within one month after the date of issue of the notice of assessment. In certain circumstances, companies are permitted to pay tax in monthly installments, up to a maximum of 10, the first installment being payable one month after the end of the accounting period.

A late payment penalty of 5% of the tax due is imposed if the tax is not paid by the due date. If the tax is not paid within 60 days of the imposition of the 5% penalty, an additional penalty of 1% of the tax is levied for each complete month that the tax remains outstanding, up to a maximum of 12%.

Penalties of up to S$1,000 are imposed for late filings of tax returns.

Dividends. Effective from 1 January 2003, a one-tier system of taxation replaces Singapore's full imputation system. Under the one-tier system, dividends paid by a company are exempt from income tax in the hands of shareholders, regardless of whether the dividends are paid out of taxed income or tax-free gains. However, a five-year transitional rule allows companies to continue to pay franked dividends to their shareholders up to 31 December 2007 under the prior imputation system, using corporate income tax that has been paid or deemed paid through 31 December 2002.

Under Singapore's full imputation system, dividends paid by a resident company out of profits subject to the normal corporate tax rate were deemed to be paid net of a 22% tax. This tax could be treated as paid (franked) out of the corporate income tax that had already been paid on the company's taxable profits. Only if the tax that was deemed to be deducted from dividends exceeded the cumulative tax on the company's profits was the company required to pay the excess amount to the Singapore Revenue. Such payments were treated as advance payments of corporate income tax and could be used to offset future corporate tax liabilities. The 22% tax deducted at source was credited against the shareholder's tax liability, and any excess of the credit over the tax liability was refundable. Nonresident companies were not subject to these imputation rules and could distribute their after-tax profits free of any additional Singapore tax liability. Resident companies enjoying tax incentives were also generally not subject to the imputation rules with respect to dividends paid out of the profits to which the incentives applied.

Deemed dividend distributions could result from share capital reductions, share buy-backs and redemptions. However, distributions made by a liquidator in the course of winding up a company were considered to be of a capital nature and consequently not subject to income tax.

Foreign Tax Relief. Singapore has entered into comprehensive double tax treaties with 50 countries, but notably not with the United States. Under Singapore rules, a foreign tax credit is limited to the lower of the foreign tax paid and the Singapore tax payable on that income, and the credit is generally granted on a source-by-source basis. A unilateral tax credit system, similar to treaty relief, is also available for certain income derived from outside Singapore that is remitted to Singapore. This system is extended to royalties received from nontreaty countries, effective from the 2004 year of assessment.

C. Determination of Taxable Income

General. In general, book profits reported in the audited financial statements prepared under generally accepted accounting principles are adjusted in accordance with the Singapore tax rules to arrive at the taxable income.

For expenses to be deductible, they must be incurred wholly and exclusively in the production of income and must be revenue in nature. Effective from the 2004 year of assessment, revenue expenses incurred from the first day of the accounting year in which a business earns its first dollar of trade revenue are deductible for tax purposes. If the business can prove that it has started trading and incurred revenue expenses earlier than that date, it is allowed to deduct such expenses as well.

Motor vehicle (other than commercial vehicle) expenses are generally not deductible, and a limit is imposed on the deductibility of medical expenses. Special rules govern the deductibility of expenses for investment companies.

Expenses attributable to foreign-source income are not deductible unless the foreign-source income is received in Singapore and subject to tax in Singapore. In general, offshore losses may not be offset against Singapore-source income.

No deduction is allowed for the book depreciation of fixed assets, but tax depreciation (capital allowances) is granted according to statutory rates (see *Capital Allowances* (*Tax Depreciation*) below).

Double Deductions. Double deductions are available with respect to certain expenses relating to approved trade fairs, exhibitions or trade missions, maintenance of overseas trade offices, research and development, donations and recruitment of overseas talent.

Inventories. Trading inventory is valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis; the last-in, first-out (LIFO) basis is not accepted.

Provisions. Specific provisions for doubtful debts may be deducted, but only to the extent that the debts arose from the trade and have proven to become irrecoverable during the basis period. Provisions of a general nature are not allowable (except on a limited basis in the case of certain financial institutions).

Capital Allowances (Tax Depreciation)

Plant and Machinery. Depreciation allowances are given for capital expenditures incurred on the acquisition of plant and machinery, including commercial vehicles, used for the purposes of a trade or business. Most of these expenditures may be written off in equal amounts over three years. The cost of the following may be written off in the year of acquisition: computers; generators; factory or office automation equipment; robotic machinery; certain efficient pollution-control equipment; certified energy-efficient equipment or approved energy-saving equipment; and certain industrial noise- and chemical hazards-control equipment. Expenditures on automobiles generally do not qualify for capital allowances.

Industrial Buildings. An initial allowance of 25% plus an annual straight-line allowance of 3% are granted for buildings used for specified industrial purposes. No such allowances are granted for commercial buildings or hotels other than for approved hotels on the island of Sentosa.

Intellectual Properties. Subject to the approval by the relevant authorities, companies carrying on a trade or business may claim writing-down allowances on capital expenditure incurred in acquiring approved intellectual property (IP) rights on or after 23 February 2001. The allowances are calculated on a straight-line basis over five years. Writing-down allowances are granted automatically for capital expenditure incurred on the acquisition of IP on or after 1 November 2003 if the legal and economic ownership of the IP lies with Singapore companies. This concession is granted for an initial period of five years.

A five-year writing down allowance is also available to a company carrying on a trade or business that has incurred expenditure under an approved cost-sharing agreement with respect to research and development activities for purposes of that trade or business.

Submarine Cable Systems. Effective from the 2004 year of assessment, payments for IRUs for submarine cable systems qualify for a writing-down allowance over the period of use.

Other Matters. Allowances are generally subject to recapture on the sale of a qualifying asset if the sales proceeds exceed the tax-depreciated value. If sales proceeds are less than the tax-depreciated value, an additional corresponding allowance is given.

Relief for Trading Losses. Trading losses may be offset against all other chargeable income of the same year. Unused losses may be carried forward indefinitely. Excess capital allowances can also be offset against other chargeable income of the same year and carried forward indefinitely, provided the trade giving rise to the capital allowances is still carried on.

The carryforward of losses and excess capital allowances is subject to the shareholders remaining substantially (50% or more) the same at the end of the year in which the losses or capital allowances arose and on the first day of the year of assessment in which relief is claimed. If the shareholder of the loss company is itself another company, look-through provisions apply through the corporate chain to the final beneficial shareholder.

The Singapore Revenue has the authority to allow companies to deduct their tax losses and excess capital allowances, notwithstanding a substantial change in ownership at the relevant dates, if the change is not motivated by tax considerations (such as when the change is caused by the nationalization or privatization of industries or if the shareholding of the company or its parent changes substantially as a result of the shares being widely traded on recognized exchanges). However, these losses may be carried forward to offset only profits from the same business.

Groups of Companies. Under group relief measures, current-year unabsorbed losses, unabsorbed capital allowances and unabsorbed donations may be transferred by one company to another within a group. A group consists of a Singapore-incorporated parent company and all of its Singapore-incorporated subsidiaries. Two

Singapore-incorporated companies are members of the same group if one is 75% owned by the other, or both are 75% owned by a third Singapore-incorporated company.

The Singapore Revenue examines each set of accounts and computations separately, and intercompany transactions are expected to comply with normal arm's length principles.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Goods and services tax, on any supply of goods and services, except an exempt supply, made in Singapore by a taxable person (a business is taxable if its annual supplies exceed S$1 million) in the course of business and on imports of goods	0/5
Social security contributions (Central Provident Fund); foreigners holding work passes are exempt	
For employees up to age 55, on monthly ordinary wages (lower rates apply if employee is older than age 55); the monthly salary ceiling for contributions is S$5,500 for ordinary wages; the monthly salary ceiling will be reduced to S$5,000 in January 2005 and to S$4,500 in January 2006; contributions paid by	
Employer (limited to S$780 a month)	13
Employee (limited to S$1,200 a month)	20
Contributions on additional wages, such as bonuses and nonregular payments (if total wages exceed S$100,000, generally limited to contributions payable on 40% of total annual ordinary wages); paid by	
Employer	13
Employee	20
(For both contributions on ordinary wages and contributions on additional wages, the employer's contribution rate for workers aged 50 to 55 will be reduced to 11% in January 2005 and to 9% in January 2006; lower contribution rates will apply to individuals older than age 55. The employee's contribution rate for workers aged 50 to 55 will be reduced to 19% in January 2005 and to 18% in January 2006; lower contribution rates will apply to individuals older than 55.)	
Skills development levy, payable by employer for employees earning S$1,500 or less a month	1

E. Miscellaneous Matters

Foreign-Exchange Controls. Singapore does not impose any restrictions on the remittance, or repatriation of funds in or out of Singapore.

Debt-to-Equity Ratios. Singapore does not impose any specific debt-to-equity restrictions.

Antiavoidance Legislation. Legislation permits the Singapore Revenue to disregard or vary any arrangement that has the purpose or effect of altering the incidence of taxation or reducing or avoiding Singapore tax liability. The Singapore Revenue also may tax profits of a nonresident in the name of a resident as if the latter is an agent of the former, if the profits of the resident from business dealings with the nonresident are viewed as lower than expected as a result of the close connection between the two parties. To date, these provisions have seldom been invoked in practice.

F. Domestic and Treaty Withholding Tax Rates

In general, withholding tax at a rate of 15% is imposed on interest paid to nonresidents. However, interest paid by approved banks in Singapore on deposits held by nonresidents is exempt from tax if the nonresidents do not have a permanent establishment in Singapore and do not carry on business in Singapore by themselves or in association with others. In addition, tax exemption also applies to interest paid on certain qualifying debt securities issued before 31 December 2008 to nonresidents who do not have a permanent establishment in Singapore. The exemption also applies to nonresidents who have a permanent establishment in Singapore, but do not use the funds obtained from the operations of the permanent establishment to acquire the debt securities.

A 15% withholding tax is also imposed on the following payments made to nonresidents: royalties; payments for the use of, or the right to use, scientific, technical, industrial or commercial knowledge or information; and rent or other payments for the use of movable property.

Effective from 3 May 2002, payments made to nonresident professionals for services performed in Singapore are subject to a final withholding tax of 15% on their gross income, unless the nonresident professionals elect to be taxed at 22% of net income.

In general, a 22% withholding tax is imposed on payments to nonresidents for assistance or services rendered in connection with the application or use of scientific, technical, industrial or commercial knowledge or information, and for management or assistance in the management of any trade, business or profession. However, services performed wholly outside Singapore are exempted by concession. For management fees paid to a nonresident related party, this concession applies only if the fees represent a pure cost reimbursement without any mark-up. If the fees include a mark-up, withholding tax applies to the amount of the mark-up.

Tax treaties may override the above withholding tax rules.

Singapore does not levy a separate withholding tax on dividends (see Section B).

The rates of withholding tax on interest and royalties may be reduced under the terms of a double tax treaty, and details of the rates applicable to treaty countries are set out below.

	Interest %	Royalties (j) %
Australia	10	10
Austria	5 (a)(b)	5
Bangladesh	10	10
Belgium	15	0
Bulgaria	5 (a)	5
Canada	15 (b)	15
China	10 (a)(c)	10
Cyprus	10 (a)(c)	10
Czech Republic	0	10
Denmark	10 (a)	10
Finland	5 (a)	5
France	10 (a)(b)	0
Germany	10 (a)	0
Hungary	5 (a)(b)	5
India	10/15 (a)(d)	10/15 (k)
Indonesia	10 (a)(b)	15
Israel	15	0
Italy	12.5 (a)	15
Japan	10 (a)	10
Korea	10 (a)	15
Kuwait (o)	7 (a)	10
Latvia	10 (a)	7.5
Luxembourg	10 (a)	10
Malaysia	15	15
Mauritius	0	0
Mexico	15 (b)(e)	10
Myanmar	10 (a)(f)	10/15 (l)
Netherlands	10 (a)	0
New Zealand	15	15
Norway	7 (a)	7
Pakistan	12.5 (a)	10
Papua New Guinea	10	10
Philippines	15 (b)	15 (m)
Poland	10 (a)	10
Portugal	10 (a)(b)	10
Romania	5 (a)(b)	5
South Africa	0	5
Sri Lanka	10 (a)(b)	15
Sweden	15 (a)(g)	0
Switzerland	10 (h)	5 (h)
Taiwan	15	15
Thailand	10/15 (a)(d)	15
Turkey	10 (a)(i)	10
United Arab Emirates	7 (a)	5 (n)
United Kingdom	10 (a)	10
Vietnam	10 (a)	5/15
Nontreaty countries	15	15

(a) Interest paid to the government of a contracting state is exempt.
(b) Interest is exempt under certain specified circumstances.
(c) The rate is 7% for interest paid to banks or other financial institutions.
(d) The 10% rate applies to interest paid to financial institutions. The 15% rate applies to other interest.
(e) The rate is 5% for interest paid to banks.
(f) The rate is 8% for interest paid to banks or other financial institutions.
(g) The rate is 10% for interest paid by industrial undertakings to financial institutions in Sweden.

(h) No withholding tax applies to interest or royalties with respect to certain approved transactions.
(i) The rate is 7.5% for interest paid to financial institutions.
(j) In certain circumstances, the reduced rates do not apply to royalties for copyrights of literary or artistic works, including cinematographic films and films or tapes for radio or television broadcasting. Reference should be made to the applicable tax treaty.
(k) The 10% rate applies to amounts paid with respect to industrial, commercial or scientific equipment. The 15% rate applies to the following: royalties paid for copyrights of literary or artistic works, patents, trademarks, designs, models and certain other items; payments for information concerning industrial, commercial or scientific experience; and fees for technical services as defined in the treaty.
(l) The 10% rate applies to payments relating to patents, designs, models, plans, secret formulas or processes, and to industrial, commercial or scientific equipment or experience. The 15% rate applies to payments for trademarks and for copyrights of literary, artistic or scientific works.
(m) Royalties approved under the Economic Expansion Incentives (Relief from Income Tax) Act are exempt.
(n) This rate does not apply to royalties with respect to the operation of mines or quarries or the exploitation of natural resources. A contracting state may exempt or reduce the tax on industrial royalties in accordance with its domestic laws.
(o) The treaty was ratified on 2 July 2003 and is effective in Singapore with respect to taxes on income for the 2004 year of assessment and future years.

SLOVAK REPUBLIC

(Country Code 421)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@sk.ey.com

For purposes of the e-mail addresses, accent marks are ignored.

BRATISLAVA **GMT +1**

Ernst & Young, k.s.
Zochova 6-8
P.O. Box 19
810 00 Bratislava 1
Slovak Republic

(2) 5922-9111
Fax: (2) 5922-9112

Corporate Tax

Peter Chrenko	**(2) 5922-9600** **Mobile: 908-792-233**
Viera Karlíková	**(2) 5922-9604** **Mobile: 905-820-013**
Tatiana Knošková	**(2) 5922-9611** **Mobile: 908-792-204**
Dana Škodná	**(2) 5922-9612** **Mobile: 905-492-200**
Petr Spácil	**(2) 5922-9620** **Mobile: 905-492-203**

This chapter reflects measures in the new Income Tax Act, which is effective from 1 January 2004.

A. At a Glance

Corporate Income Tax Rate (%)	19
Capital Gains Tax Rate (%)	19
Branch Tax Rate (%)	19

Withholding Tax (%) (a)	
Dividends	0
Interest	19 (b)
Royalties	19 (c)
Income from Media	19 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (e)

(a) The rates may be reduced by an applicable double tax treaty.
(b) This is known as a tax guarantee, which is withheld at source from interest on credits and loans paid to nonresident lenders. The tax guarantee represents a prepayment of tax rather than a final tax.
(c) This tax applies to nonresidents only. For resident companies, royalties are included in taxable income subject to corporate tax.
(d) This tax applies to income received by authors (individuals) for contributions to newspapers, radio and television. The withholding tax is imposed on 75% of the gross income.
(e) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Slovak (resident) companies are subject to corporate income tax on their worldwide income. Slovak companies are those incorporated or having their place of management in the Slovak Republic. Foreign (nonresident) companies are subject to corporate income tax only on their Slovak-source income, such as income attributable to a permanent establishment.

Under Slovak law, a permanent establishment is a fixed place or facility for nonresidents to carry out activities in the Slovak Republic. A permanent establishment includes an administrative location, branch, office, workshop, sales location, technical facility or location for research and extraction of natural resources. A building site, construction and assembly works site is regarded as a permanent establishment only if the duration of the activities exceeds six months. The performance of repairs and certain other services (commercial, technical or other consulting services and management services) by a company, its employees or persons working for it is regarded as a permanent establishment only if the duration of the activities exceeds 6 months, either continuously or divided into one or more periods in the course of 12 consecutive calendar months. A permanent establishment also includes the activity of an agent who negotiates or enters into agreements on behalf of a nonresident company under a power of attorney.

Rates of Corporate Tax. The corporate income tax rate is 19%.

Investment Incentives. The Slovak Republic offers various investment incentives. However, the new Income Tax Act provides that certain incentives may be granted only until 31 December 2006 (see *Tax Credit* below) and that tax holidays may no longer be granted (see *Tax Holiday* below). Information regarding the investment incentives currently offered by the Slovak Republic is provided below.

Tax Credit. The tax credit and the contributions for new jobs and training (see below), which were included in the Investment Incentives Act, are also included in the new Income Tax Act. However, the Income Tax Act provides that these incentives may be granted only until 31 December 2006.

Under the Investment Incentives Act, effective from 1 January 2002, companies that have their seat in the Slovak Republic, that were established after 31 December 2001 and that are not benefiting from tax holidays under the Income Tax Act (see *Tax Holiday* below) may apply for a 100% tax reduction (full tax credit) for 10 consecutive tax years if they satisfy the following conditions:

- They develop a new establishment, or expand or enlarge an existing establishment or modernize an existing establishment, for any of the following purposes:
  - To begin new production or the performance of new services;
  - To expand or modernize existing production or services;
  - To change the range of products;
  - To substantially change the production process; or
  - To purchase a company or a part of a company having financial difficulties.
- They purchase tangible or intangible fixed assets for a sum of at least SKK 400 million, of which at least SKK 200 million must be covered by the company's equity. These thresholds are reduced to SKK 200 million and SKK 100 million, respectively, if the business activities are performed in a region with an unemployment rate of at least 10%, as of the last day of the calendar half-year preceding the half-year in which the request for investment incentives is filed.
- They purchase the tangible and intangible fixed assets described above within three years of the date on which the investment incentive was granted.
- They generate 80% of total revenue from the activities stated in the application form.
- They meet certain other specified conditions (see *State Aid Act* below).

Alternatively, if a company satisfies the conditions stated in the bullets above for only a portion of its activities, it may benefit from a proportional tax credit for 10 consecutive tax years. This credit equals the corporate income tax attributable to a portion of the tax base, which is determined by applying a coefficient to the overall tax base. The following is the coefficient:

$$\frac{\text{value of investment for which an investment incentive is granted}}{\text{equity + value of investment for which an investment incentive is granted}}$$

For purposes of the above coefficient, the value of the investment may not exceed the total acquisition price of tangible and intangible fixed assets acquired during the period beginning when the investment incentives were granted by the government and ending on the last day of the year for which the tax credit is claimed. Equity is measured as of the end of the year in which the investment incentive is granted.

Contributions for New Jobs and Training. Under the Investment Incentives Act, companies that meet the requirements stated above for the full tax credit and the proportional tax credit may also benefit from government contributions for new jobs and training.

Contributions of up to SKK 160,000 per new job may be granted for the creation of new jobs. The amount of the contribution depends on the region where the job is created. If the unemployment rate exceeds 20%, the contribution is SKK 100,000 for each new job created. To qualify for the contribution, an employer must demonstrate that a new job has been filled for at least 300 days in a 12-month period beginning with the date for the creation of the new job and that the average number of employees in the year in which a new job is created is at least equal to the average number of employees in the preceding year. Contributions for the creation of new jobs are granted on the condition that the increase in the number of jobs is preserved for at least the following five years.

A contribution of up to SKK 10,000 may be granted for the training of employees to perform newly created jobs. The contribution is granted only if the employee is employed for at least 12 months.

Approval for the Incentives. Companies satisfying the conditions described above for the tax incentives must apply for the approval of the Slovak government to benefit from such incentives. The Slovak government does not automatically grant the incentives to applicants satisfying the conditions described above. The government determines whether the applicant satisfies the general conditions for the granting of incentives under the State Aid Act (see *State Aid Act* below). It may also consider the economic importance of the investment and the impact of the investment on competition in the relevant market.

State Aid Act. Companies must meet additional conditions under the State Aid Act to be granted incentives. Approval of the State Aid Office is a prerequisite for government approval of the application for investment incentives. The cumulative amount of investment incentives granted to a company cannot exceed the amount of the state aid approved by the State Aid Office. It is expected that the State Aid Office will be dissolved by May 2004, and that its powers will be transferred to the Ministry of Finance and to the European Commission.

The State Aid Act imposes a cap on state aid for investment projects, which depends on the number of qualifying investments. The cap is set as a percentage of such investments, which varies depending on the development of the region where the investment will be located. For 2003, a cap of 50% of qualifying investments applies to all regions of the Slovak Republic except for the Bratislava region, which is limited to 20% of qualifying investments. The State Aid Act also imposes the following additional conditions:

- State aid can be granted only up to 50% of the acquisition price of fixed assets purchased by investor (fixed assets are land, buildings, machinery, instruments and equipment); and
- The company must use the fixed assets for at least five years, and a written declaration affirming such use must be filed during the application process.

Tax Holiday. The new Income Tax Act abolishes tax holidays, effective from 1 January 2004. However, entities granted tax holidays before that date may continue to enjoy the tax holidays for the approved length of the holidays. The tax holiday measures are discussed below.

Effective from 1 January 2001, a tax credit under Section 35a of the Income Tax Act (tax holiday) is available to companies that have their seat in the Slovak Republic and are established before

31 December 2003 (except for those established as a result of transformation, merger or split of companies). Companies may be granted a 100% reduction of the tax shown in their tax returns for five consecutive tax years if certain conditions are satisfied. In addition, they may benefit from a 50% tax credit for the following five years if they make further cash investment.

The tax holiday is available to a company if the following conditions are satisfied:

- The company did not have a positive tax base before 2001.
- The company is engaged in the production of goods (including the processing of materials or components supplied) or in the performance of specified tourism and software services.
- The company's revenues from the business activities mentioned in the preceding bullet account for at least 60% of its total revenues.
- The paid-up cash contributions to the basic capital of the company total at least the following:
  - €4.5 million, if its principal activity is the production of goods;
  - €3 million, if its principal activity is the production of goods and if the company's seat or place of business is in a district with an unemployment rate exceeding 10% as of 31 December of the year preceding the year of company's establishment; or
  - €2 million, if its principal activity is the performance of specified tourism and software services.
- A foreign investor's share of paid-up contributions to the basic capital of the company is at least 60% during the entire tax holiday period.

Like the other incentives described above, companies must comply with the conditions specified in the State Aid Act to be granted the tax holiday. The cumulative tax benefit from the tax holiday may not exceed the amount of state aid approved by the State Aid Office.

Capital Gains. Capital gains are subject to income tax at a rate of 19%.

Administration. The tax year is the calendar year.

Tax returns for each tax year must be filed by 31 March of the following year. Extensions may be granted on a case-by-case basis up to a maximum of three months. An extension may be granted until 30 September if the company received income from foreign sources.

In general, monthly or quarterly prepayments of tax are required, depending on the amount of tax liability for the preceding year.

Dividends. Dividends are not subject to tax in the Slovak Republic. Specific transitional rules apply to dividends distributed out of profits realized before 2004.

Foreign Tax Relief. Under applicable double tax treaties, a foreign tax credit is available to Slovak residents for foreign tax paid on income earned abroad. However, the amount of the foreign tax credit is limited to either the amount allowed under the applicable double tax treaty or the Slovak tax attributable to the respective foreign income, whichever is less.

C. Determination of Trading Income

General. Corporate tax is based on the statutory accounting profit as adjusted for certain items prescribed by the tax law.

The following items are not included in the tax base:
- Dividends;
- Differences resulting from the revaluation of securities and derivatives to their real value; and
- Foreign-exchange differences from the valuation of assets and liabilities.

Items that are specifically deductible for tax purposes include tax depreciation (see *Tax Depreciation* below) and certain expenses relating to health and safety at work and environmental protection.

Nondeductible items include the following:
- Entertainment and travel allowances in excess of the statutory limits;
- Penalties and fines, except for contractual penalties;
- Additional fines for damage to the environment;
- Taxes paid on behalf of other taxpayers;
- Damages exceeding compensation received, unless the damage arose as a result of natural disaster, or it was caused by a person or persons unknown and this is confirmed by the police;
- Most reserves and provisions (see *Provisions* below);
- Bad debts, unless specific conditions are met; and
- Commissions, unless they are paid to an entity with an appropriate trade license (for mediation services).

Inventories. Inventories may be valued using the first-in, first-out (FIFO) or average-cost methods. Costs include all costs necessary to convert the inventory to its current condition and to transport it to its current location. Shortages and damages are not tax deductible, unless the damage resulted from a natural disaster, or it was caused by person or persons unknown and this is confirmed by the police.

Provisions. Reserves and provisions are generally not deductible, with certain exceptions specified by law. For example, the following reserves are deductible in specified circumstances: untaken vacations; adjustments to receivables; and receivables in bankruptcy proceedings. Special rules apply to banks and insurance companies.

Tax Depreciation. Under the Income Tax Act, tangible assets are divided into four categories, each of which specifies a period (a specified number of years, which range from 4 to 20) over which all assets in the category are depreciated. Under the Slovak Act on Accounting, intangible assets must be depreciated over a period not exceeding five years beginning on the date of acquisition.

Tax depreciation may be calculated using either the straight-line method or the accelerated method. A company chooses the method on an asset-by-asset basis and, after it chooses a method, it cannot change it during the depreciation period.

Relief for Losses. A company may carry forward losses incurred in the tax periods preceding the year in which it first declares a positive tax base and incurs tax liability. It may carry forward such losses to the five tax periods following the year of the loss.

If the tax period is shorter than 12 months (for example, if the company is liquidated or changes its financial year), the tax loss that would normally be deductible is fully deductible in that tax period.

Groups of Companies. Slovak law does not contain any provisions regarding the taxation of groups in the Slovak Republic.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	19
Social security contributions; imposed on monthly wages with monthly caps on wages ranging from approximately SKK 20,000 to SKK 40,000 for different types of social security contributions; contributions are deductible for employers; paid by	
Employer	34.45
Employee	13.4
Real estate transfer tax; imposed on purchase price or administratively determined price, whichever is higher	3

E. Miscellaneous Matters

Transfer Pricing. If the price agreed between related parties differs from the usual market price and if this difference cannot be satisfactorily justified, the tax authorities may adjust the tax base to reflect the usual market price.

The transfer-pricing rules apply to personally or economically related foreign persons, as well as to other related foreign persons. An economic relationship exists if the direct or indirect participation in the basic capital of, or voting rights in, one company by another company is higher than 25%. A personal relationship is defined as a relationship between members of statutory bodies or supervisory boards of the companies. Other relationships are defined as relationships created for the purpose of decreasing the tax base or increasing the tax loss.

Under the Slovak transfer-pricing measures, an advance ruling may be obtained through an agreement with the tax authorities on the transfer-pricing method for transactions between a Slovak company and a related foreign party. The Slovak transfer-pricing measures specify the acceptable transfer-pricing methods, which conform to the methods included in the Organization for Economic Cooperation and Development (OECD) Transfer-Pricing Guidelines.

Debt-to-Equity Rules. Under the new Income Tax Act, effective from 1 January 2004, the previously existing thin-capitalization rules are eliminated.

F. Treaty Withholding Tax Rates

The former Czechoslovakia concluded a multilateral tax treaty with other members of the Council for Mutual Economic Assistance (Comecon or CMEA). The other signatories to the treaty included Bulgaria, Hungary, Mongolia, Poland, Romania and the USSR. This treaty provides for a 0% withholding rate for dividends, interest and royalties. Because the Slovak Republic has entered into new treaties with some member countries of Comecon, the applicability of the Comecon treaty to such countries should be verified.

The Slovak Republic honors the bilateral tax treaties that were concluded by the former Czechoslovakia. The withholding rates under these treaties, and the treaties concluded by the Slovak Republic are listed in the table below.

The treaty rates apply if the recipient is the beneficial owner of the income. To obtain the benefit of the reduced treaty rates, the beneficial owner must provide a tax residency certificate.

Under the new Income Tax Act, effective from 1 January 2004, dividends are exempt from tax. Consequently, the treaty rates do not apply to dividends paid by Slovak companies.

	Dividends %	Interest %	Royalties %
Australia	15	10	10
Austria	10	0	0/5 (l)
Belarus	10/15 (d)	0/10 (c)	5/10 (l)(m)
Belgium	5/15 (d)	0/10 (s)	5
Bosnia-Herzegovina	5/15 (d)	0	10
Brazil	15	0/10/15 (c)(k)	15/25 (p)
Bulgaria	10	0/10 (c)	10
Canada	5/15 (b)	0/10 (c)	0/10 (l)
China	10	0/10 (c)	10
Croatia	5/10 (d)	10	10
Cyprus	10	0/10 (c)	0/5 (l)
Czech Republic	5/15 (a)	0	10
Denmark	15	0	0/5 (l)
Estonia (z)	10	0/10 (c)	10
Finland	5/15 (d)	0	0/1/5/10 (l)(w)
France	10	0	0/5 (l)
Germany	5/15 (d)(e)	0	5
Greece	– (x)	0/10 (c)	0/10 (l)
Hungary	5/15 (d)	0	10
Iceland	5/10 (d)	0	10
India	15/25 (d)	0/15 (c)(s)	30 (f)
Indonesia	10	0/10 (c)	10/15 (l)
Ireland	0/10 (d)	0	0/10 (l)
Israel	5/10 (b)	2/5/10 (t)	5
Italy	15	0	0/5 (l)
Japan	10/15 (g)	0/10 (c)	0/10 (l)
Korea	5/10 (d)	0/10 (y)	0/10 (l)
Latvia	10	0/10 (c)	10
Lithuania	10	0/10 (c)	10
Luxembourg	5/15 (d)	0	0/10 (l)
Macedonia	5/15 (d)	0	10
Malta	5 (u)	0	5
Netherlands	0/10 (d)	0	5
Nigeria	12.5/15 (b)	0/15 (c)	10

	Dividends %	Interest %	Royalties %
Norway	5/15 (d)	0	0/5 (l)
Poland	5/10 (n)	0/10 (c)	5
Portugal (z)	15	0/15 (c)	10
Romania	10	0/10 (c)	10/15 (r)
Russian Federation	10	0	10
Slovenia	5/15 (d)	0	10
South Africa	5/15 (d)	0	10
Spain	5/15 (d)	0	0/5 (q)
Sri Lanka	0/6/15 (h)	0/10 (o)	0/10 (i)
Sweden	0/10 (d)	0	0/5 (l)
Switzerland	5/15 (d)	0/10 (j)	0/5 (l)
Tunisia	10/15 (d)	0/12 (c)	5/15 (l)
Turkey	5/15 (d)	0/10 (c)	10
Turkmenistan	10	0/10 (c)	10
Ukraine	10	10	10
United Kingdom	5/15 (v)	0	0/10 (l)
United States	5/15 (b)	0	0/10 (l)
Yugoslavia	5/15 (d)	10	10
Nontreaty countries	0	19 (aa)	19

(a) The 5% rate applies to dividends paid to a company that owns more than 10% of the capital of the payer of the dividends.

(b) The lower rate applies if the beneficial owner is a company that controls at least 10% of the voting power of the payer.

(c) The lower rate applies to interest on government loans.

(d) The lower rate applies if the recipient is a company that directly holds at least 25% of the capital of the payer of the dividends.

(e) If the corporate tax rate in a contracting state on distributed profits is 20% lower than the corporate tax rate on undistributed profits, the withholding tax rate may be increased to 25%.

(f) This rate also applies to fees for technical services.

(g) The 10% rate applies if the recipient is a company that owns at least 25% of the voting shares of the payer during the six-month period immediately preceding the date of payment of the dividends.

(h) The 15% applies to dividends paid by Slovak companies to Sri Lankan recipients. The 0% rate applies to dividends paid by Sri Lankan companies to Slovakian recipients, except for Sri Lankan income tax and additional tax under Sri Lanka's tax law. A maximum tax rate of 6% applies to the additional tax.

(i) The 0% rate applies to royalties relating to copyrights and films derived from sources within one of the contracting states.

(j) The 0% rate applies to interest paid on bank loans or on loans for the purchase of goods or industrial, trade and scientific equipment. The 10% rate applies to other interest payments.

(k) The 10% applies if the recipient is the beneficial owner of the interest and if the interest is paid on a loan granted by a bank for a period of at least 10 years in connection with the sale of industrial equipment or the installation or furnishing of scientific units or public works.

(l) The lower rate applies to cultural royalties, which are defined as the right to use copyrights of literary, artistic or scientific works, including cinematographic films.

(m) The higher rate also applies to payments for the right to use transport vehicles.

(n) The lower rate applies if the recipient is a company (other than a general partnership) directly holding at least 20% of the capital of the payer.

(o) The 0% rate applies to interest paid to banking institutions, interest paid on government loans and interest paid by the government or other state institutions.

(p) The 25% rate applies to royalties paid for trademarks.

(q) The 5% rate applies if the royalties are taxable in Spain. Otherwise, the rate is determined in accordance with the law of the source country. The 0% rate applies to cultural royalties, except for royalties for films.

(r) The lower rate applies to industrial royalties.

(s) The lower rate applies to the following types of interest:
- Interest paid on commercial debt claims (including debt claims represented by commercial paper) that result from deferred payments for goods, merchandise or services supplied by an enterprise;
- Interest paid on loans made, guaranteed or insured by public entities that are intended to promote exports;
- Interest paid on current accounts or loans that are not represented by bearer instruments between banks or public credit institutions of the contracting states; and
- Interest paid to the other contracting state, public subdivision or local authority.

(t) The 2% rate applies to interest on government loans. The 5% rate applies to interest paid to financial institutions.

(u) The tax in Malta on dividends may not exceed the tax on the profits out of which the dividends are paid.

(v) The 5% rate applies to dividends paid to a company that owns more than 25% of the voting power of the payer of the dividends.

(w) The 1% rate applies to payments under a financial lease of equipment. The 5% applies to payments under an operating lease of equipment, as well as to payments for the right to use cinematographic films and software for personal computers.

(x) Dividends may be taxed in both contracting states in accordance with the domestic laws in the states.

(y) The 0% rate applies to interest on government loans and on loans for the purchase of goods or industrial, trade and scientific equipment.

(z) This treaty has been signed, but it is not yet in effect.

(aa) See Section A.

SLOVENIA

(Country Code 386)

LJUBLJANA **GMT +1**

Ernst & Young Books d.o.o.
Dunajska cesta 111
1000 Ljubljana
Slovenia

(1) 568-0400
Fax: (1) 568-0410

Corporate Tax
★ Gregor Zorman
(1) 568-0414
E-mail: gregor.zorman@si.ey.com

Because of the rapidly changing economic and political situation in Slovenia, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	0/15/25*
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

* For details, see Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. In general, all companies resident in Slovenia are subject to tax on their worldwide income (but see *Foreign Tax Relief* below). A company is resident in Slovenia if it has its legal seat in Slovenia. Nonresident companies are subject to tax only on income derived from a permanent establishment in Slovenia.

Rate of Corporate Income Tax. The corporate income tax rate is 25%.

Capital Gains. Capital gains are treated as ordinary business income and are subject to tax at the regular corporate rate.

Administration. The tax year is the calendar year.

Annual tax returns must be filed by 31 March of the year following the tax year.

Companies are required to make monthly advance payments of tax. In principle, each advance payment is equal to one-twelfth of the tax due for the preceding year. The payments are due on the 10th day of the month following the month for which tax is due. The balance of tax due must be paid within 30 days after the date the annual tax return is filed with the tax authorities. If the sum of advance payments exceeds the tax due for the year, the company may request a refund.

Dividends. In general, dividends paid out of untaxed profits by Slovenian companies to other Slovenian companies are subject to a withholding tax of 25%. Dividends received by Slovenian companies from the taxed profits of other Slovenian companies are exempt from tax.

A 15% withholding tax is imposed on dividends paid to nonresidents. This rate is subject to applicable tax treaties.

Foreign Tax Relief. Companies may reduce their taxable income by the amount of income derived from foreign sources if appropriate tax was paid abroad on the foreign-source income. This reduction may not exceed the amount of taxable income. Companies must enclose with their tax declarations a document evidencing payment of the foreign tax.

C. Determination of Trading Income

General. Taxable income is based on profits reported in the annual financial statements, which must be prepared in accordance with Slovenian accounting standards. Slovenian accounting standards conform with International Accounting Standards in all significant respects. For tax purposes, the profits are adjusted, primarily for nondeductible expenses.

In general, business expenses are deductible. In January 2003, the Ministry of Finance issued a regulation on nondeductible expenses. Under the regulation, nondeductible expenses are those that do not contribute to the business, because they are unnecessary and unjustified, or are not commonly incurred in a business. These expenses include interest on loans used to finance investments in shares if dividends received on the shares are not subject to tax in Slovenia.

In addition, the law specifies that the following expenses are not deductible:

- Pecuniary penalties (fines paid to government agencies);
- Interest on taxes and contributions not paid by the relevant due dates; and
- Write-offs of receivables from employees, shareholders and related persons.

Only 70% of entertainment expenses and fees paid to the board of directors is deductible. Interest on loans from shareholders is deductible, up to the amount computed by applying the weighted average interbank interest rate specified by the Bank of Slovenia.

Special Deductions. A company may deduct up to 10% of the tax base transferred to a reserve for investment in tangible assets and intangible long-term assets as well as for long-term investment in other legal entities in Slovenia. If any amounts in the reserve are not used by the end of the second year following the year in which they were transferred, the unused amounts are added to the tax base for the second year.

A deduction is allowed for 25% of investments in tangible assets (except for automobiles) and in intangible long-term assets, but the deduction may not exceed the amount of the tax base. An additional deduction is allowed for 15% of investments in intangible long-term assets and in equipment, excluding furniture and office equipment. However, investments in computers qualify for the additional deduction. The additional deduction may not exceed the amount of the tax base. If a company sells a fixed asset within three years after it has claimed the deduction for an investment in such asset, the amount of the deduction is added back to the tax base. A company claiming the deduction may not distribute profits for the following three years.

An enterprise that hires certain employees for an indefinite term may deduct 30% of the salaries paid to such employees for the first 12 months of their employment. This special deduction is granted in addition to the normal deduction for salaries. To qualify for the special deduction, the employees must be trainees or other workers in their first jobs or they must be individuals who were registered as unemployed for at least six months before they were hired by the enterprise. The employees must remain employed by the enterprise for at least two years. If the enterprise terminates the employment of an employee described above (except at the request of the employee) within two years of the beginning of employment, the enterprise must increase its taxable income in the year of termination by the amount of the special deduction claimed for the employee.

Enterprises that employ invalids may claim a special deduction of 50% or 70% of the salaries paid to such individuals. This special deduction is granted in addition to the normal deduction for salaries.

The special deductions for salaries described above may not exceed the amount of taxable income for the tax year.

Inventories. Inventories may be valued using any method in accordance with Slovenian accounting standards. Consequently, permissible methods include first-in, first-out (FIFO), last-in, first-out

(LIFO), average cost and other methods. Inventories are measured at the lower of cost or net realizable value.

Provisions. Up to 50% of provisions for material and immaterial costs is deductible. These provisions are accruals for costs that will be incurred in future periods.

Provisions for possible losses are not deductible.

Tax Depreciation. Depreciation may be calculated at the maximum rates prescribed by law. The following are some of the prescribed maximum straight-line rates.

Asset	Rate (%)
Structures	5
Equipment, vehicles and machinery	25
Automobiles	12.5
Computers and computer hardware	50
Goodwill	10

Relief for Losses. Assessed tax losses may be carried forward for five tax years. Loss carrybacks are not allowed.

Groups of Companies. A consolidated return is allowed if a company owns at least 90% of the equity capital of another company. A group filing a consolidated return may not carry forward losses.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	
Standard rate	20
Reduced rate	8.5
Turnover tax on immovable property	2
Tax on sales of motor vehicles	1 to 13
Tax on insurance premiums	6.5
Land use tax; payable by users of land; the rates are fixed by the municipalities, taking into account various criteria, such as infrastructure, geographical position, the purpose for which the land is used and the size of the land's surface	Various
Social security contributions, on monthly salary	
Health insurance, paid by	
Employer	6.56
Employee	6.36
Pension and disability, paid by	
Employer	8.85
Employee	15.5
Unemployment insurance, paid by	
Employer	0.06
Employee	0.14
Maternity benefits, paid by	
Employer	0.1
Employee	0.1
Workers' compensation insurance, paid by employer	0.53

Nature of Tax	Rate (%)
Tax on gross salaries, paid by employer; imposed at progressive rates on gross salaries	
SIT 0 to SIT 130,000	0
SIT 130,001 to SIT 400,000	3.8
SIT 400,001 to SIT 750,000	7.8
Exceeding SIT 750,000	14.8

E. Miscellaneous Matters

Foreign-Exchange Controls. The Slovenian currency is the tolar (SIT).

Legal entities with their head office in Slovenia and subsidiaries of foreign commercial companies that are registered in the court register in Slovenia may maintain foreign-currency accounts or foreign-currency deposit accounts at authorized banks in Slovenia. Slovenian and foreign enterprises and their subsidiaries may freely perform one-sided transfers of property to or from Slovenia. Profits may be freely transferred abroad in foreign currency.

Resident enterprises may obtain loans from nonresident enterprises in their own name and for their own account. They are required to report all loan transactions with nonresident enterprises. For this purpose, loan transactions include the following: pledges of real estate and other security; purchases by nonresidents of accounts receivable arising from transactions between resident enterprises; purchases by residents of accounts receivable arising from transactions between nonresident enterprises; and certain other transactions between resident and nonresident enterprises if the economic purpose of the transaction is effectively the granting of a loan.

Transfer Pricing. When calculating taxable income and deductible expenses, the tax authorities take into account the minimum average market prices for taxable income and the maximum average market prices for deductible expenses in domestic and foreign markets.

F. Treaty Withholding Tax Rates

Most of Slovenia's double tax treaties follow the Organization for Economic Cooperation and Development (OECD) model convention. The following table shows the withholding tax rates under Slovenia's tax treaties.

	Dividends %	Interest %	Royalties %
Austria	5/15 (a)	5	10
Belgium (c)(f)	5/15 (a)	10	5
Canada (d)	5/15 (g)	10	10
China	5	10	10
Cyprus (f)	10	10	10
Czechoslovakia (b)(f)	5/15 (a)	0	10
Czech Republic	5/15 (a)	5	10
Denmark	5/15 (a)	5	5
Egypt (f)	5/15 (a)	15	15
Finland (f)	5/15 (a)	0	10
France (f)	5/15 (a)	0	0
Germany (f)	15	0	10
Greece (d)	10	10	10

	Dividends %	Interest %	Royalties %
Hungary (f)	10	0	10
Ireland	5/15 (a)	5	5
Italy (e)	10	10	10
Latvia	5/15 (a)	10	10
Lithuania	5/15 (a)	10	10
Luxembourg (d)	5/15 (a)	5	5
Macedonia	5/15 (a)	10	10
Malaysia (f)	0	10	10
Malta	5/15 (h)	5	5
Netherlands (f)	5/15 (a)	0	10
Norway (f)	15	0	10
Philippines (f)	10/15 (a)	10	15
Poland	5/15 (a)	10	10
Romania (f)	5	5	5
Russian Federation	10	10	10
Spain	5/15 (a)	5	5
Sri Lanka (f)	12.5	10	10
Sweden (f)	5/15 (a)	0	0
Switzerland	5/15 (a)	5	5
Turkey (d)	10	10	10
United Kingdom (f)	5/15 (a)	10	10
United States	5/15 (a)	5	5
Nontreaty countries	15	0	0

(a) The lower rate applies if the recipient of the dividends is a company that holds at least 25% of the capital of the payer of the dividends.
(b) This treaty applies to the Slovak Republic.
(c) Slovenia has signed a new tax treaty with Belgium, but the treaty has not yet been ratified. The withholding tax rates under the new treaty are the same as the rates in the treaty between Belgium and the former Yugoslavia, which is honored by Slovenia.
(d) The treaty has not yet been ratified.
(e) Slovenia has signed a new tax treaty with Italy, but the treaty has not yet been ratified. The withholding tax rates under the treaty between the former Yugoslavia and Italy, which Slovenia is honoring, are shown in the above table. Under the new treaty, the following withholding tax rates will apply: dividends, 5% and 15%; interest, 10%; and royalties, 5%.
(f) Slovenia is honoring the tax treaties between the former Yugoslavia and these countries.
(g) For dividends paid by Slovenian companies, the 5% rate applies if the recipient of the dividends holds at least 25% of the capital of the payer. The 15% rate applies to other dividends paid by Slovenian companies. For dividends paid by Canadian companies, the 5% rate applies if the recipient of the dividends holds at least 10% of the voting power of the payer. The 15% rate applies to other dividends paid by Canadian companies.
(h) For dividends paid by Slovenian companies, the 5% rate applies if the recipient of the dividends owns at least 25% of the capital of the payer. The 15% rate applies to other dividends paid by Slovenian companies. For dividends paid by Maltese companies to Slovenian residents who beneficially own the dividends, the withholding tax rate may not exceed the tax imposed on the profits out of which the dividends are paid.

SOUTH AFRICA

(Country Code 27)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@za.ey.com

CAPE TOWN GMT +2

Ernst & Young **(21) 410-5500**
Mail Address: **Fax: (21) 410-5716**
P.O. Box 656
Cape Town, 8000
South Africa

Street Address:
Ernst & Young House
35 Lower Long Street
Cape Town
South Africa

International Tax

◆ David J.M. Clegg — **(21) 410-5561**, **Mobile: 83-286-3389**

Amanda Warner — **(21) 410-5718**, **Mobile: 83-290-6862**

Corporate Tax

Russell Smith — **(21) 410-5748**, **Mobile: 83-256-2751**

DURBAN GMT +2

Ernst & Young **(31) 310-9000**
Mail Address: **Fax: (31) 304-5075**
P.O. Box 859
Durban 4000
South Africa

Street Address:
20th Floor
320 West Street
Durban
South Africa

Corporate Tax

Robert W. Stretch — **(31) 310-9076**, **Mobile: 83-282-4286**, **Fax: (31) 301-4944**

JOHANNESBURG GMT +2

Ernst & Young **(11) 772-3000**
Mail Address: **Fax: (11) 772-4000**
P.O. Box 2322
Johannesburg, 2000
South Africa

Street Address:
52 Corlett Drive
Wanderers Office Park
Illovo Johannesburg
South Africa

International Tax

Sean Kruger — **(11) 772-3996**, **Mobile: 83-611-1559**

★ Charles MacKenzie — **(11) 772-3778**, **Mobile: 83-611-1558**, **Fax: (11) 772-4998**

Corporate Tax

★ Val Davies — **(11) 772-3983**, **Mobile: 83-611-3983**, **Fax: (11) 772-4983**

Human Capital
Rodney Lewis — (11) 772-3970
Mobile: 83-234-9687
Fax: (11) 772-4970

Indirect Taxes
Christo Thereon — (11) 772-3136
Mobile: 83-283-7242
Fax: (11) 772-4136

Natural Resources
Charles MacKenzie — (11) 772-3778
Mobile: 83-611-1558
Fax: (11) 772-4998

Oil and Gas
David J.M. Clegg *(resident in Cape Town)* — (21) 410-5561
Mobile: 83-286-3389
Fax: (21) 410-5716

Certain amendments to the tax law have been proposed, but not yet enacted. These amendments are discussed in Section G of the chapter. At the time of writing, the proposed amendments were expected to be enacted without any changes in mid-December 2003 and take effect during the first half of 2004. Because of the expected changes to the tax law, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)(b)
Capital Gains Tax Rate (%)	15 (c)
Branch Tax Rate (%)	35 (b)
Withholding Tax (%)	
Dividends	0 (a)
Interest	0
Royalties from Patents, Know-how, etc.	12 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (e)

(a) A secondary tax on companies at a rate of 12.5%, which is levied on dividends declared, is imposed on the distributing company. This tax is not a withholding tax. The secondary tax on companies does not apply to branches subject to the 35% company tax rate or nonresident companies, or to the mining income of oil and gas producers. See Section B.
(b) The mining income of gold mining companies is taxed under a special formula, and the nonmining income of such companies is taxed at a rate of 38%. Special rules apply to life insurance companies, petroleum and gas producers, and small business corporations. See Section B.
(c) See Section B.
(d) This withholding tax applies to nonresidents.
(e) See Section C.

B. Taxes on Corporate Income and Gains

Company Tax. A residence-based tax system applies in South Africa. Companies are considered to be resident in South Africa if they are incorporated or have their place of effective management in South Africa.

South African-resident companies are taxed on their worldwide income, excluding branch profits derived from “designated countries” (see below for a list of “designated countries”).

Under various look-through rules, the foreign operating income of subsidiaries derived from non-business establishment operations in nondesignated countries is taxed on an accrual basis (see the discussion on controlled foreign entities in Section E). The income of subsidiaries with business establishments in nondesignated countries is taxed when the dividends paid out of such income reach South Africa (see the discussion of foreign dividends in *Dividends* below). Income derived by subsidiaries in "designated countries" is exempt from South African tax in most circumstances.

The "designated countries" are Algeria, Australia, Austria, Belgium, Canada, Croatia, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Israel, Italy, Japan, Korea, Lesotho, Malawi, Namibia, the Netherlands, Norway, Poland, Romania, the Slovak Republic, Swaziland, Sweden, Thailand, Tunisia, the United Kingdom, the United States, Zambia and Zimbabwe. All of these countries impose a tax rate of at least 27% without any right of recovery (right to obtain a refund of corporate tax paid), provide for a tax base that is substantially the same as South Africa, and comply with other requirements prescribed in regulations issued by the Minister of Finance. The designated country exclusion is expected to be abolished in late 2003.

Nonresident companies are taxed on their South African-source income only. Income is considered to be from a South African source if its originating cause is located in South Africa.

Tax Rates. The basic corporate tax rate is 30%. Branch profits tax at a rate of 35% is imposed on South African branches of nonresident companies. The 30% rate applies to South African-source profits that are not earned through a branch.

In addition, a secondary tax on companies (STC) is levied on South African-resident companies at a rate of 12.5% on dividends declared net of exempt dividends received. Branches subject to the 35% tax rate and nonresident companies do not pay STC. Oil and gas producers are exempt from STC on dividends distributed out of mining income.

The maximum effective rate of company tax and STC is 37.8%. This rate applies to companies that distribute all of their after-tax profits as dividends.

The following are significant features of the STC:
- STC is imposed on the company, not on the shareholders, and is regarded as a tax on income.
- STC is payable regardless of whether the company is liable for normal company tax.
- STC is not payable on the portion of an exempt dividend allocable to profits derived from certain "designated countries" (see *Company Tax* above).
- Exempt foreign dividends received are deductible in computing the amount of dividends subject to STC.
- Double taxation is avoided by the granting of a credit to companies for dividends received from South African companies that have already been subject to STC. Consequently, STC is effectively imposed on the distribution of operating profits.

- Exemptions from STC apply to scrip dividends and dividends distributed by certain companies, including tax-exempt companies, property unit trusts and companies in liquidation, and to listed shares distributed in an approved unbundling of a corporate structure.
- Exemption from STC may be elected for dividends distributed by a company if the following conditions are satisfied:
  - The recipient of the dividends is a company that is part of the same group of companies as the payer of the dividends;
  - The dividends are derived out of profits earned by the payer of the dividends during a period when the company and the shareholder were part of the same group of companies (companies are in a group if a common parent holds at least 75% of the subsidiary companies);
  - The recipient of the dividends is a resident;
  - At least 90% of the recipient's profits (excluding dividends received) was derived from a source in South Africa during the last three tax years immediately preceding the date of declaration; and
  - The company declaring the dividend elects the exemption by submitting the election in a form prescribed by the Commissioner of Inland Revenue no later than the day on which the STC would otherwise be due.

  The exemption may not be elected if the subsidiary had in turn received dividends subject to STC because the credit available for that lower-tier STC would then be lost.
- Payment of STC is due on the last of the month following the month in which a dividend is declared.
- Antiavoidance provisions prevent, among other actions, the withdrawal of profits through loans. However, certain types of loans are not subject to the antiavoidance measures, such as loans between subsidiary and holding companies and between fellow subsidiaries, provided the loan proceeds are utilized in South Africa.

Special Types of Companies. Small business corporations (SBCs) are taxed at a rate of 15% on their first R 150,000 of taxable income and 30% on taxable income exceeding that amount. To qualify as an SBC, a company must satisfy the following requirements:
- Its gross income for the year must not exceed R 3 million;
- Its shares must be held by individuals who do not hold interests in other companies; and
- Its total personal service and investment income must not exceed 20% of its gross income.

Gold mining companies may elect to have their mining income taxed under one of two formulas. One of these formulas includes the STC while the other formula does not include it. Gold mining companies are subject to tax at a rate of 38% on their nonmining income.

Petroleum and gas production is taxed in accordance with a specified formula contained in a master-operating lease with the state oil exploration company.

Life assurance companies are subject to special rules that separate the taxation of policyholders' and corporate funds and apply different tax rates to such items.

Capital Gains. Capital gains are subject to capital gains tax (CGT) at a rate of 15%.

Resident companies are subject to CGT on capital gains derived from disposals of worldwide tangible and intangible assets.

Nonresidents are subject to CGT on capital gains derived from disposals of fixed property and interests in fixed property located in South Africa, and assets of a permanent establishment located in South Africa. An interest in immovable property includes a direct or indirect interest of at least 20% in a company if, at the time of disposal of the interest, 80% or more of the value of the net assets of the company is attributable to immovable property (land and buildings) located in South Africa.

A capital gain is equal to the amount by which the disposal proceeds for an asset exceed the base cost of the asset. A capital loss arises if the base cost exceeds the disposal proceeds. Capital losses may offset capital gains, and regular income losses may offset net capital gains. However, capital losses may not offset regular income.

The base cost for an acquired asset includes the sum of the following: the amount actually incurred to acquire the asset; cost of the valuation of the asset for the purposes of determining the capital gain or loss; expenditure directly related to the acquisition or disposal of the asset, such as transfer costs, advertising costs, costs of moving the asset from one location to another and cost of installation; expenditure incurred to establish, maintain or defend the legal title to, or right in, the asset; and expenditure on improvement costs. The base cost is reduced by any amounts that have been allowed as income tax deductions. It is also reduced by the amounts of the following types of expenditure if such expenditure was originally included in the base cost: expenditure that is recoverable or recovered; amounts paid by another person; and amounts that have not been paid and are not due in the tax year.

Inflation indexation of the base cost is not allowed.

Special rules apply to the valuation of a "pre-valuation date asset," which is an asset acquired before 1 October 2001 and still held on 1 October 2001. Subject to loss limitation rules, in principle, a taxpayer may elect to use the market value of such asset on 1 October 2001 as the base cost of the asset or, alternatively, it may use a time-apportionment basis, which is determined by a formula. If the taxpayer elects to use the market value of the asset, the asset must be valued before 30 September 2004. However, if the market value of the asset exceeds R 10 million (or R 1 million in the case of an intangible asset), or if the asset is an unlisted share in a company and the value of all of the shares held by the person in the company is more than R 10 million, the taxpayer must submit proof of the valuation with its first tax return submitted after the valuation.

A disposal is defined as an event that results in the creation, variation or extinction of an asset. It includes the transfer of ownership of an asset, the destruction of an asset and the distribution of an asset by a company to a shareholder. For CGT purposes, a company does not dispose of assets when they issue shares or when they grant an option to acquire a share or debenture in the company.

The proceeds from the disposal of an asset by a taxpayer are equal to the amount received by, or accrued to, the taxpayer as a result of the disposal. The proceeds from the disposal are reduced by any amount that is included in the taxpayer's taxable income for income tax purposes.

If a company makes a distribution of an asset to a shareholder as a dividend, the company is deemed to have disposed of the asset for proceeds equal to the asset's market value.

A liquidation dividend is effectively treated as proceeds from the disposal of shares.

Rollover relief is available in certain circumstances including destruction of assets and scrapping of assets.

All related-party transactions are deemed to occur at market value, and restrictions are imposed on the claiming of losses incurred in such transactions.

Corporate emigration, which occurs when the effective management of the company is moved outside South Africa, triggers a deemed disposal at market value of the assets of the company.

Administration. The tax year for a company is its financial year. A company must file its annual tax return in which it calculates its taxable income and capital gains, together with a copy of its audited financial statements, within 60 days after the end of its financial year. Extensions of up to 12 months after the end of the financial year are usually granted. No payment is made with the annual return.

The tax authorities issue an official tax assessment based on the annual return. The company must pay the balance of tax due after deduction of provisional payments within a specified period after receipt of the assessment.

Companies must pay provisional tax in two installments during their tax year. The installments must be paid by the end of the sixth month of the tax year and by the end of the tax year. A third ("topping up") payment may be made within six months after the end of the tax year. If this payment is not made and if there is an underpayment of tax, interest is charged from the due date of the payment.

The Inland Revenue is in the process of introducing an e-filing system, which will allow provisional payments and tax returns to be submitted electronically.

Dividends

South African-Source Dividends. South African-source dividends are exempt in the hands of the recipients and, accordingly, recipients may not deduct expenses relating to the earning of the dividends, such as interest and other expenses incurred on the acquisition of their shares. In general, South African-source dividends are dividends paid by South African companies.

Foreign Dividends. Foreign dividends accruing to or received by South African residents are taxable and, accordingly, expenses incurred in earning the dividends are deductible. The deduction is limited to the amount of taxable foreign dividends included in the gross income of the resident. Foreign dividends are dividends paid by nonresident companies or out of foreign profits of resident companies that were previously considered to be nonresident.

The amount of foreign dividends subject to tax varies, depending on whether the holding in the company distributing the dividend is considered a portfolio investment. A portfolio investment is an investment in which the recipient holds less than 10% of the equity in the distributing company. If a company is part of a group of companies that is 75%-owned, directly or indirectly, by a parent company, all of the shares held by members of the group are taken into account in determining whether the 10% threshold is met.

For portfolio investments, the amount subject to tax is the dividend received before the deduction of any withholding tax. A credit against the South African tax is granted for any withholding tax imposed on the dividend in the country of the distributing company. Alternatively, a taxpayer may elect to be taxed on the net dividend received after the deduction of withholding tax. If the taxpayer elects to be taxed on the net dividend, the election is deemed to apply to all foreign dividends received in the tax year of the election.

For nonportfolio investments, the amount taxed is the recipient's proportionate share of the underlying accounting profits out of which the dividends are declared. Proportionate shares of underlying corporate and withholding taxes are allowed as credits against the South African tax liability. Alternatively a taxpayer may elect to be taxed on the dividend received before the deduction of any withholding tax. If the taxpayer elects to be taxed on the net dividend, the election is deemed to apply to all foreign dividends received in the tax year of the election. A credit against the South African tax is granted for any withholding tax imposed on the dividend in the country of the distributing company.

Certain foreign dividends are exempt from tax, including the following:

- Dividends paid by controlled foreign companies (CFCs; see Section E) out of income that was previously attributed to the South African parent and subject to tax in South Africa, unless those profits were exempt or taxed at a reduced rate as a result of a double tax treaty.
- Dividends paid by nonresident companies listed on the Johannesburg Stock Exchange to portfolio investors.
- Dividends paid to nonportfolio investors by companies located in "designated countries" to the extent that the profits out of which the dividends were declared are or will be subject to tax in the designated country at a statutory rate of at least 27% or, in the case of a capital gain, at a statutory rate of 13.5% The tax must not be refundable (except for refunds due to certain loss carrybacks).
- Dividends paid by South African-incorporated companies out of profits derived from foreign branches located in "designated countries" that have been or will be subject to tax at a rate of at least 27% or in the case of a capital gain, at a statutory rate of 13.5%.
- Dividends paid by companies out of profits derived from the receipt of exempt foreign dividends.

Dividends paid out of profits derived from participations in certain projects approved by the Department of Trade and Industry, which are generally located in Southern African Development Community countries, are also exempt from tax.

Withholding Tax. Dividends paid and remittances by a branch to its head office are not subject to withholding tax.

Foreign Tax Relief. In the absence of treaty relief provisions, unilateral relief is granted through a credit for foreign taxes paid or attributed under the foreign dividend (see *Dividends* above) or the CFC (see Section E) rules, limited to the lesser of the actual foreign tax liability and the South African tax on such foreign income. Excess credits may be carried forward but they are lost if they are not used within seven years.

STC is recognized as a creditable tax under certain tax treaties.

C. Determination of Trading Income

General. The assessment is based on taxable income determined in accordance with the Income Tax Act. Taxable income normally approximates profit calculated in accordance with generally accepted accounting practice, before adjustment for specific allowances and nondeductible items.

To be eligible for deduction, expenditures must be incurred in the production of income and for purposes of trade, and must not be of a capital nature.

Prepayments of insurance, rent and certain other items may not be deducted in full in the tax year of payment unless either of the following applies:
- The related service or other benefit is enjoyed within six months after the end of the tax year of payment; or
- The aggregate of such expenditure is less than R 50,000.

Nonresident companies are exempt from tax on South African-source interest income unless the income is directly related to the operation of a branch.

Inventories. Inventory is valued at the lower of cost or net realizable value. Last-in, first-out (LIFO) is not an acceptable method of valuation for tax purposes. Appropriate overhead expenses must be included in the valuation of inventory. Consumable stores and spare parts are included as trading stock.

Tax Depreciation (Capital Allowances)

Industrial Plant and Machinery. New or used plant and machinery purchased or brought into use in a manufacturing or similar process on or after 1 April 2000 qualifies for a 20% straight-line allowance. The same allowances apply to foundations for plant and machinery if they are built specifically for particular machines and have a useful life limited to the life of the relevant machine. SBCs (see Section B) qualify for a 100% deduction of the cost of new or used plant or machinery that is first brought into use on or after 1 April 2001 in a manufacturing or similar process.

An accelerated depreciation allowance applies to new plant and machinery that is brought into use after 1 March 2002 in a manufacturing or similar process. The asset will be depreciated at a rate of 40% in the first year and at a straight-line rate of 20% for the second, third and fourth years.

Industrial Buildings. A 5% annual straight-line allowance is granted on the cost of the construction of, or improvements to, buildings begun after 1 October 1999 or brought into use after 31 March 2000. Purchased industrial buildings generally qualify for annual straight-line allowances at the following rates: 2% if originally constructed before 1 January 1989; 5% if constructed during the period of 1 January 1989 through 30 June 1996; and 10% if constructed during the period of 1 July 1996 through 31 March 2000. For industrial buildings purchased after 1 April 2000, a straight-line allowance of 5% must be claimed. Construction of and improvements to hotels qualify for a 5% straight-line allowance if the construction of the hotel or improvements commenced on or after 4 June 1988. Capital expenditure on the in-ternal renovation of hotels, however, qualifies for straight-line depreciation at an annual rate of 20%.

Wear-and-Tear Allowances. An annual "wear-and-tear" tax depreciation allowance may be calculated using the declining-balance method or the straight-line method, but the straight-line method is generally preferred by the Inland Revenue. The allowance may be claimed based on the value (generally the cost) of movable nonmanufacturing machinery and equipment used by the taxpayer for the purposes of its trade. Rates for the wear-and-tear allowance are not prescribed by statute, but certain periods of depreciation are generally accepted by the tax authorities. The following are some of the acceptable periods of straight-line depreciation.

Asset	**Years**
Aircraft (light passenger, commercial and helicopters)	4 or 5
Computers (mainframe)	5
Computers (personal computers)	3
Computer software (mainframes)	
Purchased	3
Self-developed	1
Computer software (personal computers)	2
Furniture	6
Passenger cars	5

Apportionment of the wear-and-tear allowances is required for assets acquired during the course of a year.

Any asset costing R 2,000 or less may be written off in the year of acquisition of the asset.

Special Capital Allowances. The cost of developing, registering or acquiring patents, copyrights or similar property, and related know-how may be written off over the lesser of the probable period of use of such assets or 20 years.

Designs and related knowledge are written off over 10 years. The cost of developing and registering trademarks and trade names is written off over 20 years. If the expenditure is R 5,000 or less, it is deducted in full in the year of the expenditure. However, no deduction is allowed for the acquisition cost of trademarks and trade names.

Goodwill is not depreciable for tax purposes.

Deductions with respect to restraint of trade payments are allowed over the period of restraint, with a minimum period of three years.

A 10% annual allowance is granted for the cost of new and unused pipelines used for transportation of natural oil, gas and refined products.

A 5% annual allowance is granted for the following: electrical lines, telephone lines or cables used for the transmission of signals for the purpose of telecommunications; and railway lines used for the transportation of persons, goods and other items.

Other special capital allowances are provided for expenditures on ships and aircraft, hotel equipment, scientific research and employee housing, plant and machinery of small business corporations (see Section B), aircraft hangars, aprons, runways and taxiways, as well as for certain capital expenditures for mining and agriculture, which are deductible in full against mining and agricultural income.

An incentive allowance applies for the period of 31 July 2001 through 31 July 2005 with respect to industrial assets used in qualifying strategic industrial projects. For projects without preferred status, the allowance equals 50% of the cost of industrial assets in the year that the assets are brought into use. For purposes of computing the allowance, the cost is limited to R 300 million. For preferred status projects, the allowance equals 100% of the cost of industrial assets in the year that the assets are brought into use. For purposes of computing the allowance, the cost is limited to R 600 million. The incentive allowance is granted in addition to any other allowance that may be allowed under the Income Tax Act. To qualify as a strategic project, several requirements must be met, including the following:

- The Minister of Trade and Industry must be satisfied that the total cost of the industrial assets to be acquired by the taxpayer for the industrial project will exceed R 50 million within three years of the approval by the minister;
- The industrial project is expected to increase production and employment in the relevant industrial sector, after taking into account the displacement in the sector; and
- The applicant company cannot receive concurrent benefits from any other program offered by a National Sphere of Government.

Recapture. The amount of depreciation claimed on an asset may be recouped (recaptured) when the asset is sold. In general, the amount recouped is the excess of the selling price over the tax value, but it is limited to the amount of depreciation claimed.

Groups of Companies. Companies in a group may not share their tax losses with other profitable companies in the group.

Special rules provide income tax and CGT relief for transactions between group companies and between founding shareholders and their companies. These transactions include the following: company formations; share-for-share transactions; unbundling transactions; and transactions relating to the liquidation, winding up and deregistration of companies.

Relief for Losses. Tax losses may not be carried back but may be carried forward indefinitely, provided there is trading in every tax year. A tax loss incurred by a South African branch of a foreign company may be transferred to a South African company established by the foreign parent company to take over the branch operations.

Foreign tax losses may offset foreign income only. If a foreign tax loss exceeds foreign income, the excess may be carried forward to offset foreign income in future years for an unlimited period.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, levied on supply of a wide range of goods and services	
Standard rate	14
Disposals of going concerns and certain exports	0
Regional services levies (rates vary by region); average rates	
On remuneration	0.35
On turnover	0.14
Skills development levy, on remuneration	1

E. Miscellaneous Matters

Foreign-Exchange Controls. Measures were introduced in the 1960s to stem the outflow of capital from South Africa and to ensure a measure of stability in currency markets. If 75% or more of a company's capital is held by foreign shareholders, the local borrowings of the company are restricted in accordance with a formula. Under this formula, maximum allowable local borrowings range from 100% of owner equity, including shareholder loans, for a wholly foreign-owned company, to 133% of owner equity for a 75% foreign-owned company. If less than 75% of a company is foreign-owned, no restrictions are imposed on local borrowings.

Debt-to-Equity Rules. The tax law includes provisions that counter thin capitalization by adjusting both the interest rate and the amount of a loan based on arm's length principles. These provisions generally require a debt-to-equity ratio of no more than 3:1. The exchange control no longer applies its own thin-capitalization rules.

Transfer Pricing. The South African tax law includes transfer-pricing provisions, which counter the manipulation of prices for goods and services, including financial services (loans), in cross-border transactions between related parties. Exchange control regulations (see *Foreign-Exchange Controls* above) also discourage unreasonable pricing by imposing the requirement that many foreign contracts, such as license agreements, must be approved by the Department of Trade and Industry before payment is allowed.

Antiavoidance Legislation. In addition to transfer-pricing rules (see *Transfer Pricing* above), South African law contains a general antiavoidance provision to attack arrangements that are primarily tax-motivated. The Inland Revenue can tax an amount, ignoring any scheme entered into, if it can establish all of the following:

- A transaction, operation or arrangement had the effect of avoiding or postponing tax liability.
- The transaction was entered into solely or primarily to avoid or postpone tax.
- Either of the following circumstances existed:
  - — The transaction was entered into in a manner not normally used for bona fide business purposes; or
  - — In a nonbusiness context, the transaction was entered into in an abnormal manner, or created rights or obligations not normally created by persons dealing at arm's length.

Personal Service Companies. The interposition of a corporate entity (personal service company) to disguise employment income and, accordingly, prevent the imposition of employee withholding tax on employees has been effectively outlawed. These companies are taxed at a rate of 35% and may not claim any deductions except, broadly, salaries. Personal service companies may deduct the cost of fringe benefits to the extent that they are taxable in the hands of the recipients.

Controlled Foreign Companies. Legislation regulates the taxation of certain income of controlled foreign companies (CFCs). Key aspects of the legislation are described below.

Net foreign income, including capital gains, derived by a CFC (calculated using South African tax principles) may be attributed proportionately to any South African resident beneficial owner of the CFC who has an interest of 10% or more in the CFC.

A company is considered to be a CFC if more than 50% of the participation rights of the company is held by South African residents. In determining whether residents hold more than 50% of the participation rights of a foreign company that is listed on a recognized stock exchange or is a collective-investment portfolio, any person who holds less than 5% of the participation rights of the foreign company is deemed not to be a resident unless connected parties hold more than 50% of the participation rights of the company. The CFC rules do not apply to a taxpayer if, during the entire tax year of the CFC, the taxpayer (together with any connected person) holds less than 10% of the participation rights and may exercise less than 10% of the voting rights in the CFC.

The CFC's net income is not attributed if either of the following applies:

- The income of the CFC has been or will be subject to tax in a "designated country" (see Section B) at a statutory rate of at least 27%, or in the case of capital gains of a CFC, at a statutory rate of at least 13.5%; or
- The income is effectively connected to a business operation carried on through a business establishment that is, in broad terms, suitably equipped with on-site operational management, employees, equipment and other facilities for the purpose of conducting the primary operations of the business and is used for a bona fide business purpose and not for tax avoidance (the place of business may be located elsewhere than in the CFC's home country).

See Section B for information regarding foreign attributable tax credits and carryforward rules.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the withholding rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties %
Algeria	0	0	10 (f)
Australia	0	0	10
Austria	0	0	0
Belgium	0	0	0 (f)
Botswana	0	0	12
Canada	0	0	6 (f)(g)
China	0	0	10 (f)(h)
Croatia	0	0	5 (f)
Cyprus	0	0	0 (f)
Czech Republic	0	0	10 (f)
Denmark	0	0	0 (f)
Egypt	0	0	12
Finland	0	0	0 (f)
France	0	0	0 (f)
Germany	0	0	0 (c)
Greece	0	0	5/7 (i)
Grenada (e)	0	0	12
Hungary	0	0	0 (f)
India	0	0	10 (f)
Indonesia	0	0	10 (f)
Iran	0	0	10 (f)
Ireland	0	0	0 (f)
Israel	0	0	0 (d)
Italy	0	0	6 (f)
Japan	0	0	10 (f)
Korea	0	0	10 (f)
Lesotho	0	0	10 (f)
Luxembourg	0	0	0 (f)
Malawi	0	0	0 (c)
Malta	0	0	10 (f)
Mauritius	0	0	0 (f)
Namibia	0	0	10
Netherlands	0	0	0
Norway	0	0	0 (f)
Pakistan	0	0	10 (f)
Poland	0	0	10
Romania	0	0	12
Russian Federation	0	0	0
Seychelles (e)	0	0	12
Sierra Leone (e)	0	0	12
Singapore	0	0	5 (f)
Slovak Republic	0	0	10
Swaziland	0	0	0 (c)
Sweden	0	0	0 (c)(f)
Switzerland	0	0	0
Taiwan	0	0	10 (f)
Thailand	0	0	12
Tunisia	0	0	10
Uganda	0	0	12
United Kingdom	0	0	0 (c)
United States	0	0	0 (f)

	Dividends (a) %	Interest (b) %	Royalties %
Zambia	0	0	0 (c)
Zimbabwe	0	0	0 (c)
Nontreaty countries	0	0	12

(a) Dividends are not subject to withholding tax in South Africa.
(b) Nonresident companies are exempt from tax on South African-source interest unless they are engaged in business in South Africa.
(c) Exempt if subject to tax in recipient country; otherwise, 12%.
(d) In general, exempt if subject to tax in Israel; otherwise, the rate is 12%. If royalties derived from cinematographic and television films are subject to tax in Israel, the rate is 4.5%.
(e) An agreement signed in 1946 between South Africa and the United Kingdom was extended to apply to these countries and is apparently still in force.
(f) The rate applies only if the recipient is the beneficial owner of the royalties.
(g) The rate is 10% for franchise royalties.
(h) The rate is 7% for rent paid for equipment.
(i) The 5% rate applies to royalties paid for copyrights of literary, artistic and scientific works. The 7% rate applies to royalties paid for patents, trademarks and designs.

South Africa has ratified comprehensive tax treaties with New Zealand and Nigeria.

South Africa has signed tax treaties with Belarus, Oman and Rwanda, but these treaties have not yet been ratified.

South Africa has negotiated tax treaties with Botswana, Bulgaria, Estonia, Ethiopia, Gabon, Ghana, Germany, Kuwait, Latvia, Lithuania, Malawi, Malaysia, Morocco, Mozambique, the Netherlands, Portugal, Qatar, Spain, Swaziland, Tanzania, Turkey, Ukraine, the United Arab Emirates, Zambia and Zimbabwe, but these treaties have not yet been signed.

South Africa is currently negotiating tax treaties with Bangladesh, Brazil, Saudi Arabia and Sri Lanka.

G. Proposed Amendments to the Tax Law

Certain amendments to the tax law have been proposed, but not yet enacted. At the time of writing, the proposed amendments were expected to be enacted without any changes in mid-December 2003 and to take effect during the first half of 2004. These amendments are summarized below.

A South African resident (company or individual) holding greater than 25% of the equity share capital of a foreign company (a company that is neither incorporated nor effectively managed in South Africa) will be exempt from tax on dividends received from the foreign company.

Recipients of dividends on shareholdings of 25% or less will be taxed on the actual amount received or on the amount net of withholding tax, subject to several exceptions. The following are the most important of these exceptions:

- The income out of which the dividend is distributed has already been taxed in South Africa; and
- The income out of which the dividend is distributed has been or will be attributed to a South African resident company or individual under the CFC measures (see Section E).

A South African resident (together with connected persons) who holds between 10% and 25% (inclusive) of the participation rights of a foreign company may elect annually that the company be treated as a CFC with respect to the resident even if the company does not qualify as a CFC under the normal rules.

The existing CFC rules dealing with attribution will remain essentially unchanged. As a result, the following rules will apply:
- No attribution will result from a CFC that has a business establishment.
- Attribution will result from a CFC that does not have a business establishment (subject to several existing rules regarding the details of the calculation). This rule will apply regardless of whether the South African resident holds more or less than 25% of the participation rights (however, the existing 10% lower limit remains in effect).

However, a resident may elect annually to ignore the exemptions from CFC attribution if the resident (together with connected persons) holds 10% to 25% of a CFC or has elected that the resident's holding in a non-CFC be treated as a CFC holding (see above).

No designated country exclusion will be available to prevent the following:
- Attribution of net income from a CFC that does not have a business establishment;
- Taxation of foreign dividends; or
- Taxation of foreign branch profits of a South African-resident company.

The following rules stated in the STC section of the chapter (see Section B) will no longer be applicable:
- STC is not payable on the portion of an exempt dividend allocable to profits derived from certain "designated countries" (see *Company Tax* above); and
- Exempt foreign dividends received are deductible in computing the amount of dividends subject to STC.

The proposed amendments will remove the condition for exemption from the STC that required at least 90% of the recipient's profits (excluding dividends received) to be derived from a source in South Africa during the last three tax years immediately preceding the date of declaration.

Under a new rule included in the proposed amendments, if a new company that is introduced into a group is founded solely by companies within that group, it is deemed to have been in existence for the same period as its founders. In effect, this means that the STC group relief rule requiring profits to have been earned while the distributing company was a member of the group will not be disturbed by the introduction of an intermediate company as shareholder.

Enhanced tax deductions are proposed for research and development expenditure.

SPAIN

(Country Code 34)

MADRID **GMT +1**

Ernst & Young Abogados, S.L.
Tax/Legal
Torre Picasso
Pza. Pablo Ruiz Picasso, 1
28020 Madrid
Spain

915-727-370
Fax: 915-727-400, 915-727-515
915-727-600, 915-727-663

Tax and Legal

★ Jaime López-Chicheri	**915-727-211** **Mobile: 617-447-361** **E-mail: jaime.lopez-chicheri@es.ey.com**
★ Joaquín Velasco, *Tax Managing Partner*	**915-727-215** **Mobile: 609-223-833** **E-mail: joaquin.velascoplaza@es.ey.com**

International Tax Services – International Tax

★ Juan José Terraza *(resident in Barcelona)*	**933-663-741** **Mobile: 639-772-443** **E-mail: juanjose.terrazatorra@es.ey.com**
María Victoria Apaolaza	**915-727-464** **Mobile: 650-464-725** **E-mail: mariavictoria.apaolazamartinez @es.ey.com**
José Luis Gonzalo	**915-727-334** **Mobile: 649-909-914** **E-mail: joseluis.gonzalopeces@es.ey.com**
Victor Hernán	**915-727-485** **Mobile: 619-939-572** **E-mail: victor.hernancarrillo@es.ey.com**
Federico Linares	**915-727-469** **Mobile: 650-800-697** **E-mail: federico.linaresgarciadecosio @es.ey.com**
Joaquín Velasco	**915-727-215** **Mobile: 609-223-833** **E-mail: joaquin.velascoplaza@es.ey.com**

International Tax Services – Capital Markets

Luis Blanc	**915-727-373** **Mobile: 626-254-638** **E-mail: luis.blancgarcia-varcarcel@es.ey.com**
Ana Gargallo	**915-727-445** **Mobile: 619-745-293** **E-mail: ana.gargallorio@es.ey.com**
Victor Hernán	**915-727-485** **Mobile: 619-939-572** **E-mail: victor.hernancarrillo@es.ey.com**

International Tax Services – Mergers and Acquisitions

Laura Ezquerra	**915-727-570** **Mobile: 696-911-261** **E-mail: laura.ezquerramartin@es.ey.com**
Rocío Reyero	**915-727-383** **Mobile: 619-743-698** **E-mail: rocio.reyerofolgado@es.ey.com**

International Tax Services – Transfer Pricing

Javier Martín Muñoz	**915-727-542** **Mobile: 609-116-928** **E-mail: javier.martinmunoz@es.ey.com**

International Tax Services – Latin American Business Center (LABC)

Luiz Frederico Battendieri, *Brazilian Desk*	**915-727-598** **Mobile: 619-254-739** **E-mail: luizfrederico.battendieri@es.ey.com**
Daniel Vanrell, *LABC Director*	**915-727-250** **Mobile: 649-971-530** **E-mail: daniel.vanrell@es.ey.com**

Spanish Legal Desks Abroad

José Francisco Martos *(resident in New York)*	**[1] (212) 773-7817** **E-mail: jose.martos@dp.ey.com**
Jaime Valera *(resident in New York)*	**[1] (212) 773-5543** **E-mail: jaime.valera@dp.ey.com**

Corporate Tax

Miguel Baz	**915-727-371** **Mobile: 630-980-061** **E-mail: miguel.bazybaz@es.ey.com**
Salvador Colmenar	**915-727-431** **Mobile: 626-046-736** **E-mail: salvador.colmenarvaldes@es.ey.com**
Alvaro Echevarria	**915-727-381** **Mobile: 639-223-604** **E-mail: alvaro.echevarriapleyer@es.ey.com**
Francisco González	**915-727-397** **Mobile: 639-346-932** **E-mail: francisco.gonzalezcarrera@es.ey.com**
★ Enrique López	**915-727-218** **Mobile: 619-208-722** **E-mail: enrique.lopezcorrales@es.ey.com**
★ Jaime López-Chicheri	**915-727-211** **Mobile: 617-447-361** **E-mail: jaime.lopez-chicheri@es.ey.com**
Sabiniano Medrano, *Environmental Affairs and Competition Law*	**915-727-377** **Mobile: 696-910-915** **E-mail: sabiniano.medranoirazola@es.ey.com**
Cristina Moreno	**915-727-376** **Mobile: 629-234-799** **E-mail: cristina.morenocanudo@es.ey.com**
Tomás Murillo	**915-727-716** **Mobile: 619-790-112** **E-mail: tomas.murilloguirao@es.ey.com**
Jacinto Ruiz	**915-727-420** **Mobile: 659-789-116** **E-mail: jacinto.ruizquintanilla@es.ey.com**
Montserrat Turrado	**915-727-382** **Mobile: 619-790-113** **E-mail: montserrat.turradoalonso@es.ey.com**
Raimundo Vázquez	**915-727-601** **Mobile: 646-487-532** **E-mail: raimundo.vazquezbermudez @es.ey.com**

Indirect Taxes

★ Javier Martín	**915-727-554** **Mobile: 609-116-928** **E-mail: javier.martinmartin@es.ey.com**

Human Capital

★ Marta Álvarez-Novoa	**915-727-407** **Mobile: 609-161-921** **E-mail: marta.alvareznovoa@es.ey.com**
Fernando López	**915-727-424** **Mobile: 616-994-126** **E-mail: fernando.lopezolcoz@es.ey.com**
Bárbara Pardo	**915-727-405** **Mobile: 639-767-981** **E-mail: barbara.pardosantayana@es.ey.com**

Finance and Insurance

★ Enrique López	**915-727-218** **Mobile: 619-208-722** **E-mail: enrique.lopezcorrales@es.ey.com**

Private Wealth

★ Javier Estella	**915-727-594** **Mobile: 609-684-394** **E-mail: javier.estellalana@es.ey.com**
Gabriel Pérez	**915-727-579** **Mobile: 609-788-118** **E-mail: gabriel.perezdecardenas@es.ey.com**

Legal Services

Marta Adárraga, *Labor Law*	**915-727-751** **Mobile: 629-423-708** **E-mail: martajose.adarragaescadafal @es.ey.com**
Alvaro Aguilar, *Litigation*	**915-727-341** **Mobile: 649-974-502** **E-mail: alvaro.aguilardear mas@es.ey.com**
★ Miguel Ángel Alcaraz, *Labor Law*	**915-727-836** **Mobile: 629-871-807** **E-mail: miguelangel.alcarazgarcia@es.ey.com**
Mabel Álvarez, *Mergers and Acquisitions*	**915-727-772** **Mobile: 619-222-801** **E-mail: mabel.alvarezgiay@es.ey.com**
Jaime Beltrán, *Company Law*	**915-727-433** **Mobile: 606-342-035** **E-mail: jaime.beltrangarcia@es.ey.com**
Sofía del Pozo, *Company Law*	**915-727-401** **Mobile: 670-761-313** **E-mail: sofiadel.pozojimenez@es.ey.com**
Félix de Luis, *Financial Services*	**915-727-403** **Mobile: 626-208-744** **E-mail: josefelixde.luislorenzo@es.ey.com**
★ Javier Díaz Gálvez, *Corporate Restructuring*	**915-727-217** **Mobile: 649-880-117**
Jesús Antonio Domingo, *Labor Law*	**915-727-415** **Mobile: 629-186-365** **E-mail: jesusantonio.domingoaragon @es.ey.com**
José Domínguez, *Company Law*	**915-727-398** **Mobile: 639-723-806** **E-mail: jose.dominguezleandro@es.ey.com**
Rafael Dorrego, *Labor Law*	**915-727-402** **Mobile: 629-142-386** **E-mail: rafael.dorregogonzalez@es.ey.com**
★ Ignacio Fernández, *Technology, Communications and Entertainment*	**915-727-667** **Mobile: 619-745-366** **E-mail: ignaciojavier.fernandezgarcia @es.ey.com**
Emilio Hernández, *Administrative Law*	**915-727-582** **Mobile: 679-186-837** **E-mail: emilio.hernandezmunoz@es.ey.com**
Joaquín López, *Industrial Property*	**915-727-349** **Mobile: 639-721-013** **E-mail: joaquinramon.lopezbravo@es.ey.com**
Luis Martín, *Employment Law*	**915-727-799** **Mobile: 699-318-610** **E-mail: luisaurelio.martinbernardo@es.ey.com**
María Martínez-Avial, *Labor Law*	**915-727-786** **Mobile: 609-455-811** **E-mail: maria.martinez-avialguerra@es.ey.com**
Paz Mendoza, *Company Law*	**915-727-430** **Mobile: 606-432-434** **E-mail: paz.mendozadiaz-aguado@es.ey.com**
★ Santiago Nadal, *Litigation (resident in Barcelona)*	**933-663-746** **Mobile: 639-888-456** **E-mail: santiago.nadalarce@es.ey.com**

Borja Otero, *International Legal Services*	915-727-605 Mobile: 606-353-547 E-mail: borja.oterodenavascues@es.ey.com
Mario Peña, *Labor Law*	915-727-205 Mobile: 629-174-204 E-mail: mario.penafernandez-pena@es.ey.com
★ Miguel Angel Rodríguez-Sahagún, *Company Law*	915-727-392 Mobile: 629-311-005 E-mail: miguel.rodriguez-s@es.ey.com
Joaquín Ruiz, *Insurance Law*	915-727-633 Mobile: 607-711-962 E-mail: joaquin.ruizechauri@es.ey.com
Pablo Tramoyeres, *Company Law*	915-727-380 Mobile: 609-750-896 E-mail: pablo.tramoyeresgalvan@es.ey.com

BARCELONA GMT +1

Ernst & Young Abogados, S.L.
Diagonal, 575
L'Illa Diagonal
08029 Barcelona
Spain

933-663-800
Fax: 934-397-891

Tax and Legal

◆ Fernando Mínguez	933-663-739 Mobile: 629-324-280 E-mail: fernando.minguezricart@es.ey.com

International Tax Services – International Tax

★ Juan José Terraza	933-663-741 Mobile: 639-772-443 E-mail: juanjose.terrazatorra@es.ey.com
Carlos Gabarró	933-663-775 Mobile: 650-374-643 E-mail: carlosalberto.gabarrofrau@es.ey.com
Juan Ignacio Molina	933-663-800 E-mail: juanignacio.molinasuay@es.ey.com

International Tax Services – Spanish Tax Desks Abroad

Carlos Heredia *(resident in New York)*	[1] (212) 773-8692 E-mail: carlos.heredia@ey.com

International Tax Services – Transfer Pricing

Alberto Heras	933-663-782 Mobile: 686-504-549 E-mail: alberto.herasoliver@es.ey.com

Corporate Tax

Anna Aris	933-663-764 Mobile: 617-238-923 E-mail: annamaria.arisperello@es.ey.com
Eva Céster	933-663-813 Mobile: 629-264-414 E-mail: eva.cesterballetbo@es.ey.com
Nuria Costa	933-663-748 Mobile: 650-413-371 E-mail: nuria.costatorrent@es.ey.com
Fernando Delgado, *Real Estate*	933-663-740 Mobile: 630-894-291 E-mail: fernando.delgadonavarro@es.ey.com
Maite Fandos	933-663-745 Mobile: 639-109-552 E-mail: mariateresa.fandoshernandez@es.ey.com

◆ Fernando Mínguez	**933-663-739** **Mobile: 629-324-280** **E-mail: fernando.minguezricart@es.ey.com**
Sergio Rodríguez	**933-663-786** **Mobile: 629-254-221** **E-mail: sergio.rodrigueztorres@es.ey.com**
Mercè Valldosera, *Due Diligence*	**933-663-752** **Mobile: 659-903-630** **E-mail: mercedes.valldoserapalahi @es.ey.com**
Santiago Ylla	**933-663-791** **Mobile: 619-745-256** **E-mail: santiago.yllamonforte@es.ey.com**

Indirect Taxes

María Lorente	**933-663-763** **E-mail: maria.lorenteiranzo@es.ey.com**

Human Capital

Judith Sans	**933-663-750** **Mobile: 609-724-069** **E-mail: judith.sansoto@es.ey.com**

Finance and Insurance

Pedro Carol	**933-663-742** **Mobile: 619-766-659** **E-mail: pedro.carolvilar@es.ey.com**

Private Wealth

Beatriz Sánchez	**933-663-743** **E-mail: beatrizjesus.sanchezmarin @es.ey.com**

Legal Services

Manuel Alonso, *Technology, Communications and Entertainment*	**933-663-765** **Mobile: 609-780-512** **E-mail: manuel.alonsoporri@es.ey.com**
Cloe Barnils, *Company Law*	**933-663-749** **Mobile: 616-486-895** **E-mail: cloe.barnilsrodriguez@es.ey.com**
★ Nieves Briz, *Mergers and Acquisitions*	**933-663-738** **Mobile: 629-260-371** **E-mail: marianieves.brizpuertas@es.ey.com**
Rafael Gispert, *Company Law*	**933-663-776** **Mobile: 680-456-988** **E-mail: rafael.gispertboix@es.ey.com**
Francisco Javier Guirao, *Litigation*	**933-663-825** **Mobile: 650-374-642** **E-mail: franciscojavier.guiraocartagena @es.ey.com**
★ Santiago Nadal, *Competition Law and Litigation*	**933-663-746** **Mobile: 639-888-456** **E-mail: santiago.nadalarce@es.ey.com**
Oriol Rafols, *Litigation*	**933-663-769** **Mobile: 659-323-677** **E-mail: oriol.rafolsvives@es.ey.com**
José María Rojí, *Administrative Law*	**933-663-787** **E-mail: josemaria.rojibuqueras@es.ey.com**
Felipe Sesma, *Labor Law*	**933-663-744** **Mobile: 616-196-766** **E-mail: manuelfelipe.sesmagarcia@es.ey.com**

BILBAO **GMT +1**

Ernst & Young Abogados, S.L. **Ibáñez de Bilbao, 28** **48009 Bilbao** **Spain**	**944-243-777** **Fax: 944-233-373**

Tax and Legal

◆ Carlos Uncetabarrenechea	**944-356-491** **Mobile: 609-074-625** **E-mail: carlos.unceta@es.ey.com**

Corporate Tax

Elena López	**944-243-777** **Mobile: 649-830-503** **E-mail: elena.lopezsaralegui@es.ey.com**
Pedro José Martínez	**944-356-474** **Mobile: 609-136-488** **E-mail: pedrojose.martinezmartinez @es.ey.com**
Carlos Uncetabarrenechea	**944-356-491** **Mobile: 609-074-625** **E-mail: carlos.unceta@es.ey.com**

Private Wealth

Patricia García	**944-356-473** **Mobile: 650-374-956** **E-mail: patricia.garciamediero@es.ey.com**

Legal Services

Marta de Larrea	**944-356-476** **Mobile: 639-783-376** **E-mail: martade.larreagarcia-morato @es.ey.com**

LAS PALMAS DE GRAN CANARIA — GMT

Ernst & Young Abogados, S.L. **Avda. Alcalde Ramírez Bethencourt, 6** **Edificio Atlántico** **35003 Las Palmas de Gran Canaria** **Spain**	**928-380-984** **Fax: 928-980-098**

Tax and Legal

◆ Juan Arencibia	**928-364-399** **Mobile: 619-579-175** **E-mail: juan.arencibiarodriguez@es.ey.com**

CorporateTax

Juan Arencibia	**928-364-399** **Mobile: 619-579-175** **E-mail: juan.arencibiarodriguez@es.ey.com**
Luis Villegas	**928-380-984** **Mobile: 639-788-154** **E-mail: luis.villegasdelgado@es.ey.com**

Legal Services

Agustín Calzada	**928-364-534** **E-mail: agustin.calzadamolina@es.ey.com**
Pedro Jose Cervera	**928-380-984** **Mobile: 629-243-268** **E-mail: pedrojose.cerveracanton@es.ey.com**
Ana Hermosilla	**928-380-984** **Mobile: 670-765-604** **E-mail: ana.hermosillagalceran@es.ey.com**
Marta Rodríguez	**928-380-984** **E-mail: marta.rodriguezviciana@es.ey.com**

MÁLAGA — GMT +1

Ernst & Young Abogados, S.L. **Pº de la Farola, 5** **Edificio Velería** **29016 Málaga** **Spain**	**952-228-506** **Fax: 952-210-190**

Tax and Legal

◆ Victor Gómez de la Cruz — **952-228-506**
Mobile: 609-572-204
E-mail: victor.gomezdelacruztalegon@es.ey

Legal Services

Guillermo Ramos — **952-228-506**
Mobile: 619-075-325
E-mail: guillermo.ramosgonzalez@es.ey.com

MALLORCA — GMT +1

Ernst & Young Abogados, S.L. — **971-213-233**
Avda. Jaime III, 18, Entlo. — **Fax: 971-715-673**
07012 Palma de Mallorca
Spain

Tax and Legal

◆ Marta Villalba — **971-213-242**
Mobile: 619-262-059
E-mail: marta.villalbalazaro@es.ey.com

Legal Services

Antonio Planas — **971-213-235**
Mobile: 619-257-304
E-mail: antoniofrancisco.planasdeoleza@es.ey.com

Tim Jürgen Joseph Wirth — **971-213-241**
Mobile: 609-832-016
E-mail: timjurgenjoseph.wirth@es.ey.com

PAMPLONA — GMT +1

Ernst & Young Abogados, S.L. — **948-260-903**
Avda. Pío XII, 22 — **Fax: 948-271-151**
31008 Pamplona
Spain

Tax and Legal

◆ Carlos Uncetabarrenechea — **948-260-903**
Mobile: 609-074-625
E-mail: carlos.unceta@es.ey.com

Corporate Tax

Elena Ferrández — **948-260-903**
Mobile: 609-623-477
E-mail: elenanatalia.ferrandezalmajano@es.ey.com

Maite Yoldi — **948-260-903**
Mobile: 639-312-988
E-mail: maite.yoldielcid@es.ey.com

SEVILLA — GMT +1

Ernst & Young Abogados, S.L. — **954-239-309**
Avda. de la Palmera, 19 — **Fax: 954-625-541**
Edificio Winterthur 2, 1º
41013 Sevilla
Spain

Tax and Legal

◆ José María Cruz — **954-239-309**
Mobile: 639-673-195
E-mail: josemaria.cruzandres@es.ey.com

Corporate Tax

Francisco de Haro — **954-239-309**
Mobile: 606-456-335
E-mail: franciscojosede.hararomero@es.ey.com

Legal Services

Alberto Pérez Solano	**954-239-309** **Mobile: 639-755-113** **E-mail: alberto.perez-solanoarques@es.ey.com**

TENERIFE — GMT

Ernst & Young Abogados, S.L. **Avda. Bravo Murillo 5, 4º** **Edificio MAPFRE** **38003 Santa Cruz de Tenerife** **Spain**	**922-243-086** **Fax: 922-240-738**

Tax and Legal

◆ Juan Luis Lorenzo	**922-243-086** **Mobile: 607-829-282** **E-mail: juanluis.lorenzovazquez@es.ey.com**
Jose Alberto Morín	**922-243-086** **Mobile: 670-249-497** **E-mail: josealberto.morinarvelo@es.ey.com**

Legal Services

Javier Cabrera	**922-243-086** **Mobile: 686-506-513** **E-mail: franciscojavier.cabreraguimera@es.ey.com**

VALENCIA — GMT +1

Ernst & Young Abogados, S.L. **Roger de Lauria, 6** **46002 Valencia** **Spain**	**963-532-797** **Fax: 963-532-798**

Tax and Legal

◆ Jose Luis Corell	**963-532-797** **Mobile: 639-171-913** **E-mail: joseluis.corellbadia@es.ey.com**

Corporate Tax

Carlos Carbonell	**963-532-797** **Mobile: 607-388-346** **E-mail: carlos.carbonellgisbert@es.ey.com**
Germán Rodrigo	**963-532-797** **Mobile: 630-262-155** **E-mail: german.rodrigochaques@es.ey.com**

Legal Services

Antonio Civera	**963-532-797** **Mobile: 639-522-151** **E-mail: antonio.civeragarcia@es.ey.com**

VALLADOLID — GMT +1

Ernst & Young Abogados, S.L. **Santiago, 7** **47001 Valladolid** **Spain**	**983-361-286** **Fax: 983-361-287**

Tax and Legal

◆ José Fernando de la Fuente	**983-361-286** **Mobile: 629-791-703** **E-mail: josefernandodela.fuenteaspron@es.ey.com**

VIGO **GMT +1**

Ernst & Young Abogados, S.L. **986-443-029**
Uruguay 8, 7º **Fax: 986-430-021**
Edificio El Dorado
36201 Vigo
Spain

Tax and Legal

◆ Francisco González (91) 572-73-97
(resident in Madrid) Mobile: 639-346-932
E-mail: francisco.gonzalezcarrera@es.ey.com

Corporate Tax

Javier Gómez Taboada 986-443-029
Mobile: 606-353-457
E-mail: franciscojavier.gomeztaboada@es.ey.com

ZARAGOZA **GMT +1**

Ernst & Young Abogados, S.L. **976-458-120**
Avda. Gómez Laguna 25, 9º-B **Fax: 976-458-121**
Centro Empresarial de Aragón
50009 Zaragoza
Spain

Tax and Legal

◆ Javier Echavarri 976-458-120
Mobile: 639-783-362
E-mail: javier.echavarrilopez@es.ey.com

Legal Services

José Pajares 976-458-122
Mobile: 619-009-013
E-mail: jose.pajaresecheverria@es.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	15 (c)
Interest	15 (d)
Royalties from Patents, Know-how, etc.	25
Branch Remittance Tax	15 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	15

(a) Other rates apply to specified entities. See Section B.
(b) Certain capital gains are exempt from tax or are subject to tax at a reduced rate. See Section B.
(c) See Section B.
(d) Certain interest is exempt from tax. See Section B.
(e) Exceptions may apply to this rate.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporate tax is levied on the income of companies and other entities and organizations that have a separate legal status. A resident entity — one incorporated under Spanish law or having its legal headquarters or its effective place of management in Spain — is taxable on its worldwide income.

Nonresident entities are taxable only on Spanish-source income, which includes income from any kind of business activity conducted in Spain through a branch, office or other permanent establishment. Nonresident companies or individuals must appoint a fiscal representative if they are conducting business activities in Spain through a permanent establishment or if certain other specified circumstances exist.

Tax Rates. The general tax rate is 35%. However, a 30% tax rate applies to profits up to €90,151.82 derived by entities that earned net turnover of less than €6 million in the immediately preceding tax year. Other tax rates apply to certain specified entities.

A Spanish entity that is considered to be an asset holding company (*sociedad patrimonial*) determines its net income in accordance with the personal income tax rules and is taxed at a 40% rate. Its capital gains derived from the transfer of property owned more than one year are subject to tax at a rate of 15%. A Spanish resident entity is not considered to be an asset holding company if all of its shareholders are entities that do not qualify as asset holding companies.

In addition to other tax benefits, companies licensed to operate in the Canary Islands Special Zone are subject to reduced tax rates ranging from 1% to 5% if certain conditions are satisfied.

In principle, nonresident entities operating in Spain without a permanent establishment are taxable at a general rate of 25%. However, dividends and interest received by such entities are subject to a final withholding tax at a rate of 15%. The tax rate applicable to income from reinsurance operations is 1.5%. Interest income is exempt from tax if the recipient is resident in a European Union (EU) member state that is not on Spain's tax haven list. Interest paid to nonresidents on Spanish Treasury obligations is exempt from tax if the recipient is not resident in a tax haven. Income derived by nonresidents from bonds issued in Spain by nonresidents without a permanent establishment in Spain and from bank accounts is exempt from tax in Spain.

In addition to corporate income tax at a rate of 35%, nonresident entities operating in Spain through a permanent establishment are subject to a branch remittance tax at a rate of 15% unless an exception applies.

Capital Gains. Spanish law generally treats capital gains as normal income taxable at the regular corporate tax rate. Capital gains may qualify for a 20% tax credit if conditions for reinvestment relief are satisfied.

Capital gains realized by nonresident entities are also generally taxed at the normal rate of 35%. Capital gains on movable property, including shares, are not subject to tax if the recipient is resident in an EU country that is not on Spain's tax haven list, unless the gains are on the transfer of shares and either the seller owns at least 25% of the company or the company's assets consist primarily of Spanish real estate.

If a nonresident that does not have a permanent establishment in Spain disposes of Spanish real estate, a 5% tax is withheld by the buyer from the sales price, with certain exceptions. The tax withheld constitutes an advance payment on the final tax liability of the seller.

Capital gains derived by nonresidents from sales of shares traded on the Spanish stock exchange are exempt from tax in Spain if the seller is resident in a jurisdiction that has entered into a tax treaty with Spain containing an exchange of information clause.

Capital gains derived from transfers of shares or units in Spanish collective-investment entities by nonresident entities or nonresident individuals operating in Spain without a permanent establishment are exempt from withholding tax if the seller is resident in a jurisdiction that has entered into a tax treaty with Spain containing an exchange of information clause.

Administration. The tax year is the same as the accounting period, which may be other than a calendar year. The tax year may not exceed 12 months. The tax return must be filed within 25 days after six months following the end of the tax year. In April, October and December of each calendar year, companies must make payments on account of corporate income tax equal to either of the following:

- Eighteen percent of the tax liability for the preceding tax year.
- An amount calculated by applying 5/7 of the corporate income tax rate to the profits for the year as of the end of the month preceding the date of the payment and then subtracting from the result advance payments of tax previously made. This alternative is compulsory for companies with turnover of more than €6,010,121.04 in the immediately preceding tax year.

Dividends. Dividends received by a resident company from another resident company are subject to corporate tax, as well as to a 15% withholding tax, which may be credited against the corporate tax. However, the withholding tax is not imposed if, at the time of the distribution, the recipient of the dividend has owned at least 5% of the payer for an uninterrupted period of more than one year. Under Spanish domestic law, in general, a tax credit of 50% is granted to a resident company that receives dividends. The credit is increased to 100% if, at the time of the distribution, the company receiving the dividend has owned at least 5% of the paying company for an uninterrupted period of one year. The 50% or 100% tax credit does not apply if the shares on which the dividends are paid or similar shares are purchased within a two-month period prior to the date of distribution of the dividends or sold within the two-month period after such date.

A tax credit is granted to resident companies that derive income from transfers of shares of other resident companies subject to Spanish corporate income tax if, at the time of transfer, the company has owned at least 5% of the share capital of the other company for an uninterrupted one-year period. This credit is calculated by applying the general rate (currently, 35%) to the portion of the capital gains representing undistributed profits earned during the period the shares were held by the company. The tax credit may be carried forward to the following seven years.

Distributions by Spanish subsidiaries to parent companies in EU member states are exempt from withholding tax if the parent company owns at least 25% (or subject to reciprocity, 10% in certain cases) of the subsidiary for an uninterrupted period of at least one year and if certain other requirements are met. The one-year holding period requirement may be satisfied at the date of the distribution or subsequent to such date. An antiavoidance provision also applies in situations in which the ultimate shareholder is not an EU resident.

Foreign Portfolio Holding Companies. A special tax regime applies to companies that have foreign portfolio holding company (*entidades de tenencia de valores extranjeros* or ETVE) status. ETVEs are ordinary Spanish companies that engage in the administration and management of participations in the equity of nonresident entities. ETVEs may also engage in other activities. In addition to the general exemption for dividends and capital gains derived from shares in foreign companies described in *Foreign Tax Relief* below, an ETVE benefits from certain other tax advantages, including the following:

- No withholding tax is imposed on distributions made by ETVEs out of reserves derived from tax-exempt foreign-source dividends and capital gains to nonresident shareholders who are not tax-haven residents;
- Capital gains derived by foreign shareholders of ETVEs from transfers of shares in ETVEs are not taxed to the extent that the capital gain corresponds to qualifying exempt dividends and gains (realized or unrealized) derived at the ETVE level if the shareholder is not resident in a tax haven; and
- Share-for-share contributions to ETVEs may qualify for an exemption from capital duty.

Foreign Tax Relief. The exemption method may be used to avoid double taxation on dividends received from abroad and on certain capital gains derived from transfers of shares of foreign companies if the following requirements are met:

- At the time of the distribution of the dividend or the generation of the capital gain, the Spanish company has owned, directly or indirectly, at least 5% of the share capital of the nonresident company for an uninterrupted period of at least one year;
- The foreign company is subject to and not exempt from corporate tax in a tax system that is similar to Spain's corporate tax system;
- The foreign company is not resident in a country identified by the Spanish tax authorities as a tax haven; and
- The foreign company derives at least 85% of its income from business activities conducted outside Spain.

If the exemption method does not apply, a foreign tax credit is available for resident entities equal to the lower of the following:

- The Spanish corporate tax that would have been payable in Spain if the foreign income had been obtained in Spain; and
- The actual income tax paid abroad on the foreign-source income.

A tax credit for underlying foreign taxes paid by a subsidiary on the profits out of which dividends are paid and a tax credit for foreign withholding taxes paid on dividends are allowed.

The credit and exemption methods may not be used with respect to the same income. Tax credits granted under the credit method may be carried forward for 10 years.

C. Determination of Taxable Income

General. Taxable income is the company's gross income for the tax year, less certain deductions. It is determined from the annual financial statements prepared under generally accepted accounting principles, as adjusted for certain statutory tax provisions.

In general, all necessary expenses incurred in producing income during the year and depreciation on income-producing property may be deducted from gross income to arrive at taxable income.

The following items are not deductible from gross income:
- Penalties and fines;
- Corporate income tax payments;
- Gifts and donations other than those to specifically approved organizations;
- Expenditures for the improvement or enhancement of capital assets; and
- Depreciation charges that exceed the maximum rates prescribed by law, unless it can be demonstrated that the rates used correspond to the actual depreciation incurred.

Inventories. The corporate tax law does not prescribe permissible methods for the valuation of inventory. Consequently, any valuation method allowed under the Spanish accounting rules may be used for tax purposes. These methods include acquisition cost, production cost, last-in, first-out (LIFO) and first-in, first-out (FIFO).

Provisions. Subject to certain limitations, the corporate income tax regulations permit the deduction of reserves for inventory, securities, liabilities from lawsuits, extraordinary repairs, unsold publications and doubtful debts.

Depreciation. All tangible assets (except land), fixed or movable, that are owned by and used in the trade or business of a company are depreciable if their useful life exceeds a tax year. Intangible assets may be amortized if they depreciate and have a limited useful life, such as patents and trademarks. Under certain circumstances, goodwill is depreciable for tax purposes.

Financial goodwill corresponding to shares in foreign subsidiaries that meet the requirements for the application of the exemption regime (see Section B) may be amortized for tax purposes at an annual rate of up to 5%.

Depreciation methods are restricted to the straight-line method and the declining-balance method. The straight-line method may be used for any depreciable asset. The declining-balance method may be used only for certain new tangible assets (industrial and farming machinery, vehicles, information systems and so forth) that have an anticipated useful life of three years or more.

The basis for depreciation is the acquisition price of assets purchased by the company or the manufacturing cost of assets manufactured by the company. The acquisition price includes all related costs, such as customs duties, transportation costs and installation expenses.

Depreciation rates are fixed by law. The rates vary depending on the industry. The following are general straight-line rates and periods of depreciation for certain assets.

Asset	Maximum Rate %	Maximum Period of Depreciation Years
Commercial buildings	2	100
Industrial buildings	3	68
Office equipment	10 or 15	20 or 14
Motor vehicles	16	14
Plant and machinery	10 or 12	20 or 18
Computers	25	8
Goodwill, patents and trademarks	5	20

Companies may use higher rates if they can demonstrate that the actual depreciation is in excess of that allowed by law.

To be deductible, the depreciation amount must be recorded in the company's accounting books and must be "effective," that is, it must correspond to the actual depreciation of the asset. The second condition is met if the depreciation amount is calculated in accordance with the rates prescribed by law or with other rates that have been expressly approved by the tax authorities. Otherwise, the "effectiveness" of the depreciation must be demonstrated. Only new assets located in Spain qualify for accelerated depreciation. On request, the tax authorities may grant approval for accelerated depreciation if the company presents a plan specifying the assets, the date and price of the acquisition, the depreciation rates and the annual depreciation allowance desired, and reasons to support the adoption of such a plan.

Under a temporary measure, depreciation rates may be increased by 10% for new assets acquired between 1 January 2003 and 31 December 2004.

Relief for Losses. Tax losses may be carried forward and offset against future taxable income for a period of 15 tax years. For newly established enterprises, the 15-year period begins in their first profitable year for tax purposes. Tax losses may not be carried back.

Groups of Companies. A group of companies may file a consolidated tax return if it informs the tax authorities before the beginning of the tax year for which the consolidated regime will apply. After the group elects taxation under the consolidated regime, the regime applies indefinitely, provided certain requirements are satisfied. For tax purposes, a group of companies is defined as a group of corporations resident in Spain controlled by a parent corporation that is a resident of Spain and that is not controlled by another resident company. For this purpose, corporations include stock companies (*sociedades anóminas* or SAs), limited liability companies (*sociedades limitadas* or SLs) and limited partnerships (*sociedades comanditarias por acciones* or SCpAs). The parent company may adopt any of these legal forms or, otherwise, it must have legal personality and be subject to and not exempt from corporate income tax.

A company is deemed to control another company if, on the first day of the tax year for which the consolidated regime applies, it satisfies the following requirements:

- It owns, directly or indirectly, at least 75% of the other company's share capital, and it maintains such ownership for the entire tax year of consolidation; and
- It is not subject to certain look-through regimes or to the regime for asset holding companies (see Section B).

Registered branches of nonresident entities that are located in Spain may qualify as parent corporations. Tax-exempt companies, companies taxed at a different rate than the parent company and companies in specified legal situations, such as bankruptcy, may not be part of a group of companies.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), levied on goods delivered and services rendered within the Spanish territory (excluding the Canary Islands, Ceuta and Melilla), on imports from EU and non-EU member states, and on certain services rendered by foreign suppliers to persons subject to Spanish VAT	
Standard rate	16
Rate on certain necessary products and services	7
Rate on basic products	4
Special annual tax on real estate owned by nonresident companies, assessed on the government's official value on 31 December; exemption for real estate used in business and for companies resident in countries with which Spain has a tax treaty	3
Social security and employee-related fund contributions, calculated on an employee's total compensation, with certain limitations; paid by	
Employer	30.8
Employee	6.4
Capital duty on incorporations, share capital increases, and reductions and liquidations of companies; exemptions apply to corporate reorganizations and to certain transactions in the Canary Islands	1

E. Miscellaneous Matters

Foreign-Exchange Controls. Exchange controls are administered by the Bank of Spain and the Ministry of Economy and Finance. The government relaxes or tightens controls to reflect the prevailing economic and monetary situation. Exchange controls have been liberalized in recent years. As a result, only a few, simple reporting requirements are now imposed, primarily for statistical purposes.

Debt-to-Equity Rules. A thin-capitalization rule applies in Spain. Any interest paid on loans from foreign related parties in excess of a 3:1 debt-to-equity ratio is treated as dividends. This ratio may be increased through an advance pricing agreement (APA) process.

It is expected that, effective from 1 January 2004, the thin-capitalization measures will not apply if the lender is an EU-resident company that does not reside in a territory included in the Spanish tax haven list.

Antiavoidance Legislation. Antiavoidance legislation refers primarily to the transfer tax levied on the transfer of property and the transfer of shares of real estate companies.

Controlled Foreign Companies. Under controlled foreign company (CFC) rules contained in the corporate income tax law, Spanish resident companies must include in their tax base passive income derived by their foreign subsidiaries if certain control and effective taxation conditions are satisfied. Significant exceptions apply to these rules.

It is expected that, effective from 1 January 2004, the CFC rules will not apply to EU-resident companies that do not reside in a territory included in the Spanish tax haven list.

F. Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (l) %	Interest %	Royalties %
Argentina	10 (d)	12.5 (t)	10 (p)
Australia	15	10	10
Austria	10 (d)	5 (v)	5
Belgium	0 (cc)	10 (e)(v)	5
Bolivia	10 (d)	15	15
Brazil	15	15 (b)	15 (c)
Bulgaria	5 (d)	0	0
Canada	15	15	10
China	10	10	10
Cuba	5 (d)	10 (e)	5 (s)
Czechoslovakia (m)	5 (d)	0	5
Denmark	15	10 (v)	6
Ecuador	15	10 (e)(o)	10 (a)
Finland	10 (d)	10 (v)	5
France	15 (w)	10 (v)(e)	5
Germany	10 (d)	10 (v)	5
Greece	5 (bb)	8	6
Hungary	5 (d)	0	0
Iceland	5 (d)	5	5
India	15	15 (t)	10 (u)
Indonesia	10 (d)	10	10
Ireland	15	0	10 (j)
Israel	10	10 (z)	7 (aa)
Italy	15	12 (t)(v)	8 (f)
Japan	10 (d)	10	10
Korea	10 (d)	10 (t)	10
Luxembourg	10 (d)	10 (t)(v)	10
Mexico	5 (d)	15 (n)	10 (s)
Morocco	10 (d)	10	10 (a)
Netherlands	10 (d)(g)	10 (v)	6
Norway	10 (d)	10 (e)	5
Philippines	10 (d)	15 (q)	15 (r)
Poland	5 (d)	0	10

	Dividends (l) %	Interest %	Royalties %
Portugal	10 (d)	15 (v)	5
Romania	10 (d)	10	10
Russian Federation	5 (x)	5 (y)	5
Slovenia	5 (d)	5	5
Sweden	10 (d)	15 (v)	10
Switzerland	10 (d)	10 (h)	5
Thailand	10	15 (t)	15 (j)
Tunisia	5 (d)	10 (i)	10
United Kingdom	10 (d)	12 (v)	10
United States	10 (d)	10 (e)	10 (j)
Nontreaty countries	15	15 (k)	25

(a) A 5% rate applies to copyrights of literary, dramatic, musical or artistic works (excluding motion picture films and television films or videotapes).
(b) A 10% rate applies to interest paid to financial institutions for long-term (10 or more years) loans for goods or equipment.
(c) A 10% rate applies to royalties paid for copyrights of literary, artistic or scientific works (including films and videotapes produced by a resident of a contracting state).
(d) The treaty withholding rate is increased to 15% in certain circumstances if the recipient is not a corporation or the shareholding does not exceed a certain percentage.
(e) Certain interest payments are exempt.
(f) The rate is 4% for royalties for copyrights of literary, dramatic, musical or artistic works (excluding motion picture films and television films or videotapes).
(g) The withholding rate is 5% if the recipient is not subject to Dutch tax on the dividends and if the 10% rate would otherwise apply.
(h) Interest paid to a Swiss bank on a long-term loan (redeemable only after five years) is exempt.
(i) A 5% rate applies to loans over seven years.
(j) A 5% rate applies to copyrights of musical compositions and literary, dramatic or artistic works. The rate is 8% for royalties from motion picture films, films, tapes and other means of transmission or reproduction of sounds; for industrial, commercial or scientific equipment; and for the copyright of scientific work.
(k) See Section B.
(l) Distributions by Spanish subsidiaries to parent companies in EU member states are exempt from withholding tax if, at the time of the distribution, the parent company has owned at least 25% of the subsidiary for an uninterrupted period of at least one year.
(m) Spain honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.
(n) The withholding tax is 10% if the effective beneficiary of the interest is a financial entity.
(o) A 5% rate applies to certain loans.
(p) A 3% rate applies to the use of news; a 5% rate applies to copyrights of musical, literary, dramatic or artistic works; a 15% rate applies to other copyright royalties.
(q) A 10% rate applies to interest paid with respect to sales of industrial equipment or publicly traded bonds.
(r) A 20% rate applies to royalties with respect to films, television or radio.
(s) Certain copyright royalties are exempt.
(t) Interest paid to the government or central bank of the other contracting state is exempt from tax if the recipient is the beneficial owner of the interest. The government of the state of the payer may authorize an exemption for interest paid to a beneficial recipient other than the government or central bank of the other contracting state.
(u) A 20% rate applies to certain royalties.
(v) Interest paid to an EU resident without a permanent establishment in Spain is exempt from tax.
(w) No withholding tax is imposed if the recipient is a company that is subject to corporate income tax and holds a participation of at least 10% in the payer.
(x) The withholding tax rate is 5% if the effective beneficiary of the dividends is a company that has invested at least ECU 100,000 in the share capital of the payer and if the dividends are exempt from tax in the other contracting state. The withholding tax rate is 10% if only one of these requirements is met. The withholding tax rate is 15% for other dividends.

(y) No withholding tax is imposed on interest paid to and beneficially owned by financial institutions with respect to long-term (seven years or more) loans and certain other debts.
(z) A 5% rate applies to interest paid with respect to sales of industrial, commercial, scientific equipment, or on loans from financial institutions. A 0% rate applies to interest paid to the government or central bank of the other contracting state.
(aa) A 5% rate applies to royalties paid for copyrights of musical compositions, and literary, dramatic or artistic works, and to amounts paid for the use of industrial, commercial or scientific equipment.
(bb) The withholding tax rate is 5% if the effective beneficiary of the dividends is a corporation and if the shareholding is equal or higher than 25%. The withholding tax rate is 10% for other dividends.
(cc) The 0% rate applies if the following conditions are satisfied: the recipient of the dividends is a corporation; the shareholding is equal or higher than 25%; and this is permitted under the rules of the state of residence of the subsidiary. The rate is 15% if the effective beneficiary is a resident of the other contracting state.

Tax treaties with Algeria, Lithuania, Turkey and Venezuela have been signed and are in the process of being ratified. Tax treaties with Chile, Egypt, Estonia, Guatemala, Iran, Latvia, Malaysia and Vietnam are in the process of being signed.

SRI LANKA

(Country Code 94)

COLOMBO **GMT +5**

Ernst & Young
Mail Address:
P.O. Box 101
Colombo 10
Sri Lanka

(1) 269-7363 through 7367
Fax: (1) 269-7369, 557-8180
E-mail: ey.tax@lk.ey.com

Street Address:
201, De Saram Place
Colombo 10
Sri Lanka

Corporate Tax

Lakmali Chandrika Nanayakkara — **(1) 268-6249**, **E-mail: lakmali.nanayakkara@lk.ey.com**

Duminda Hulangamuwa — **(1) 267-8007**, **E-mail: duminda.hulangamuwa@lk.ey.com**

KANDY **GMT +6**

Ernst & Young
839/2, Peradeniya Road
Kandy
Sri Lanka

(8)1223-2056
Fax: (8) 1223-2056
(Voice Request Required)

Corporate Tax

Duminda Hulangamuwa — **(8) 1223-2056**, **E-mail: duminda.hulangamuwa@lk.ey.com**

This chapter contains information regarding tax changes included in the 2004 budget. At the time of writing, the budget measures had not yet been enacted. Because of the possible tax changes resulting from the budget, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	10 (b)
Interest	10/15 (c)
Royalties from Patents, Know-how, etc.	10/15 (d)
Specified Fees for Services	5
Rent for Commercial Premises	10
Reward Payments, Lottery Winnings and Gambling Winnings	10 (e)
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0 (f)
Carryforward	7 (g)

(a) This is the standard rate. For other rates, see Section B.
(b) This tax, which is a final tax, is imposed on dividends paid to residents and nonresidents.
(c) The 10% tax, which is a final tax, is imposed on interest paid to residents on bank deposits if the annual amount of interest exceeds Rs. 108,000. The 15% tax is imposed on interest paid to nonresidents on loans. Also, see Section B.
(d) This withholding tax currently applies to payments to nonresidents. Under the 2004 budget, effective from 1 April 2004, the withholding tax rate will be reduced to 10%, and the tax will apply to payments exceeding Rs. 50,000 per month or Rs. 500,000 per year to residents and nonresidents.
(e) This withholding tax applies to amounts exceeding Rs. 500,000.
(f) Losses may be carried back three years on the cessation of a business, except for capital losses and losses from horse racing.
(g) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies resident in Sri Lanka are subject to income tax on their worldwide income. Nonresident companies are subject to tax on their profits and income derived from Sri Lankan sources. A company is considered to be a resident company if its registered or principal office is in Sri Lanka or if the control and management of its business are exercised in Sri Lanka.

Rates of Corporate Tax. The standard rate of corporate income tax is 30%. A company with taxable income of less than Rs. 5 million is taxed at a rate of 20%. Publicly listed companies with taxable income exceeding Rs. 5 million are subject to tax at a rate of 28.5%.

Companies with taxable income exceeding Rs. 5 million must also make a contribution to the Human Resource Endowment Fund (HREF) at a rate of 2.5% of taxable income.

Profits derived from priority sectors are taxed at a rate of 15% or 20%. The 15% rate applies to the following priority sectors: agriculture; construction; exports; fisheries; livestock; and tourism. Nonresident companies may qualify for the 15% rate in all of the priority sectors, except for construction. The 20% rate applies to specialized housing banks.

Under the 2004 budget, foreign-currency banking units of banks will be subject to income tax at a rate of 20% on their offshore profits, effective from 1 April 2004. Effective from 1 July 2003, with respect to onshore profits, quoted units will be subject to tax at a rate of 30% and other units will be subject to tax at a rate of 32.5%.

Tax Incentives. Significant tax incentives offered by the Board of Investment of Sri Lanka and under the Inland Revenue Act include the following:

- A minimum investment of US$150,000 for the manufacturing of nontraditional goods, export-oriented services, and the manufacturing of industrial tools and machinery: full tax holiday for five years, 10% rate for the following two years and 15% or 20% rate thereafter.
- A minimum investment of US$500,000 for small-scale infrastructure projects: full tax holiday for five years, 10% rate for the following two years and 20% rate thereafter.
- Investment in information technology (IT) or IT-enabled services, and IT-related training institutes or regional headquarters (no minimum investment requirement): full tax holiday for three years, 10% rate for the following two years and 15% rate thereafter if export oriented (if not, 20%).
- A minimum investment of US$5,000,000 in industry, agriculture, construction, services or any other approved activity: full tax holiday for three years, 10% rate for the following two years and 15% rate thereafter if export oriented (if not, 20%).
- A minimum investment of US$10,000 in agriculture and agro-processing (except black tea): full tax holiday for five years and 15% rate thereafter.
- A minimum investment of US$50,000 for research and development: full tax holiday for five years, 15% rate thereafter.
- A minimum investment of US$500,000 in existing enterprises undertaking expansion of activities in the same or a new location: full tax holiday for two years and a 15% rate thereafter.
- A minimum investment of US$10,000 in nonperforming or underperforming enterprises: full tax holiday for three years. The normal rates apply thereafter.

Tax incentives ranging from a full tax holiday to concessionary rates of 10% and 15%, based on annual turnover, are granted to Export Trading Houses located within Export-Processing Zones that export the entirety of locally procured manufactured products or re-export the entirety of imported products.

New or existing large-scale projects relating to petroleum, power generation and transmission, development of highways, airports and certain other activities, as well as other Board-approved infrastructure projects, qualify for the following tax holidays.

Amount of Investment US$	Period of Tax Holiday Years
12,500,000	5
25,000,000	8
50,000,000	10

A concessionary tax rate of 15% applies after the expiration of the above tax holidays.

Pioneering investments in designated types of projects, including power generation, transmission and distribution, development of highways, seaports and airports, services and other infrastructure projects, qualify for the following tax holidays shown in the table below.

Amount of Investment US$	Period of Tax Holiday Years
10,000,000	6
25,000,000	8
50,000,000	10
75,000,000	12

A concessionary tax rate of 15% applies after the expiration of the above tax holidays. Companies engaged in the projects mentioned above also benefit from tax-free dividends and from exemption from import duty on capital imports during the project implementation period.

Sri Lanka also offers the following tax holidays:

- A five-year tax holiday for companies engaged in refrigerated transport or cold-room storage;
- A 10-year tax holiday for companies engaged in non-plantation agriculture or in exporting fruits and vegetables;
- A tax holiday for a period of 6 to 12 years for companies providing large-scale infrastructure facilities and making an investment of at least Rs. 1.25 billion;
- A five-year tax holiday for undertakings making an investment exceeding Rs. 2.5 million and engaging in agriculture, agro-processing, industrial and machine tool manufacturing, information technology and allied services, electronics or exporting of nontraditional products;
- A five-year tax holiday for undertakings carrying on animal husbandry, cultivation of plants other than tea, rubber, coconut or paddy, marine activities or the operation of inland fisheries;
- A five-year tax holiday for Export Production Village Companies (as defined in the Inland Revenue Act of Sri Lanka);
- A five-year tax holiday for companies that provide small-scale infrastructure facilities and that make an investment of Rs.10 million in power generation, tourism, recreation, warehousing and cold storage, garbage collection and the disposal or construction of houses or hospitals;
- A five-year tax holiday for companies undertaking research and development and making an investment exceeding Rs. 2 million;
- A three-year tax holiday for companies acquiring inactive or under-performing enterprises if the acquisition is completed and commercial operations begin before 31 March 2004;
- A two-year tax holiday for companies manufacturing nontraditional products for export that undertake expansion and that make a minimum investment of Rs. 10 million, if the investment is made in full by 31 March 2004;
- A two-year tax holiday for companies making an investment exceeding Rs. 10 million and engaging in the manufacturing of traditional exports and goods that are not for export;
- A five-year tax holiday for undertakings making an investment exceeding Rs. 250 million in any activity; and
- A five-year tax holiday for a venture capital company investing in ordinary shares of companies that are engaged in projects of a pioneering nature resulting in economic development, the development of information technology, or the rehabilitation of nonperforming or underperforming industries, or that are engaged in other projects approved by the Minister of Finance.

Unit trusts and mutual funds are taxed at a rate of 10% on profits in specified areas. Other profits of unit trusts are taxed at a rate of 20%. Venture capital companies are taxed at a rate of 20%.

Income derived from sales of gold, gems and jewelry is exempt from tax.

Capital Gains. Capital gains tax is not imposed in Sri Lanka.

Administration. The normal fiscal year (year of assessment) runs from 1 April to 31 March. A company may select a different fiscal year if it obtains prior permission from the Department of Inland Revenue. Income tax is payable in four quarterly installments, which are due one and a half months after the end of each quarter. The final tax return must be submitted by 30 November after the fiscal year. Any balance of income tax due must be paid by 30 September following the end of the fiscal year.

Dividends. A dividend tax of 10% (also known as the Dividend Tax at Source) is withheld from dividends distributed on or after 1 April 2002 out of profits included in taxable income. The 10% tax is the final tax on dividends paid to residents and nonresidents. Dividends paid by a resident company to a resident or nonresident company are not included in the assessable income of the recipient if any of the following apply:
- A withholding has been made for dividend tax;
- The dividend is exempt from income tax; or
- The dividend consists of any part of the amount of dividends received by the payer from another resident company.

Effective from 1 April 2003, dividends received from nonresident companies are taxed at a rate of 10%, unless a tax treaty provides a lower rate.

Interest. A final withholding tax at a rate of 10% is imposed on interest paid to residents on bank deposits if the annual amount of interest exceeds Rs. 108,000.

The following are significant aspects of the taxation of interest:
- A final withholding tax at a rate of 10% is imposed on interest paid to residents on bank deposits if the annual amount of interest exceeds Rs. 108,000.
- Withholding tax at a rate of 15% is imposed on interest paid to nonresidents on loans.
- Withholding tax at a rate of 10% is imposed on interest on corporate debt securities.
- Interest on government securities, bonds and similar instruments are taxed at point of issue. Secondary market transactions are not taxed.
- Interest income on secondary market transactions that is included in business income is grossed up by 1/9, and a notional credit of 10% is granted against tax liability.
- Profits derived from secondary market transactions by banks, financial institutions and similar entities are exempt from income tax.

Foreign Tax Relief. Foreign tax relief is available under various double tax treaties. The general rule is that Sri Lankan tax payable (other than dividend tax) is allowed as a credit against any foreign tax computed by reference to the same profits. Similar relief is available for foreign tax paid in the other treaty country.

C. Determination of Trading Income

General. The assessment is based on financial statements prepared in accordance with generally accepted accounting principles.

All expenses incurred in the production of income are allowable unless specifically prohibited. In addition, certain expenses that are specifically authorized are permitted as deductions. Nondeductible expenses include capital expenditures, personal and domestic expenses, and losses from appropriation of profits.

Qualifying Payments. Companies may claim a deduction for qualifying payments, which include donations to the government and approved investments. The deduction for qualifying payments is limited to one-fifth of assessable income. Under the 2004 budget, the one-fifth limit will not apply, effective from 1 April 2004.

Inventories. Inventories are normally valued at the lower of historical cost or net realizable value. For agricultural produce, inventories are valued at subsequent sale prices. Cost is usually determined on a first-in, first-out (FIFO) formula or a weighted-average cost formula.

Provisions. In general, no deductions are allowed for reserves or provisions. However, provisions may be deducted if the expenses provided for are paid within three years after the year of assessment.

Depreciation. Depreciation allowances are granted to the owner of the asset from the fiscal year in which the asset is first used. The allowance is computed using the straight-line method at the following rates.

Type of Asset	Existing Rates %	Rates Under Budget (a) %
Buildings (b)	6.67	6.67
Plant and machinery	50	12.5
Office equipment	50	12.5
Commercial motor vehicles	25	20
Office furniture	25	20
Computer hardware	100	25
Motorcoaches for the transportation of employees	100	– (c)
Intangible assets (excluding goodwill)	– (d)	10

(a) The 2004 budget provides these rates, which will be effective from 1 April 2004.
(b) These rates apply to buildings constructed and to purchased industrial buildings and hotels.
(c) Under the budget, motorcoaches are subject to the rate for commercial motor vehicles, which will be 20%.
(d) Under the existing law, intangible assets do not qualify for depreciation allowances, but 25% of the cost may be claimed as an allowable expense in computing taxable profits.

Depreciation allowances are generally subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. Any amounts recaptured are subject to tax at the regular corporate tax rate. Losses on the sale of a depreciable asset may be claimed as trade losses.

If a capital asset is disposed of and replaced within one year, the allowance is granted on the acquisition cost, less the profit on sale of the old asset.

Relief for Losses. A loss incurred is deductible if, had there been a profit instead of the loss, such profit would have been assessable. If such a loss exceeds the statutory income of that year, the loss can be carried forward for 7 years (12 years for agricultural companies). The carryforward is subject to certain restrictions if the business changes.

Losses from a particular source may offset only profits from the same source.

Losses attributable to depreciation allowances may be carried forward indefinitely.

A loss may be carried back for three years on cessation of a business (except for capital losses and losses from horse racing).

Under the 2004 budget, tax losses are deductible only up to 35% of statutory income.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT); imposed on all goods and services supplied in, or imported into, Sri Lanka, other than certain exempt items; exports and international transportation are zero-rated	10/20
(Under the 2004 budget, VAT will be imposed at a single rate of 15%, effective from 1 January 2004.)	
Economic Service Charge (ESC); imposed on 1% of turnover or total assets; the taxpayer makes a one-time election regarding the tax base; minimum charge is Rs. 100,000, while maximum charge is Rs. 20 million (The ESC is included in the 2004 budget and will be effective from 1 April 2004.)	1
Provincial council tax, on wholesale and retail trade	1
Debits tax; imposed on current-account and savings-account transactions, cashing of travelers checks and certificates of deposit; for certificates of deposit, the tax is imposed on the amount realized when the certificate of deposit is cashed	0.1
Excise duty, on specified imports and locally manufactured products	5 to 50
Import duty	5 to 30
Stamp duty; imposed only on transfers of immovable property	3/4
Port and airport development levy, on declared Cost, Insurance, Freight (CIF) value of all cargo imports	1

Nature of Tax	Rate (%)
Cess fund; imposed on turnover of tourist establishments (effective from 1 September 2003)	1
Social security contributions, on employees' gross earnings	
Employees' Provident Fund (EPF); paid by	
Employer	12
Employee	8
Employers' Trust Fund; paid by employer	3

E. Miscellaneous Matters

Foreign-Exchange Controls. Foreign-exchange regulations are governed by the Exchange Control Act and other directives issued by the Central Bank of Sri Lanka. The regulations include the following:

- Dividends may be remitted to nonresident shareholders on the production of an Auditors' Certificate.
- Authorized dealers are permitted to maintain nonresident accounts, which may be held by nonnationals resident outside Sri Lanka, companies registered outside Sri Lanka, foreign banks and so forth.
- Facilities are provided for resident nonnationals to maintain accounts in designated foreign currencies with commercial banks in Sri Lanka.
- Foreign investors may acquire shares representing up to 49% of a company's issued capital and repatriate profits and sales proceeds (the Ministry of Finance may approve a larger percentage of up to 100%, depending on the type of investment). Subject to the approval of the Central Bank, foreign ownership of 100% is allowed in retail and wholesale trading with a minimum investment of US$150,000 or in nondeposit financial services, such as merchant banking and venture capital companies.
- Companies approved by the Board of Investment of Sri Lanka may freely remit capital and profits.
- No restrictions are imposed on current-account transactions.
- Exporters with adequate protection against foreign-currency fluctuations may engage in foreign borrowing free of exchange-control restrictions.

Transfer Pricing. If significant pricing discrepancies are considered "artificial," the tax authorities may determine a commercially acceptable price for tax purposes.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Australia	15	10	10
Bangladesh	15	15	15
Belgium	15	10	10
Canada	15	15	10
Denmark	15	10	10
Finland	15	10	10
France	15	10	10
Germany	15	10	10
India	15	10	10
Indonesia	15	15	15

	Dividends %	Interest %	Royalties %
Iran	15	15	15
Italy	15	10	10/15 (a)
Japan	15	15	0/7.5 (a)
Korea	10/15 (b)	10	10
Malaysia	15	15	7.5/15 (c)
Mauritius	10/15 (e)	10	10
Nepal	15	10/15 (f)	15
Netherlands	10/15 (b)	10	10
Norway	15	10	10
Pakistan	15	10	20
Poland	15	10	10
Romania	12.5	10	10
Russian Federation	10/25	10	10
Singapore	15	10	15
Sweden	15	10	10
Switzerland	10/15 (b)	10	10
Thailand	15	10/25 (d)	15
United Kingdom	15	10	10
Nontreaty countries	10	15	10/15 (g)

(a) The lower rate applies to royalties for copyrights and cinematographic films. The higher rate applies to other royalties.
(b) The 10% rate applies if the recipient holds at least 25% of the payer. The 15% rate applies to other dividends.
(c) The 7.5% rate applies to royalties for the right to use patents, designs, models, plans, secret processes, formulas or trademarks. The 15% rate applies to other royalties.
(d) The 10% rate applies to interest received by a financial institution. The 25% rate applies to other interest.
(e) The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 10% of the capital of the payer. The 15% rate applies to other dividends.
(f) The 10% rate applies to interest paid to banks. The 15% rate applies to other interest.
(g) Under the 2004 budget, effective from 1 April 2004, the withholding tax rate will be reduced to 10%, and the tax will apply to payments exceeding Rs. 50,000 per month or Rs. 500,000 per year.

Sri Lanka has also entered into agreements covering international air transport with Oman, Saudi Arabia and the United Arab Emirates.

SUDAN

(Country Code 249)

Copies of all correspondence should be sent to Khosrow Dabir-Alai of the Middle East Head Office in Bahrain (phone: [973] 535-455; fax: [973] 535-127; e-mail: khosrow.dabir-alai@bh.ey.com).

KHARTOUM **GMT +3**

Mubarak for Accounting, Auditing and Financial Consultancy*
Mail Address:
P.O. Box 6556
Khartoum
Sudan

(11) 779-392, 790-373
Fax: (11) 787-665
E-mail: maafc@sudanmail.net.sd

Street Address:
Elshiekh Mustafa Elamin Building
1st Floor
Parliament St.
Khartoum
Sudan

* Technical Assistance firm

Corporate Tax

Mubarak Ali Ibrahim	**12-305-609**
Mubarak El-Awad Mohamed	**12-394-171**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	2.5/5 (b)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) This is the maximum rate. For details see Section B.
(b) The 2.5% rate applies to capital gains on sales of motor vehicles. The 5% rate applies to capital gains on sales of land and buildings.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Foreign companies can operate in Sudan through an agent or branch, or as a shareholder in a locally registered company. Tax is assessed on the share of profits attributable to a foreign shareholder according to the audited financial statements of a company, adjusted for tax purposes.

Tax Rates. The following tax rates apply to companies in Sudan.

Companies	Rate (%)
Banks, and investment and insurance companies	35
Limited liability companies	35*
Industrial (manufacturing) companies	10
Public (joint stock) companies	15*
Agricultural and dairy companies	Exempt

* This rate applies only if the company does not fall into one of the other listed categories.

Tax Incentives. The Investment Encouragement Act 1999, as amended in 2000, provides the following benefits for new and existing foreign capital investment in certain projects:

- Full or partial exemption from customs duties.
- A tax holiday of 3 to 10 years for investors in certain qualifying projects. An additional tax holiday may be granted for further investment in an already approved project.
- A guarantee of repatriation of profits and capital invested in the project.
- Opportunity for investment in excess of 50% by non-Sudanese investors in Sudanese companies engaged in certain projects.
- Long-term leases of land in industrial estates at low rents.
- Employment of required foreign manpower without being subject to the annual restriction regarding employment of Sudanese manpower.

Capital Gains. Capital gains on sales of land and buildings are subject to tax at a rate of 5%. A 2.5% rate applies to capital gains on sales of motor vehicles. Other capital gains are not subject to tax.

Administration. In general, the tax year is the calendar year. However, a company may request in writing permission to prepare financial statements and file tax returns for a year ending on a date other than 31 December. For the first or last period of trading or carrying on a business, a company may be allowed to file a tax return covering up to 18 months.

Accounting records must be kept in Sudan, and it is normal practice for the tax authorities to inspect the books of account (which must be in Arabic) and supporting documentation before agreeing to the tax liability.

A tax return must be filed by the end of the first month of the year following the tax year (January for calendar-year taxpayers), and audited financial statements must be filed on or before the end of the fourth month following the end of the tax year (30 April for calendar-year taxpayers). The tax return and supporting schedules must be in Arabic. Tax is payable in Sudanese dinars by a certified check drawn on a bank in Sudan. The company pays the tax on behalf of its shareholders.

If a tax return is not filed by the due date, a penalty is payable for each day of delay. In addition, if tax is not paid by the due date, a penalty is payable from the due date to the date of the settlement of the tax due.

A foreign company with more than one activity in Sudan need file only one tax return aggregating the income from all of its activities.

Dividends. Dividends are not taxed.

Foreign Tax Relief. Sudan does not provide relief for foreign taxes paid.

C. Determination of Trading Income

General. The tax liability is generally computed on the basis of profits disclosed in audited financial statements, adjusted for tax depreciation and any items disallowed during the tax inspector's review.

Head Office Overhead. No specific measures detail allowable head office expenses. However, the tax authorities allow the deduction of any direct expenses relating to operations in Sudan that can be fully supported by documentation.

Inventories. Inventories are normally valued at the lower of cost and net realizable value, on a first-in, first-out (FIFO) or average basis.

Provisions. Provisions, as opposed to accruals, may not be deducted for tax purposes.

Tax Depreciation. The following are the allowable straight-line depreciation rates.

Assets	Rate (%)
Permanent and temporary buildings	2.5 to 10
Plant and equipment (usually earth-moving equipment)	7.5 to 20
Transportation equipment	10 to 20
Furniture	10 to 25
Electric equipment and tools	2.5 to 25
Store and pipes	5 to 10
Medical equipment	15
Scales	10

Relief for Losses. Losses may be carried forward to offset profits in the following five years. Losses may not be carried back.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, imposed on sales of goods and services and imports; certain goods and services, such as food items and medical services, are exempt	
Standard rate	10
Exports	0
National Social Security Fund (statutory savings scheme to provide for retirement) contributions, imposed on salaries; paid by	
Employers	17
Employees	8
Zakat, annual religious tax imposed on entities operating in Sudan that are wholly or partially owned by Muslims; tax is applied to the entity's working capital	2.5

E. Miscellaneous Matters

Foreign-Exchange Controls. The currency in Sudan is the dinar (SD).

Sudan does not impose foreign-exchange controls. Equity capital, loan capital, profits (including branch profits), dividends, royalties, management and technical services fees and personal savings are freely remittable.

Contractors' Revenue Recognition. Tax is assessed on progress billings (excluding advances) for work performed by contractors during a tax year, less expenses incurred to perform the work. The tax authorities generally require an advance tax payment equal to 3% of cash received by a contractor. This payment is credited against the annual tax liability.

Agency Commissions. Commissions paid to a local agent are taxable. The authorities require the principal to withhold 20% of commissions paid to local agents. The amount withheld may be credited against the final annual tax assessed by the tax authorities.

F. Tax Treaties

Sudan has entered into double tax treaties with Bahrain, Bulgaria, China, Egypt, Ethiopia, Germany, Indonesia, Italy, Jordan, Kuwait, Lebanon, Libya, Malaysia, the Netherlands, Poland, Qatar, Romania, Saudi Arabia, South Korea, Syria, Turkey, the United Arab Emirates, the United Kingdom and Yemen.

SURINAME

(Country Code 597)

PARAMARIBO **GMT -3**

Ernst & Young Suriname **473-464**
Mail Address: **Fax: 477-423**
P.O. Box 1847
Paramaribo
Suriname

Street Address:
Kerkplein 11-12
Paramaribo
Suriname

Corporate Tax
Frank E. M. Raijmann **473-464**
E-mail: frank.raijmann@sr.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	36 (a)
Capital Gains Tax Rate (%)	36 (a)
Branch Tax Rate (%)	36 (a)
Withholding Tax (%)	
Dividends	25 (b)
Interest	0
Royalties from Patents, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	7 (c)

(a) Tax holidays are available. See Section B.
(b) Applicable to residents and nonresidents. Dividends paid to certain corporations are exempt from tax (see Section B).
(c) Losses incurred during a company's first three financial years may be carried forward indefinitely.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are taxed on worldwide income. Companies incorporated in Suriname are resident companies. In addition, companies incorporated in foreign countries may be considered resident companies based on the facts and circumstances with respect to the particular company, including, among others, the following:
• The place where its central management is located;
• The place where its statutory seat is located;
• The place where its business is conducted;
• The place where its general meetings of shareholders are held; and
• The place where its books and records are maintained.

Nonresident companies are taxable only on income attributable to a permanent establishment in Suriname.

Rates of Tax. Corporate tax is levied at a rate of 36%.

Investment Incentives. Under the Investment Act 2001, incentives are granted to enterprises operating in various fields. However, the institution that grants these facilities is not yet operating. The act applies to the following fields:
• Agriculture;
• Cattle breeding;
• Fishing;
• Aquaculture;
• Mining;
• Forestry;
• Tourism (certain activities regarding casinos are excluded);
• Industry;
• Trade;
• Construction;
• Rendering of services; and
• Professional transport.

The act provides tax incentives, including a 10-year income tax exemption, and nontax incentives, such as the granting of certain permits needed to establish and operate a business in Suriname. However, in practice, only exemptions from import duties and turnover tax will be granted.

Capital Gains. Capital gains are treated as ordinary taxable income and taxed at a rate of 36%.

Administration. Before 16 April of each year, companies must file a provisional tax return, which includes an estimate of the tax due for the current year. They must pay the provisional tax in four equal installments, which are due on 15 April, 15 July, 15 October and 31 December.

Companies must file a final tax return for the preceding year before 1 July and pay the tax shown on the return, reduced by provisional tax paid.

Interest is assessed for late payment of taxes. Administrative penalties may also be imposed for a failure to file the required tax return and for late filing.

Dividends. The standard rate of dividends tax is 25%. Dividends paid to resident investment companies and certain other resident companies are exempt from tax if certain conditions are satisfied.

Foreign Tax Relief. Although the tax law does not include provisions for foreign tax relief, the tax administration generally follows the principles of the model treaty of the Organization for Economic Cooperation and Development. For information on the tax treaty with the Netherlands, see Section F.

C. Determination of Taxable Income

General. Taxable profits are computed in accordance with sound business practice.

In general, all expenses incurred in connection with the conduct of a business are deductible. If expenses exceed normal arm's length prices and are incurred directly or indirectly for the benefit of shareholders or related parties, the excess is considered a nondeductible profit distribution.

Inventories. Inventories must be valued in accordance with sound business practice, which permits valuation at cost, market value, or the lower of these two amounts.

Provisions. A limited number of tax provisions are permitted. Some are generally applicable; others are restricted to certain types of enterprises, such as insurance companies.

Depreciation. All methods of depreciation are permitted, provided they are in accordance with sound business practice and applied consistently. Depreciation is based on the cost, useful life and salvage value of the asset. No official guidelines for depreciation rates exist. In practice, the rates may be agreed on between the taxpayer and the tax authorities.

Relief for Losses. Losses incurred in a company's first three financial years may be carried forward indefinitely. Losses incurred in subsequent years may be carried forward seven years. Losses cannot be carried back.

Groups of Companies. Group consolidated returns are not permitted.

D. Stamp Duty

Stamp duty is levied on numerous types of documents, contracts and transactions, and varies from small fixed amounts to levies based on the value of the transaction.

E. Foreign-Exchange Controls

Suriname has a stringent foreign-exchange system, regulating and restricting foreign-exchange transactions between residents and other residents and between residents and nonresidents.

Foreign-exchange licenses issued by the Foreign Exchange Board are required for transactions in foreign values and for transactions in local values if nonresidents are parties to the transactions.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Netherlands	7.5/15/20*	0	0
Nontreaty countries	25	0	0

* Under certain conditions, the treaty withholding rate is increased to 15% or 20% if the recipient is not a corporation owning at least 25% of the distributing corporation.

SWAZILAND

(Country Code 268)

MBABANE **GMT +2**

Ernst & Young **404-2016, 404-2017**
Mail Address: **Fax: 404-5012**
P.O. Box 210
Mbabane
Swaziland

Street Address:
Embassy House
Gwamile Street
Mbabane
Swaziland

International Tax
Martin G. Evry **602-0911**
E-mail: martin.evry@za.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	30
Withholding Tax (%) (a)	
Dividends	15 (b)
Interest	10
Royalties from Patents, Know-how, etc.	15
Management Charges	15
Nonresident Contractors and Professionals	15 (c)
Nonresident Entertainers and Sports Persons	10
Branch Remittance Tax	15 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) For purposes of the withholding taxes, nonresident companies are companies that are neither registered nor incorporated in Swaziland.
(b) Applicable to dividends paid to nonresidents. See Section B.
(c) This withholding tax is imposed on the payment after deduction of direct costs of materials used in the construction operations.
(d) This tax is imposed on the deemed repatriated income of the branch of a nonresident company. However, for the branch of a company registered in Botswana, Lesotho, Mozambique, Namibia or South Africa, the rate of the tax is reduced to 12.5%.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Domestic and foreign companies are taxed on all income received or accrued from a source within Swaziland or deemed to be from a source within Swaziland.

Rate of Corporate Tax. For the year ending 30 June 2004, the corporate tax rate is 30%.

Subject to certain conditions, a 10-year tax concession is available for new businesses or expanding enterprises engaged in the manufacturing, mining, international services and tourism sectors. During the period of the tax concession, companies may be subject to corporate tax at a rate as low as 10% and be exempt from dividend withholding tax. This concession is known as the "development approval order" and must be approved by the Minister for Finance. The Minister for Finance will approve the concession only if the granting of the concession will not result in unfair discrimination against existing competing enterprises or businesses.

Administration. The tax year is from 1 July to 30 June. Corporate taxpayers may obtain permission to pay tax on a different fiscal year-end. Tax returns are due within 30 days of the notice given by the Commissioner of Taxes. Taxpayers unable to submit returns within 30 days must apply for an extension and submit an estimate of their income for the year.

Companies must pay provisional tax based on their estimated annual tax liability in two installments during their financial year. The installments must be paid by the end of the sixth month of the financial year and by the end of the financial year. A third ("topping-up") payment of any balance of tax due must be made within six months after the end of the financial year.

Dividends. Dividends paid to resident companies are exempt from tax; a 15% withholding tax is imposed on dividends paid to non-residents, including companies. The rate is reduced to 12.5% if the dividend is paid to a company incorporated or registered in Botswana, Lesotho or South Africa, provided the company is not a subsidiary or branch of a company incorporated or registered outside those three countries.

Foreign Tax Relief. Under Swaziland law, no relief is provided for double taxation except under double tax agreements. However, because tax is levied only on Swaziland-source income, double taxation is uncommon.

C. Determination of Trading Income

General. Income tax is levied on all taxable income received by or accrued to any person from a source within Swaziland or deemed to be within Swaziland. Taxable income includes all income other than capital gains and losses and exempt income.

Expenses, other than those of a capital nature, incurred in Swaziland for the production of income may be deducted from income. Expenses incurred outside Swaziland in the production of income are deductible at the discretion of the Commissioner of Taxes.

Expenses specifically allowed include interest on business-related loans, repairs and maintenance, and bad and doubtful debts. In general, expenses that are not wholly or necessarily incurred in the production of income are not deductible.

Inventories. In general, inventories are valued using the last-in, first-out (LIFO), first-in, first-out (FIFO) or weighted-average methods.

Provisions. Provisions are not normally permitted as deductions in computing taxable income.

Depreciation. An annual depreciation allowance, calculated using a declining-balance method, is available for most capital expenditures. An annual depreciation allowance is also available for industrial buildings and hotels. The straight-line method may be used if prior permission is obtained from the Commissioner of Taxes.

An initial allowance of 50% is granted for investments in plant and machinery used in manufacturing, industrial buildings and hotels.

Relief for Trading Losses. Trading losses are deductible in the year sustained and may be carried forward without limitation. Losses may not be carried back.

D. Sales Tax

Sales tax is levied on the first sale of goods (imported or manufactured), services, hotel accommodations and restaurant meals. The tax rates are 14% of the taxable value for most items and 25% for liquor.

E. Foreign-Exchange Controls

Foreign-exchange controls are not imposed within the Common Monetary Area, which includes Swaziland, Lesotho and South Africa. Transactions outside this area are regulated by the Central Bank of Swaziland in cooperation with authorized dealers. Residents outside the Common Monetary Area may open nonresident accounts.

Foreign-exchange controls are imposed on imports as well as on the repatriation of capital, profits, interest, royalties, fees and income of expatriate personnel. These transactions require prior approval from the Central Bank of Swaziland, but approval is generally granted automatically.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
South Africa	12.5/15	10	0
United Kingdom	15	10	0
Nontreaty countries	12.5/15*	10	15

* See Section B.

SWEDEN

(Country Code 46)

The e-mail addresses for the persons listed below who are resident in Sweden are in the following standard format:

firstname.surname@se.ey.com

For purposes of the e-mail addresses, accent marks over "a" and "o" are ignored. However, an accent mark over "e" is included. Consequently, Maria Landén's e-mail address is the following:

maria.landén@se.ey.com

The e-mail address for the person not resident in Sweden is listed below the respective person's name.

STOCKHOLM **GMT +1**

Ernst & Young
Mail Address:
Box 7850
103 99 Stockholm
Sweden

(8) 520-590-00
Fax: (8) 520-588-14
(International Tax Services)
(8) 520-588-16 (Value-Added Tax)
(8) 520-588-00 (Human Capital)

Street Address:
Jakobsbergsgatan 24
Stockholm
Sweden

National Director of Tax

Maria Landén **(8) 520-590-04**
Mobile: (70) 351-78-11

International Tax Services

★ Lars-Peter Ekelund **(8) 520-590-03**

Claes Hammarstedt **(8) 520-597-95**

Fredrik Sandefeldt	**(8) 520-597-64** **Mobile: (70) 318-97-64**
Antoine van Horen	**(8) 520-591-54** **Mobile: (70) 318-91-54**

Transfer Pricing

Sören Bjarnas	**(8) 520-592-06** **Mobile: (70) 589-92-06**
Jesper Solgaard	**(8) 520-598-60**

Capital Markets

Staffan Estberg	**(8) 520-592-29** **Mobile: (70) 655-92-29**
Erik Hultman	**(8) 520-592-12**
Lena Swedenborg	**(8) 520-592-19**

Swedish Tax Desk Abroad

Rikard Ström *(resident in New York)*	**[1] (212) 773-8597** **Fax: [1] (212) 773-5562** **E-mail: rikard.strom@ey.com**

Inbound Corporate National and International Tax Services

Ola Persson	**(8) 520-592-27** **Mobile: (70) 517-92-27**
Per Snellman	**(8) 520-592-17** **Mobile: (70) 318-92-17**

Human Capital

Mike Hibberd	**(8) 520-590-91**
Astrid Randahl	**(8) 520-597-28**

Indirect Taxes

★ Jan Kleerup	**(8) 520-592-26** **Mobile: (70) 516-92-26**
Tomas Karlsson	**(8) 520-592-47** **Mobile: (70) 664-16-61**
Maj-Britt Remstam, *Excise Duties*	**(8) 520-592-41** **Mobile: (70) 318-92-41**
Royne Schiess	**(8) 520-592-39** **Mobile: (70) 318-92-39**
Lena Westfahl	**(8) 520-592-67** **Mobile: (70) 318-92-67**

GÖTEBORG — GMT +1

Ernst & Young **Mail Address:** **401 82 Göteborg** **Sweden**	**(31) 63-77-00** **Fax: (31) 15-38-06 (Tax)**

Street Address:
Odinsgatan 13
Göteborg
Sweden

Inbound Corporate National and International Tax Services

Carl Pihlgren	**(31) 63-78-02**

Corporate Tax

Carl Pihlgren	**(31) 63-78-02**

Human Capital

Carl Pihlgren	**(31) 63-78-02**

Indirect Taxes

Roger Treutiger	**(31) 63-78-00** **Mobile: (70) 587-03-14**

MALMÖ GMT +1

Ernst & Young **Torggatan 2** **211 40 Malmö** **Sweden**	**(40) 24-95-00** **Fax: (40) 23-70-91** **(40) 97-22-88 (Tax)**
Corporate Tax	
Niklas Bång	**(40) 24-95-72** **Mobile: (70) 324-97-72**
Human Capital	
Klas Svanberg	**(40) 24-95-68** **Mobile: (70) 324-97-68**
Indirect Taxes	
Julie Kajus	**(40) 24-96-42** **Mobile: (70) 324-26-42**
Karin Norberg	**(40) 24-96-51** **Mobile: (70) 324-96-51**

A. At a Glance

Corporate Income Tax Rate (%)	28
Capital Gains Tax Rate (%)	28 (a)
Branch Tax Rate (%)	28
Withholding Tax (%)	
Dividends	30 (b)
Interest	0
Royalties from Patents, Know-how, etc.	0 (c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) See Section B for further details.
(b) This withholding tax applies to nonresidents. No withholding tax is imposed on dividends paid to foreign companies (other than tax haven companies) owning at least 25% of the capital of the payer.
(c) Royalties paid to nonresidents are not subject to withholding tax, but are taxed as Swedish-source income at the normal corporate rate of 28%. However, under most treaties, the rate of tax is reduced.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Income from all business activities is aggregated as one source of income — income from business. In principle, corporate income tax (CIT) is levied on all corporate income of a company incorporated in Sweden (resident corporation), except for domestic and certain foreign dividends (see *Dividends* below). If a Swedish company markets abroad directly or through a branch office, the foreign profits are also subject to Swedish tax, unless a treaty provides otherwise. Nonresident corporations are subject to tax on Swedish-source income only.

Rate of Tax. Companies pay CIT at a rate of 28%. No local income taxes are levied on corporate profits.

Capital Gains. No special assessment exists for capital gains, but special rules apply to the calculation of the amount of capital gains and losses.

Effective from 1 July 2003, capital gains on shares held for business purposes are exempt from tax.

Taxable capital gains are aggregated with other corporate business income. Capital gains are subject to tax when transactions are closed, regardless of the holding period or when payment is received.

Administration. The 2005 tax year covers financial years ending during 2004. A financial year may cover the following periods: 1 May to 30 April; 1 July to 30 June; 1 September to 31 August; or 1 January to 31 December. In principle, other financial years are not allowed. However, in certain situations, such as if a foreign parent company with a different financial year owns a subsidiary in Sweden, other financial years are allowed if permission is obtained. A financial year may extend for up to 18 months in certain circumstances, such as for a company's first or last financial year or if a company changes its financial year.

In general, the tax return must be filed no later than 2 May of the tax year. If an application is filed, an extension of time to file the return may be granted.

Advance tax payments are made in monthly installments during the year to which they relate, and the final balance is paid two years later. For example, if the financial year is the 2004 calendar year, advance tax payments are made during 2004, the tax return is filed by 2 May 2005, and any balance of tax due is paid in March 2006 at the latest.

Dividends. Dividends received from Swedish companies on shares held for business purposes are exempt from tax. Dividend distributions on portfolio shares and on shares held as current assets are fully taxable. Shares are deemed to be held for business purposes if they are not held as current assets and if any of the following conditions is satisfied:

- The shares are unlisted;
- The shares are listed and the recipient of the dividends owns at least 10% of the voting power of the payer at the end of the year in which the dividends are paid; or
- The shares are held for organizational purposes (important to the business of the holder or a company in the same group as the holder).

Portfolio shares are shares that are not held for business purposes.

Dividends received from foreign companies are exempt from tax if both of the following apply:

- The dividends satisfy the conditions for exemption described in the first paragraph above, which apply to dividends received from Swedish companies.
- The foreign distributing company is subject to a foreign income tax that is comparable to the Swedish corporate tax. According to official statements, an income tax rate of at least 15%, computed in accordance with Swedish accounting and tax rules, is comparable to the Swedish corporate tax. A foreign income tax may also be regarded as comparable under a presumption rule, which provides that, in general, a foreign income tax is presumed to be comparable to the Swedish corporate tax if the foreign distributing company is resident in a country with which Sweden has concluded a tax treaty and if the foreign distributing company is subject to the normal corporate income tax in that country.

Under proposed new rules regarding the taxation of dividends, which are included in the proposal for new controlled foreign company rules (see Section E), the requirement for comparable taxation discussed in the second bullet above will be abolished. As a result, only the first bullet above will apply. The new proposed rules also provide that for foreign dividends to be exempt from tax in Sweden, the distributing foreign company must be equivalent to a Swedish limited liability company (*aktiebolag*). The new rules are proposed to take effect on 1 January 2004, but, at the time of writing, a bill containing the new rules had not yet been published.

Foreign Tax Relief. Under Swedish law, a Swedish company may usually claim a credit against its CIT liability for comparable taxes paid abroad. However, some tax treaties may override internal foreign tax credit rules and instead exempt foreign-source income from Swedish tax. If a dividend received from a foreign company is not exempt from tax because the condition described in the last bullet of the last paragraph under *Dividends* above is not satisfied, Swedish law instead allows a tax credit in the amount of 13% of foreign taxable dividends received.

C. Determination of Trading Income

General. Corporate income tax is based on taxable business income computed according to the accrual method of accounting. Taxable business income generally includes all worldwide income earned by a corporation. The major exceptions are capital gains and dividends on shares held for business purposes (see Section B).

Inventories. Inventories are valued at the lower of acquisition cost or actual value. Acquisition cost is determined using the first-in, first-out (FIFO) method. An obsolescence provision of 3% is allowed when using acquisition cost to value inventories.

Reserves. A profit allocation reserve allows a 25% deduction of the taxable income for the financial year. Each year's reserve must be added to taxable income no later than six years after the year of the deduction. The reserve is based on net income before tax and includes any amounts from the allocation reserve that are added back to taxable income.

Depreciation. Equipment with a life of three years or less may be written off in the year of purchase. Machinery and equipment may be written off either on a straight-line basis at 20% of cost annually or on a declining-balance basis at 30% of current book value. In any one year, the same method must be used for all machinery and equipment, but companies can switch from one method to another in different years. A third method is also based on the remaining depreciable value and allows companies to choose any percentage, up to a maximum of 25%. The same amortization rules that govern machinery apply to patents, trademarks, purchased goodwill and other intangible property.

Depreciation of buildings is straight-line over the building's expected life. In general, commercial buildings may be depreciated at 2% to 5% annually, factory buildings at 4% and office buildings at 2%. Buildings subject to greater wear and tear may be depreciated at higher rates.

If depreciable machinery and equipment are sold, the proceeds reduce the depreciable base for the remaining machinery and equipment.

Relief for Losses. Losses may be carried forward indefinitely. Losses may not be carried back.

The tax law includes rules restricting the use of tax losses of acquired companies.

In general, a transfer of the losses of the acquired company through a group contribution (see *Groups of Companies* below) is prohibited if the purpose of the acquisition is to transfer such losses. The rules also include a restriction under which the amount of losses that may be used is limited to twice the amount paid for the shares. There are also special restrictions regarding mergers and bankruptcy.

Groups of Companies. There is no consolidated treatment whereby all companies in a group may be treated as a single taxable entity. However, rules permit income earned by the companies in a corporate group to be distributed within the group through the use of group contributions, which are deductible for the paying corporation and taxable income for the receiving corporation. In general, group contributions may be made between Swedish group companies if ownership of more than 90% exists during the entire financial year. This rule applies even if a foreign parent or subsidiary is in the group structure. A Swedish permanent establishment of a foreign company from a European Economic Area (EEA) member state is treated as a Swedish company for purposes of the group contribution rules.

D. Other Significant Taxes

The table below describes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on goods (including imported goods but excluding exported goods) and services, unless specifically exempt by law; based on sales price excluding VAT	
Standard tax rate	25
Rate on hotel services and food	12
Rate on movies, books, newspapers, sports events, passenger transportation and copyrights	6
Social security contributions, on salaries, wages and the assessed value of benefits in kind (for 2003); paid by	
Employer	32.82
Employee (on amounts up to SEK 304,239)	7
Special salary tax, on earnings not included in the base for social security contributions (primarily salaries and other income paid to individuals who are 65 years old or older at the beginning of the income year); paid by the employer (for 2003)	24.26

E. Miscellaneous Matters

Foreign-Exchange Controls. Sweden has eliminated most foreign-exchange controls. Payments abroad and payments in Sweden that exceed SEK 100,000 must be reported to the Swedish central bank (Riksbanken) for statistical purposes, but permission is not required for any payments.

Controlled Foreign Companies. Under the existing Swedish controlled foreign company (CFC) legislation, a Swedish resident company that owns an interest in a foreign entity is subject to Swedish tax on its share of the foreign entity's worldwide profit if, at the end of the calendar year, the Swedish company alone, or together with related companies, controls at least 10% of the capital or voting rights in the foreign entity and if Swedish residents control directly or indirectly at least 50% of the capital or voting rights of the foreign entity. This legislation does not apply if the foreign entity satisfies either of the following conditions:

- It is subject to an income tax imposed by its home country that is similar to the Swedish corporate tax. An income tax rate of at least 10%, computed in accordance with Swedish accounting and tax rules, may be similar to the Swedish corporate tax.
- It is resident in a tax treaty country that is included on a Swedish legislative "white list," and it is entitled to benefits under the applicable tax treaty. The white list includes all tax treaty countries, except Australia, Cyprus, Malaysia, Spain and Thailand.

The Swedish government is planning to amend the CFC rules. It has published a draft proposal for stricter rules, and, at the time of writing, a bill containing the new rules was expected to be issued during the fourth quarter of 2003. The new rules are intended to enter into effect on 1 January 2004. Under the draft proposal, a Swedish resident company that owns an interest in a foreign entity will be subject to Swedish tax on its share of the foreign entity's worldwide profits if, at the end of the calendar year, the Swedish company alone, or together with related companies, controls at least 25% of the capital or voting rights in the foreign entity. This measure will not apply if the foreign entity satisfies either of the following conditions:

- It is subject to an income tax imposed by its home country that is similar to the Swedish corporate tax and is imposed at a rate that is at least 55% of the Swedish corporate tax rate. An income tax rate of at least 15.4%, computed in accordance with Swedish accounting and tax rules, may be similar to the Swedish corporate tax.
- It is resident in a tax treaty country that is included on a Swedish legislative "white list," and it is entitled to benefits under the applicable tax treaty.

Antiavoidance Legislation. A general antiavoidance act applies in Sweden. The act is considered a source of insecurity to taxpayers because it limits the predictability of the tax law. Under the act, the tax authorities may adjust a transaction for tax purposes if all of the following conditions are met:

- The transaction provides a substantial tax advantage;
- The taxpayer has directly or indirectly participated in the transaction;
- The principal purpose of the transaction is to achieve the tax advantage; and
- An assessment based on the transaction would be against the purpose of the tax law or would be in avoidance of such law.

Transfer Pricing. The Swedish law on transfer pricing is based on the arm's length principle. Under this law, the tax authorities may adjust the income of an enterprise if its taxable income in Sweden is reduced as a result of contractual provisions that differ from those that would be agreed to by unrelated parties and if the following three additional conditions are met:

- The party to which the income is transferred is not subject to tax in Sweden;
- It is reasonably established that a community of economic interest exists between the parties; and
- It is clear from the circumstances that the contractual provisions were not agreed upon for reasons other than the community of economic interest.

If the conditions under the law are met, the tax authorities may increase the income of an enterprise by the amount of the reduction resulting from the contractual provisions that were not determined at arm's length.

Because the transfer-pricing law primarily includes general language and little interpretative guidance has been provided, it is not always clear how the law will be applied in practice.

Debt-to-Equity Rules. No thin-capitalization rules are imposed in Sweden. The Companies Act, however, requires the compulsory liquidation of a company if more than 50% of the share capital is lost without replacement of new capital.

F. Treaty Withholding Tax Rates

Interest payments are not subject to withholding tax under Swedish internal law. Consequently, the following table provides treaty withholding tax rates only for dividends and royalties.

	Dividends		Royalties (a)	
Residence of Recipient	Normal Treaty Rate %	Reduced Rate (b)(d) %	Normal Treaty Rate %	Reduced Rate %
Albania	15	5	5	–
Argentina	15	10	15	10 (c)
Australia	15	–	10	–
Austria	10	5	10	0
Bangladesh	15	10	10	–
Barbados	15	5	5	–
Belarus	10	5 (c)	10	5 (c)
Belgium	15	5	0	–
Bolivia	15	0	15	–
Botswana	15	–	15	–
Brazil	25	–	25	–
Bulgaria	10	–	5	–
Canada	15	10 (c)	10	0
China	10	5	10	7
Cyprus	15	5	0	–
Czechoslovakia (e)	10	0	5	0
Denmark	15	0	0	–
Egypt	20	5	14	–
Estonia	15	5	10	5
Faeroe Islands	15	0	0	–
Finland	15	0	0	–

Residence of Recipient	Dividends: Normal Treaty Rate %	Dividends: Reduced Rate (b)(d) %	Royalties (a): Normal Treaty Rate %	Royalties (a): Reduced Rate %
France	15	0	0	–
Gambia	15	5 (c)	12.5	5
Germany	15	0	0	–
Greece	0	–	5	–
Hungary	15	5	0	–
Iceland	15	0	0	–
India	10	–	10	–
Indonesia	15	10	15	10
Ireland	15	5	0	–
Israel	15	5	28	0
Italy	15	10	5	–
Jamaica	22.5	10	10	–
Japan	15	5 (c)	10	–
Kazakhstan	15	5	10	–
Kenya	25	15	20	–
Korea	15	10	15	10
Latvia	15	5	10	5
Lithuania	15	5	10	5
Luxembourg	15	0	0	–
Macedonia	15	0	0	–
Malaysia	0	–	0	–
Malta	15	0	0	–
Mauritius	15	5	15	–
Mexico	15	5 (c)	10	–
Morocco	0	–	0	–
Namibia	15	5 (c)	15	5
Netherlands	15	0	0	–
New Zealand	15	–	10	–
Norway	15	0	0	–
Pakistan	30	15	10	–
Peru	30	–	20	–
Philippines	25	15	25	15
Poland	15	5	10	–
Portugal (f)	10	0	10	0
Romania	10	–	10	–
Russian Federation	15	5	0	–
Singapore	15	10	0	–
South Africa	15	7.5 (c)	0	–
Spain	15	10	10	–
Sri Lanka	15	–	10	–
Switzerland	15	0	0	–
Tanzania	25	15	20	–
Thailand	20	15	15	–
Trinidad and Tobago	20	10	20	0
Tunisia	20	15	15	5
Turkey	20	15	10	–
Ukraine	10	5 (c)	10	–
United Kingdom	5	0	0	–
United States	15	5	0	–
Venezuela	10	5	10	7

	Dividends		Royalties (a)	
Residence of Recipient	Normal Treaty Rate %	Reduced Rate (b)(d) %	Normal Treaty Rate %	Reduced Rate %
Vietnam	15	10 (c)	15	5
Yugoslavia (e)	15	5	0	–
Zambia	15	5	10	–
Zimbabwe	20	15	10	–
Nontreaty countries	30	–	0	–

(a) Royalties paid to nonresidents are not subject to withholding tax, but are taxed as Swedish-source income at the normal corporate rate of 28%. However, under certain treaties, the rate of tax may be reduced.
(b) The reduced tax rate applies if a parent owns at least the minimum percentage of the paying company prescribed by the relevant treaty.
(c) The rate of tax is further reduced if specific conditions are satisfied.
(d) No withholding tax is imposed on dividends paid to foreign companies (other than tax haven companies) owning at least 25% of the capital of the payer.
(e) Sweden will apply the treaties with Czechoslovakia and Yugoslavia to the republics comprising these former countries unless a law is enacted providing otherwise. Sweden has entered into a tax treaty with Macedonia. The withholding rates under this treaty are listed in the table.
(f) At the time of writing, this treaty had not yet been ratified, but the Swedish parliament was expected to approve the treaty by the end of 2003. On ratification, the tax treaty will apply retroactively from 1 January 2000.

SWITZERLAND

(Country Code 41)

The e-mail addresses for the persons listed below who are resident in Switzerland are in the following format:

firstname.surname@ch.ey.com

The e-mail addresses for persons who are not resident in Switzerland or who have e-mail addresses varying from the standard format are listed below the respective persons' names.

AARAU — GMT +1

Ernst & Young
Bahnhofstrasse 29
P.O. Box 2220
CH-5001 Aarau
Switzerland

(58) 286-23-23
Fax: (58) 286-23-00

Corporate Tax

◆ Peter Forster — **(58) 286-23-28**

BASEL — GMT +1

Ernst & Young
Aeschengraben 9
P.O. Box 2149
CH-4002 Basel
Switzerland

(58) 286-86-86
Fax: (58) 286-85-19 (Tax/Law)

International Tax Services

Prof. Dr. Peter Athanas — **(58) 286-82-50**
Petra Wittlin — **(58) 286-84-20**
Mobile: (58) 289-84-20

Corporate Tax

Dr. Kristian Meier	**(58) 286-85-15**
Markus Pfirter	**(58) 286-84-78**
Luc Riggenbach	**(58) 286-86-32** **Mobile: (58) 289-86-32**
Christoph Suter	**(58) 286-82-62**
Dr. Philip Walter	**(58) 286-84-38** **Mobile: (58) 289-84-38**
◆ Patrik Sidler	**(58) 286-84-46** **Mobile: (79) 285-20-05**

Human Capital

Martin Bacher	**(58) 286-82-77**
Barbara Loetscher	**(58) 286-84-11**
Claudia Stöcklin	**(58) 286-82-88** **Mobile: (58) 289-82-88**
Clärly Stringer	**(58) 286-83-43** **Mobile: (58) 289-83-43** **E-mail: claerly.stringer@ch.ey.com**

Indirect Taxes

Susanne Leber	**(58) 286-83-40**

German Tax Team

Ulrich Eberhardt	**(58) 286-84-58** **Mobile: [49] (160) 9392-3200** **E-mail: ulrich.eberhardt@de.ey.com**
Werner Hauber	**(58) 286-83-61** **Mobile: [49] (160) 9392-3110** **E-mail: werner.hauber@de.ey.com**
Manuel Koch	**(58) 286-83-47** **E-mail: manuel.koch@de.ey.com**
Thomas Linkerhägner	**(58) 286-83-90** **Mobile: [49] (160) 9392-3515** **E-mail: thomas.linkerhaegner@de.ey.com**
Marc Schneider	**(58) 286-82-85** **E-mail: marc.schneider@de.ey.com**

BERNE — GMT +1

Ernst & Young
Belpstrasse 23
P.O. Box 5032
CH-3001 Berne
Switzerland

(58) 286-61-11
Fax: (58) 286-68-37

International Tax Services

Mathias Josi	**(58) 286-65-34** **Mobile: (58) 289-65-34**
Jürg Scheller	**(58) 286-62-15** **Mobile: (58) 289-62-15** **E-mail: juerg.scheller@ch.ey.com**

Corporate Tax

Dr. Sibilla Cretti	**(58) 286-63-29** **Mobile: (58) 289-63-29**
Reto Gerber	**(58) 286-63-53** **Mobile: (58) 289-63-53**
Donatus Hürzeler	**(58) 286-65-13** **Mobile: (58) 289-65-13**
Alberto Lissi	**(58) 286-63-56** **Mobile: (58) 289-65-56**
René Schreiber	**(58) 286-63-52** **Mobile: (58) 289-63-52**
Peter Spori	**(58) 286-63-32** **Mobile: (58) 289-63-32**
Walo Stählin	**(58) 286-64-91** **E-mail: walo.staehlin@ch.ey.com**

Jürg Strebel — **(58) 286-27-28**
Mobile: (58) 289-27-28
E-mail: juerg.strebel@ch.ey.com

Dr. Bernhard Zwahlen — **(58) 286-63-62**
Mobile: (58) 289-63-62

Indirect Taxes

Makedon Jenni — **(58) 286-65-85**

Susanne Leber — **(58) 286-61-68**

◆ Andreas Russi — **(58) 286-64-95**
Mobile: (58) 289-64-95

Marc Thomet — **(58) 286-63-31**
Mobile: (58) 289-63-31

GENEVA GMT +1

Ernst & Young
59, route de Chancy
P.O. Box 48
CH-1213 Geneva
Switzerland
(58) 286-56-56
Fax: (58) 286-56-57

International Tax Services

◆ Howard R. Hull — **(58) 286-55-17**
Mobile: (58) 289-55-17

International Tax Services – Transfer Pricing

Nicolas Bonvin — **(58) 286-56-81**
Mobile: (58) 289-31-39

Corporate Tax

Marie-Hélène Revaz — **(58) 286-56-74**
Mobile: (58) 289-56-74

Bernhard Schopper — **(58) 286-55-07**
Mobile: (79) 291-06-23

Financial Services

◆ Kim H. Nguyên — **(58) 286-56-37**
Mobile: (58) 286-56-37
E-mail: kimhai.nguyen@ch.ey.com

Bernhard Schopper — **(58) 286-55-07**
Mobile: (79) 291-06-23

Human Capital

Dr. Michael W. Hildebrandt *(resident in Lausanne)* — **(58) 286-52-45**
Mobile: (58) 289-52-45

Ralf Pawolleck — **(58) 286-58-44**

Andrea Zamazal — **(58) 286-58-08**

Indirect Taxes (VAT)

Benoît De Greeff *(resident in Lausanne)* — **(58) 286-53-56**
Mobile: (58) 289-53-56

KREUZLINGEN GMT +1

Ernst & Young
Haupstrasse 54
P.O. Box 1342
CH-8280 Kreuzlingen
Switzerland
(58) 286-72-22
Fax: (58) 286-72-12

International Tax Services

◆ Heinz Badertscher — **(58) 286-72-83**
Mobile: (58) 289-72-83

Corporate Tax

◆ Michael Arndt — **(58) 286-72-82**
Mobile: (58) 289-72-82

Thomas Christen — **(58) 286-72-81**
Mobile: (58) 289-72-81

Andreas Schwarzenbach — **(58) 286-72-85**

LAUSANNE GMT +1

Ernst & Young **(58) 286-51-11**
Société Fiduciaire Lémano **Fax: (58) 286-51-05**
Place Chauderon 18
CH-1000 Lausanne 9
Switzerland

Corporate Tax

◆ Raymond Bech	**(58) 286-51-85** **Mobile: (58) 289-51-85**
Dr. Maurice Dormond	**(58) 286-51-55** **Mobile: (58) 289-51-55**
Dr. Michael W. Hildebrandt	**(58) 286-52-45** **Mobile: (58) 289-51-45**
Jean-Marc Vionnet	**(58) 286-51-25**

Human Capital

Dr. Michael W. Hildebrandt	**(58) 286-52-45** **Mobile: (58) 289-51-45**

Indirect Taxes

◆ Benoît De Greeff	**(58) 286-53-56** **Mobile: (58) 289-53-56**

Financial Services

Nathalie Couvreu	**(58) 286-52-06**

LUCERNE GMT +1

Ernst & Young **(58) 286-77-11**
Tribschenstrasse 7 **Fax: (58) 286-77-05**
P.O. Box 2066
CH-6002 Lucerne
Switzerland

Corporate Tax

◆ Viktor Bucher	**(58) 286-77-26** **Mobile: (58) 289-77-26**

Human Capital

Markus Kaempf *(resident in Zurich)*	**(58) 286-44-06** **Mobile: (58) 289-44-06**

Indirect Taxes

Suzanne A. Affentranger *(resident in Zurich)*	**(58) 286-31-82** **Mobile: (58) 289-31-82**

LUGANO GMT +1

Ernst & Young **(58) 286-24-24**
Corso Elvezia 33 **Fax: (58) 286-24-00**
P.O. Box 2915
CH-6901 Lugano
Switzerland

Corporate Tax

◆ Luca Soldati	**(58) 286-24-44**

NEUCHÂTEL GMT +1

Ernst & Young **(58) 286-70-50**
51, rue des Moulins **Fax: (58) 286-70-52**
P.O. Box 545
CH-2004 Neuchâtel
Switzerland

Corporate Tax

◆ Laurence Barthoulot	**(58) 286-70-54** **Mobile: (58) 289-70-54**

Gilles Kunz — (58) 286-70-94
Mobile: (58) 289-70-94

Human Capital

Laurence Barthoulot — (58) 286-70-54
Mobile: (58) 289-70-54

ST. GALLEN — GMT +1

Ernst & Young
Teufener Strasse 3
P.O. Box 147
CH-9001 St. Gallen
Switzerland
(58) 286-20-20
Fax: (58) 286-20-22

International Tax Services

Roger Krapf — (58) 286-21-25
Mobile: (58) 289-21-25

Corporate Tax

Werner Bollhalder — (58) 286-20-36
Mobile: (58) 289-20-36

Rolf Fässler — (58) 286-21-21
Mobile: (58) 289-21-21

Daniel Gentsch — (58) 286-21-38
Mobile: (58) 289-21-38

Vreni Germann — (58) 286-21-27
Mobile: (58) 289-21-27

Dr. Benno Grossmann — (58) 286-20-80
Mobile: (58) 289-20-80

◆ Dr. Mathias Oertli — (58) 286-20-35
Mobile: (58) 289-20-35

◆ Walter Stiefel — (58) 286-20-33

ZUG — GMT +1

Ernst & Young
Bundesstrasse 3
P.O. Box 4523
CH-6304 Zug
Switzerland
(58) 286-75-55
Fax: (58) 286-75-50

Corporate Tax

◆ Viktor Bucher — (58) 286-75-00
Mobile: (58) 289-77-26

Marcel Kriesi — (58) 286-75-47

Beat Sonderegger — (58) 286-75-33

Human Capital

Markus Kaempf — (58) 286-44-06
(resident in Zurich) — Mobile: (58) 289-44-06

Indirect Taxes

Suzanne A. Affentranger — (58) 286-31-82
(resident in Zurich) — Mobile: (58) 289-31-82

ZURICH — GMT +1

Ernst & Young
Bleicherweg 21
P.O. Box 5272
CH-8022 Zurich
Switzerland
(58) 286-31-11
Fax: (58) 286-31-47, 286-31-90, 286-31-93

National Director of Tax

★ Stephan Kuhn — (58) 286-44-26
Mobile: (58) 289-44-26

International Tax Services

★◆	Prof. Dr. Peter Athanas	**(58) 286-44-01** **Mobile: (58) 289-44-01**
	Peter Brülisauer	**(58) 286-44-43**
	Rainer Hausmann	**(58) 286-31-93** **Mobile: (58) 289-31-93**
★◆	Dr. Markus F. Huber	**(58) 286-31-89** **Mobile: (58) 289-31-89** **E-mail: markus-frank.huber@ch.ey.com**
	Urs Kapalle	**(58) 286-31-48**
	Dr. Sonja Sidler	**(58) 286-31-14**
	Elga Tozzi	**(58) 286-31-74** **Mobile: (58) 289-31-74**
	Bertil Weigend	**(58) 286-44-14**
	Barbara Zimmermann	**(58) 286-31-60** **Mobile: (58) 289-31-60**
	Dr. Martin Zogg	**(58) 286-31-26**

International Tax Services – Transfer Pricing

	Nicolas Bonvin	**(58) 286-31-39** **Mobile: (58) 289-31-39**
◆	Urs Brügger	**(58) 286-31-68** **Mobile: (58) 289-31-68** **E-mail: urs.bruegger@ch.ey.com**
	Alexandra Coates	**(58) 286-31-38**

International Tax Services – Foreign Desks

	Heiko Kubaile, *Germany*	**(58) 286-31-77**
	Jason Max, *United States*	**(58) 286-31-49**
	Lee A. Odden, *United States Financial Services*	**(58) 286-31-69**

International Tax Services – Swiss Desk Abroad

	Alfred Preisig *(resident in New York)*	**[1] (212) 773-6475** **E-mail: alfred.preisig@ey.com**

Corporate Tax

	Philipp Betschart	**(58) 286-31-24** **Mobile: (58) 289-31-24**
	Dominik Bürgy	**(58) 286-44-35** **Mobile: (58) 289-44-35** **E-mail: dominik.buergy@ch.ey.com**
	René Forster	**(58) 286-31-59** **E-mail: rene.forster@ch.ey.com**
	Markus Held	**(58) 286-31-92**
	Dr. Walter Jakob	**(58) 286-31-36** **Mobile: (58) 289-31-36**
	Katrin Kräuchi	**(58) 286-31-44** **E-mail: katrin.kraeuchi@ch.ey.com**
★	Stephan Kuhn	**(58) 286-44-26** **Mobile: (58) 289-44-26**
	Dr. Georg Lutz	**(58) 286-44-16** **Mobile: (58) 289-44-16**
	Christoph Mattle	**(58) 286-31-02**
	Cristina Oberheid	**(58) 286-44-47**
	Flurin Poltera	**(58) 286-44-68** **Mobile: (58) 289-44-68**
	Britta Rehfisch	**(58) 286-44-38** **Mobile: (58) 289-44-38**
	René Röthlisberger	**(58) 286-31-78** **Mobile: (58) 289-31-78** **E-mail: rene.roethlisberger@ch.ey.com**
	Reto Savoia	**(58) 286-31-07**
	Urs Schüpfer	**(58) 286-31-45** **Mobile: (58) 289-31-45** **E-mail: urs.schuepfer@ch.ey.com**

Walter Sommer	**(58) 286-44-57** **Mobile: (58) 289-44-57**
Roland Suter	**(58) 286-31-80** **Mobile: (58) 289-31-80**

Financial Services

Giuseppe Giglio	**(58) 286-44-56** **Mobile: (58) 289-44-56**
◆ Dr. Hans-Joachim Jaeger	**(58) 286-31-58** **E-mail: hans-joachim.jaeger@ch.ey.com**
Rosmarie Knecht	**(58) 286-31-46** **Mobile: (58) 289-31-46**

Human Capital

Judith Bellaiche	**(58) 286-44-89** **Mobile: (58) 289-44-89**
★ Kevin Cornelius	**(58) 286-44-78** **Mobile: (58) 289-44-78**
Chris Debner	**(58) 286-32-28**
Ingo Heymanns	**(58) 286-31-27**
Roland Raths	**(58) 286-31-64**
Esther Schasse	**(58) 286-44-69**

Indirect Taxes (VAT and Customs)

Suzanne A. Affentranger	**(58) 286-31-82** **Mobile: (58) 289-31-82**
Béatrice Blum	**(58) 286-31-55** **E-mail: beatrice.blum@ch.ey.com**
Britta Rehfisch	**(58) 286-44-38** **Mobile: (58) 289-44-38**
Christina Rinne	**(58) 286-32-44**
★ Philip Robinson	**(58) 286-31-97** **Mobile: (58) 289-31-97**

A. At a Glance

Corporate Income Tax Rate (%)	14 to 30 (a)
Capital Gains Tax Rate (%)	– (b)
Branch Tax Rate (%)	14 to 30 (a)
Withholding Tax (%) (c)	
Dividends	35
Interest	35 (d)
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0 (e)
Carryforward	7 (e)

(a) The rates reflect the maximum aggregate effective tax burden of ordinarily taxed companies and are composed of federal, cantonal and communal taxes. Approximately 7.8% of the rates relate to the federal tax. The rates depend on the canton and commune in which the taxable entity performs its activities. Lower rates are available for privileged companies described in Section E.

(b) See Section B.

(c) The withholding tax rates may be reduced under double tax treaties (see Section F).

(d) Withholding tax is levied on bank interest and interest from publicly offered bonds, debentures and other written instruments of indebtedness issued by a Swiss borrower, but generally not on interest on commercial loans, including loans from foreign parents to Swiss subsidiaries.

(e) For federal tax purposes, losses may be carried forward seven years. The carryforward period varies among cantons, but the period is generally also seven years. Losses may not be carried back for federal tax purposes. This also applies for the vast majority of cantons. For further details, see Section C.

B. Taxes on Corporate Income and Gains

Income Tax. Switzerland is a confederation of 26 cantons (states). Taxes are levied at the federal and cantonal/communal (municipal) levels. As a result of this multilayered tax system, no average tax rates exist. Under the Swiss income tax system, earnings are taxed at the corporate level and, to the extent profits are distributed as dividends, again at the shareholder's level.

In general, a resident corporation is a corporation that is incorporated in Switzerland. In addition, a corporation incorporated in a foreign country is considered a resident of Switzerland if it is effectively managed and controlled in Switzerland.

Resident companies are subject to corporate tax on worldwide income. However, income realized by a foreign permanent establishment of a Swiss company or derived from foreign real estate is excluded from the tax base. Losses incurred by a foreign permanent establishment are deductible from taxable income. However, if a foreign permanent establishment of a Swiss company realizes profits in the seven years following the year of a loss and if the permanent establishment can offset the loss against such profits in the foreign jurisdiction, the Swiss company must add the amount of losses offset in the country of the permanent establishment to its Swiss taxable income.

A company not resident in Switzerland is subject to Swiss tax on income if it has a permanent establishment in Switzerland.

Tax Harmonization Act. The Tax Harmonization Act (THA), which is effective from 1 January 1993, sets certain minimum standards for cantonal/communal taxes in accordance with the Federal Tax Act. The cantons were required to conform many of their tax rules to these standards by the end of 2000, as well as a few additional tax rules by the end of 2002. Cantonal/communal tax rates are not harmonized under the THA.

Rates of Corporate Tax. The federal corporate income tax is levied at a flat rate of 8.5% of taxable income. Because tax payments are tax-deductible, the effective federal corporate income tax rate is approximately 7.8%.

Cantonal and communal tax rates vary widely. Communal tax rates are usually determined to be a certain percentage of the cantonal base tax. For 2004, the total effective maximum tax burden, which consists of federal, cantonal and communal taxes, ranges from 14% to 30%, depending on the canton in which the taxable entity is located.

Tax Incentives. Incentives for newly established corporations include full or partial exemptions from federal and cantonal/communal taxes for a period of up to 10 years after the inception of the business. The incentives depend on certain criteria, such as the location, the type and amount of the investment, the number of jobs created and regional economic planning aspects.

Capital Gains. Capital gains are generally taxed as ordinary business income at regular income tax rates. Different rules may apply to capital gains on real estate or to real estate companies at the cantonal/communal level.

Capital gains derived from dispositions of qualifying investments in subsidiaries that were not held by the seller before 1 January 1997 qualify for the participation exemption (further details regarding the participation exemption are provided in *Dividends* below). Under the participation exemption rules for capital gains, the parent company must sell at least 20% of the share capital of the subsidiary and, at the time of the disposal, it must have held the shares for at least one year.

Transitional rules apply to qualifying investments held before 1 January 1997 that satisfy the requirements for the participation exemption that applied before that date. In general, capital gains derived from the sale of such investments will be exempt if the sale occurs after 1 January 2007. Under other rules, shares may be transferred to a Swiss or non-Swiss group company without triggering income tax on the capital gains if certain conditions are met.

Cantons may provide relief for capital gains derived from disposals of qualifying investments that are similar to the federal participation exemption described above. Because holding companies are already exempt from corporate income tax at the cantonal and communal levels, this change particularly benefits companies that are engaged in an active trade or business and that also own qualifying investments.

Administration. Income tax is generally assessed on the income for the current tax year, which corresponds to the corporation's financial year. Corporations may select any financial year. They are required to close their books once a year and file annual returns.

Corporations using the calendar year as their tax year must file their federal tax return by 30 June of the year following the tax year. The cantonal deadlines vary. Extensions may be obtained.

Corporations pay income tax in one lump-sum payment or in installments. The deadline for the payment of federal income tax is 31 March of the year following the tax year. The deadline for cantonal/communal taxes is usually between 30 June and 31 December.

Dividends. Dividends received are taxable as ordinary income. However, under the participation exemption rules, if the recipient of the dividend owns at least 20% of the shares of the distributing corporation or if the recipient holds shares with a market value of at least CHF 2 million, the federal tax liability is reduced by a proportion of dividend income (as defined by the law) to the total net income.

The participation exemption also applies at the cantonal/communal level. In addition, all income received by qualifying holding companies is exempt from cantonal/communal taxes (see Section E).

Swiss companies distributing dividends are generally required to withhold tax at a rate of 35%. However, if the parent company is a Swiss-resident company that owns at least 20% of the capital of the payer, the withholding tax liability may be settled through a notification procedure (that is, no tax is required to be withheld).

Intercantonal Tax Allocation. If a company operates in more than one canton, that is, the head office is in one canton and permanent establishments are in other cantons, its taxable earnings are allocated among the different cantons. The tax rate for each canton is based on the aggregate profit. The allocation method depends on the type of business of the company. The determination of the method is based on case law, which is governed by a constitutional guarantee against intercantonal double taxation.

Foreign Tax Relief. Income from foreign permanent establishments of a Swiss company is not taxable in Switzerland. The international allocation of profit is based on intercantonal rules, unless a tax treaty provides for a different method. For the treatment of losses of foreign permanent establishments, see *Income Tax* above.

C. Determination of Taxable Income

General. Income shown in commercial financial statements generally serves as the basis for taxation. However, the tax authorities may require adjustments to correct for items such as excessive depreciation and provisions.

Federal and cantonal/communal corporate taxes paid or due are deductible for income tax purposes.

Inventories. Any system of inventory pricing that is in accordance with accepted business practice and is used consistently by the taxpayer is presumed to be acceptable by the tax authorities.

Provisions. Provisions to cover doubtful accounts and expected liabilities are generally allowed for tax purposes if they are commercially justifiable.

Swiss federal and cantonal regulations provide that the company may record a general tax-deductible reserve amounting to one-third of the inventory valuation.

In general, a reserve of 5% of accounts due from Swiss debtors and 10% of those due from foreign debtors is allowed, without substantiation. In addition, provisions for specific accounts may be established if economically justifiable.

Depreciation. Depreciation may be calculated using the straight-line or the declining-balance method. For federal tax purposes, the following are some of the maximum rates set forth in the official guidelines.

	Method	
Asset	**Declining-Balance (%)**	**Straight-Line (%)**
Commercial buildings	3 to 4	1.5 to 2
Industrial buildings	7 to 8	3.5 to 4
Office furniture	25	12.5
Office machines	40	20
Data-processing equipment	40	20
Machinery	30	15
Motor vehicles	40	20
Intangibles	40	20

Some cantons have particularly favorable provisions.

Relief for Losses. For federal tax purposes, tax losses may be carried forward seven years. No loss carryback is allowed. The carryforward period varies among the cantons, but it is generally seven years.

Groups of Companies. Except for value-added tax purposes, the concept of a consolidated or group return is unknown in Swiss tax law. Each corporation is treated as a separate taxpayer and files its own return.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on deliveries of goods and services, including imports of goods and services	
Standard rate	7.6
Hotel and lodging services	3.6
Preferential rate (applicable to items such as foodstuffs, farming supplies, agricultural products, pharmaceuticals and newspapers)	2.4
Exports	0
Capital tax, on taxable equity	
Federal rate	0
Cantonal/communal rate (varies among the cantons and depends on the applicable tax regime)	0.01 to 0.6
Payroll taxes	
Social security contributions, on gross salary; paid by	
Employer	5.05
Employee	5.05
Company pension fund; rate varies by plan (compulsory and optional) and age of employee; examples of rates, paid by	
Employer	10
Employee (female, ages 32 to 41; male, ages 35 to 44)	10
Unemployment insurance, imposed on	
Annual gross salary of up to CHF 106,800; paid by	
Employer	1.25
Employee	1.25
Annual gross salary from CHF 106,801 to CHF 267,000; paid by	
Employer	1
Employee	1
Family allowance; paid on salary by employer; imposed by various cantons at different rates	Various
Accident insurance, rates vary depending on extent of coverage and the risk of the business	
On the job, paid by employer (approximate rates)	0.04 to 17.19
Off the job; employer may elect to charge all or part of these premiums to employees (approximate rates)	1.01 to 2.10
Stamp duties	
One-time capital contribution tax, on Swiss shares (the rate is 0% on shares issued in mergers and reorganizations; for incorporations and capital increases, the first CHF 250,000 is exempt from tax; under a proposed corporate tax reform, this amount will be increased to CHF 1 million, but, at the time of writing, it was not known whether the reform will be enacted)	1

Nature of Tax	Rate (%)
Securities turnover tax, on the sale or exchange of securities through registered securities dealers (certain items are exempt, including Swiss mutual fund shares, Eurobonds, foreign bonds traded between foreign parties and trading stock of commercial securities dealers)	
Securities issued by a Swiss party	0.15
Securities issued by a foreign party	0.3
Stamp duty, on redeemable capital insurance with single premium for Swiss policyholders	2.5

E. Miscellaneous Matters

Domiciliary and Mixed Companies. Domiciliary and mixed companies are primarily engaged in activities abroad. The profits derived by these companies from non-Swiss sources are taxed at substantially reduced rates at the cantonal/communal level (relief from federal tax is not available). The special tax status for domiciliary and mixed companies aims at attracting foreign investors intending to engage in sales, financing, intellectual property or other operations outside Switzerland.

Under the Tax Harmonization Act, for cantonal taxes, the following tax rules apply to domiciliary and mixed companies:

- Income derived from a qualifying participation (20% of the share capital or a fair market value of CHF 2 million), including capital gains resulting from step-ups in the tax basis of such investments, is exempt from tax.
- Income derived from Swiss sources not described in the item above is taxed at ordinary rates (this rule applies only to mixed companies because domiciliary companies do not derive Swiss-source income).
- Income derived from non-Swiss sources is also taxed at ordinary rates. However, the tax base is substantially reduced by the application of rules that take into account the significance of administrative activities performed by the Swiss company (this depends on the intensity of its physical presence in Switzerland and the level of its economical affinity to Switzerland). As a result of these rules, approximately 10% to 30% of income is subject to the ordinary cantonal and municipal tax, and the balance of the income is exempt.

Holding Companies. Holding companies (as defined) may take advantage of a special status for cantonal and communal tax purposes. No special relief from federal tax is granted (except for the relief described in Section B with respect to qualifying dividends and capital gains).

At the cantonal/communal level, holding companies are completely exempt from tax on income from dividends, interest, capital gains and other income derived from financial participations.

Service Companies. For Swiss resident companies providing coordination or management services to a multinational group (technical, administrative or scientific assistance including research and promotion activities), Swiss tax law requires that a share of the profits accruing to the group be allocated to the Swiss company. It is not feasible in many cases to determine the extent of the contribution of the Swiss resident company to the total profits of the group. As a result, the profit assessable in Switzerland is generally considered to be 5% of the total overhead expenses of the Swiss management or service company. Additional relief is also granted for cantonal and communal tax purposes in accordance with the rules governing domiciliary companies (see *Domiciliary and Mixed Companies* above).

Principal Companies. Federal guidelines provide a special federal tax regime for principal companies. A Swiss company within an international group is treated as a principal company if it assumes risks and responsibilities for certain activities, including the following: purchasing; planning of research and development (R&D), manufacturing and distribution; development of marketing strategies; logistics; treasury; finance; and administration.

In structures involving principal companies, manufacturing is typically performed outside Switzerland by group companies or third parties on a contract manufacturing or cost-plus basis on the instruction, and for the account, of the principal. Sales are made exclusively in the name of international group distribution companies for the account of the principal company. These distribution companies must act exclusively as agents with the authority to conclude contracts on behalf of the principal company (commissionaires) or as limited-risk (stripped-buy/sell) distributors equivalent to commissionaires because of the related risks borne by the principal.

The federal guidelines can result in an attractive combined federal and cantonal/communal effective tax rate that may be as low as approximately 5% to 10%, depending on the particular set-up and the location.

Debt-to-Equity Rules. Under the federal thin-capitalization guidelines, the minimum capitalization is calculated based on the maximum indebtedness of all of the assets. For each type of asset, only a specified percentage may be financed with debt from related parties (directly or indirectly). Consequently, the debt-to equity ratio results from the sum of the maximum amount of indebtedness of all of the assets. The following are examples of the maximum percentages of indebtedness: cash, 100%; accounts receivable, 85%; participations, 70%; manufacturing plants, 70%; and intangibles, 70%. The required equity is calculated on the basis of the fair-market value of all assets, as stated in the balance sheet at the end of the business year.

For federal tax purposes, the thin-capitalization rules apply only to the disallowance of the interest deduction.

Only a few cantons have explicit legal provisions concerning minimum capitalization requirements. Companies are deemed to have avoided tax if equity capital is insufficient and if loaned funds are directly exposed to business risk. Many cantons apply the federal thin-capitalization guidelines described above. In other cantons, a ratio of 6:1 between debt and equity may be used; non-interest-bearing debt is ignored. The 6:1 ratio is commonly applied to foreign controlled corporations that do not engage in industrial activities.

Interest rates may not exceed arm’s length rates.

In certain cantons, specific debt-to-equity rules apply to real estate companies.

Foreign-Exchange Controls. Switzerland does not impose foreign-exchange controls.

Transfer Pricing. Switzerland does not have statutory transfer-pricing rules. Intercompany charges should be determined at arm's length. The tax authorities accept the transfer-pricing methods described by the Organization for Economic Cooperation and Development (OECD).

For service companies with foreign activities and for Swiss branches of foreign companies, the tax authorities may determine the profit based on the cost-plus method if insufficient information is available to calculate the actual profit.

Special guidelines apply concerning minimum and maximum interest on loans granted to or from shareholders or related parties.

Companies may preliminarily discuss transfer-pricing issues with the tax authorities, but generally do not apply for advance pricing agreements.

Double Tax Treaties. Switzerland has entered into over 60 treaties for the avoidance of double taxation. The treaties generally follow the OECD model treaty, with the exception of the agreements concluded before 1960.

In 1962, the federal council issued an antiabuse decree under which the Swiss tax authorities unilaterally restricted the use of the Swiss tax treaty network by Swiss companies that are controlled by foreign residents. However, in 1999 and 2001, the antiabuse decree was relaxed substantially. As a result, the following Swiss companies are no longer subject to the restrictions imposed in 1962:
- Companies that are engaged in an active business;
- Holding companies;
- Companies of which at least 50% of their shares (by voting rights and nominal value) is quoted and regularly traded on a Swiss stock exchange or on a foreign stock exchange with identical or comparable regulations and standards; and
- Companies of which at least 50% of their shares (by voting rights and nominal value) is held directly by a Swiss company or several Swiss companies and the Swiss company or all of the Swiss companies are quoted and regularly traded on a Swiss stock exchange or on a foreign stock exchange with identical or comparable regulations and standards.

In addition, as a result of the revisions of the decree, companies not listed above are usually no longer required to make mandatory distributions of 25% of their passive income.

If a company that remains subject to the antiabuse decree derives dividends, interest or royalties from sources in a country having a double tax treaty with Switzerland, it must have taxable earnings equal to at least 50% of such income in order to benefit from the treaty.

Specific antiabuse clauses in the tax treaties with Belgium, France and Italy continue to apply to all Swiss companies, including the companies listed above.

Under the new Switzerland–United States tax treaty, antiavoidance provisions other than those described in the treaty no longer apply because the treaty contains limitations-on-benefits provisions.

F. Treaty Withholding Tax Rates

Effective from 2005, Switzerland is expected to benefit from the European Union (EU) Parent-Subsidiary Directive and the EU Directive on a common system of taxation applicable to interest and royalty payments made between associated companies of different member states. The tax rates listed below may change as a result of the application of the EU directives.

Residence of Recipient	Dividends %	Interest (a) %	Royalties (b) %
Albania	5 (d)	5	0
Argentina	10 (d)	12	0
Australia	15	10	0
Austria	5	5	0
Belarus	5 (d)	8 (k)	0
Belgium	10 (d)	10	0
Bulgaria	5 (d)	10	0
Canada	5 (g)	10	0
China (w)	10	10	0
Côte d'Ivoire	15	15	0
Croatia	5 (d)	5	0
Czech Republic	5 (d)	0	0
Denmark	0	0	0
Ecuador	15	10	0
Egypt	5 (d)	15	0
Finland	5 (h)	0	0
France	0 (e)	0	0
Germany	0 (j)	0 (c)	0
Greece	5 (d)	10	0
Hungary	10	10	0
Iceland	5 (d)	0	0
India	15	15 (m)	0
Indonesia	10 (d)	10	0
Ireland	10 (d)	0	0
Italy	15	12.5	0
Jamaica	10 (s)	10	0
Japan	10 (d)	10	0
Kazakhstan	5 (bb)	10	0
Kuwait	15	10	0
Kyrgyzstan	5 (d)	5	0
Latvia	5 (o)	10	0
Lithuania	5 (o)	10	0
Luxembourg	0 (q)	10	0
Macedonia	5 (d)	10 (cc)	0
Malaysia	5 (d)	10	0
Mexico	5 (d)	15 (p)	0
Moldova	5 (d)	10	0
Mongolia	5 (d)	10	0
Morocco	7 (r)	10	0
Netherlands	0 (d)(n)	5	0
New Zealand	15	10	0
Norway	5 (d)	0	0
Pakistan	10/20 (ee)	30	0

Residence of Recipient	Dividends %	Interest (a) %	Royalties (b) %
Philippines	10 (s)	10	0
Poland	5 (d)	10	0
Portugal (x)	10 (d)	10	0
Romania	10	10	0
Russian Federation	5 (t)	10 (k)	0
Singapore	10 (d)	10	0
Slovak Republic	5 (r)	10	0
Slovenia	5 (r)	5	0
South Africa	7.5	10 (f)	0
South Korea	10 (d)	10	0
Spain	10 (d)	10	0
Sri Lanka	10 (d)	10 (k)	0
Sweden	0 (d)	5	0
Thailand	10 (y)	0/10/15 (u)	0
Trinidad and Tobago	10 (l)	10	0
Tunisia	10	10	0
Ukraine	5	10	0
United Kingdom	5 (d)	0	0
United States	5 (g)	0	0
Uzbekistan (ff)	15 (o)	5	20
Venezuela	0 (z)	0/5 (aa)	0
Vietnam	7 (v)	10	0
Nontreaty countries	35	35	0

(a) Withholding tax is imposed only on bank interest and on interest from publicly offered bonds, debentures and other instruments of indebtedness issued by a Swiss borrower, but not on interest on commercial loans, including loans from foreign parents to Swiss subsidiaries.

(b) No withholding tax is imposed on royalties, management fees, rents, licenses and technical assistance fees, etc.

(c) The rate is 5% or 15% on interest from profit-sharing bonds or silent partnerships, depending on the extent of the participation.

(d) This rate is applicable if shareholding by a corporation is at least 25%. The net treaty withholding rate is increased to 15% if shareholding is less than 25%.

(e) The 0% rate generally applies if the shareholding of a corporate recipient of dividends is at least 10%. The rate is increased to 15% if the shareholding of a corporate recipient is less than 10% or if the corporate recipient is controlled by persons that are not resident in Switzerland or the EU and neither the payer nor the recipient of the dividends is listed on a stock exchange. The 15% rate also applies to dividends paid to individuals.

(f) Treaty relief is granted only if the interest is taxed in South Africa; otherwise, the full rate of 35% applies.

(g) This rate applies to dividends paid to corporations with a shareholding of at least 10% of the payer.

(h) The rate is 10% for individuals and for corporate shareholders owning less than 20% of the payer of the dividends.

(i) The rate is increased to 35% if the shareholding of the recipient is less than 33 1/3%.

(j) The 0% rate generally applies if the recipient of the dividends is a corporation that has a shareholding of at least 20%. A rate of 15% applies if the recipient of the dividends is a corporation that has a shareholding of less than 20% or if the recipient of the dividends is an individual.

(k) A rate of 5% applies to interest on bank loans.

(l) Rate is applicable if shareholding by a corporation is at least 10%. The net treaty withholding rate is increased to 20% if shareholding is less than 10%.

(m) A 10% rate applies to interest on bank loans.

(n) Subject to an antiavoidance provision in the treaty.

(o) The 5% rate applies if the recipient of the dividends is a corporation with a shareholding of at least 20%. The rate is increased to 15% in all other cases.

(p) For interest paid to banks, the withholding tax rate is reduced to 10%.

(q) The rate of 0% applies to corporate recipients if the shareholding is at least 25% and the participation has been held for at least two years. A rate of 5% applies to corporate recipients if the shareholding is at least 25% and the participation has been held for less than two years. For other corporate recipients and for individual shareholders, the rate is 15%.

(r) The rate is 15% if the shareholding of the recipient is less than 25%.
(s) This rate applies to dividends paid to corporations holding at least 10% of the voting power of the payer. A 15% rate applies to other dividends.
(t) This rate applies if the shareholding of the recipient is at least 20%. For other dividends, the rate is 15%.
(u) The 0% rate applies to interest on special trade credits or loans. The 10% rate applies to interest paid to banks or insurance companies. The 15% rate applies to other interest.
(v) This rate applies if the shareholding of the recipient is at least 50%. The rate is 10% if the shareholding of the recipient is at least 25% but less than 50%. The rate is 15% for other dividends.
(w) The China treaty does not cover Hong Kong.
(x) Because offshore companies on the island of Madeira enjoy a privileged tax treatment, the Swiss tax authorities may not consider these companies to be residents of Portugal. However, this issue is presently being discussed.
(y) This rate applies if the shareholding of the recipient is at least 10%. For other dividends, the rate is 15%.
(z) The rate is 10% if the shareholding of the recipient is less than 25%.
(aa) The 0% rate applies to interest on certain government bonds. The 5% rate applies to other interest.
(bb) This rate applies if the shareholding of the recipient is at least 10%. However a 0% rate may apply in certain circumstances.
(cc) A 0% rate applies to interest on bank loans and in certain other special cases.
(dd) The 0% rate applies if the recipient of the dividends is a corporation with a shareholding of at least 20%. The rate is increased to 15% in all other cases.
(ee) The 10% rate applies to dividends paid to recipients holding participations in industrial enterprises. The 20% rate applies to dividends paid to corporations holding participations of at least 33 1/3% in other enterprises.
(ff) The treaty enters into force on 1 January 2004.

Switzerland signed a tax treaty on 2 July 2003 with Israel, but this treaty has not yet been published.

TAIWAN

(Country Code 886)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@tw.ey.com

TAIPEI **GMT +8**

Diwan, Ernst & Young
9th Floor
Taipei World Trade Center
International Trade Building
333, Keelung Road, Sec. 1
Taipei, 110 Taiwan
ROC

(2) 2720-4000
Fax: (2) 2757-6050, 2720-1078 (Tax)

Corporate Tax

Bell Cheng **(2) 2720-4000 x2118**
Peter Lu **(2) 2720-4000 x2701**

Human Capital

Heidi Liu **(2) 2720-4000 x2705**

A. At a Glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (a)(b)
Branch Tax Rate (%)	25 (a)

Withholding Tax (%)	
Dividends	
Paid to Residents	0
Paid to Nonresident Corporations	25 (c)
Paid to Nonresident Individuals	30 (c)
Interest	10/20 (d)
Royalties from Patents, Know-how, etc.	15/20 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) Maximum rate. For details, see Section B.
(b) Effective from 1 January 1990, income taxation of securities transactions is suspended, but a securities transaction tax is imposed (see Section B).
(c) This rate may be reduced to 20%. For details and for the definition of a nonresident corporation, see Section B.
(d) The 20% rate applies to payments to nonresidents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. A domestic profit-seeking enterprise is subject to corporate income tax on all its income, regardless of source. A foreign profit-seeking enterprise is subject to tax only on its income from Republic of China (ROC) sources. All profit-seeking enterprises, including subsidiaries of foreign companies, incorporated under the Company Law of the ROC are considered domestic profit-seeking enterprises. A branch office or a fixed place of business of a foreign profit-seeking enterprise operating in the ROC is treated as a domestic profit-seeking enterprise for tax purposes. Tax is levied on that portion of income generated in the ROC.

Tax Rates. Corporate income tax rates for 2004 are progressive, as indicated in the following table.

Total Net Income Exceeding (NT$)	Not Exceeding (NT$)	Rate (%)
0	50,000	0
50,000	100,000	15
100,000	–	25

Capital Gains. No preferential rate is available. Capital gains are subject to the same corporate tax rates as other income. Capital gains of nonresident corporations are subject to tax at a fixed rate of 25%. A nonresident corporation is a foreign corporation without a branch office or fixed place of business in the ROC.

Gains on sales of land are exempt from income tax, but are subject to land value increment tax (see Section D).

Effective from 1 January 1990, income taxation of securities transactions is suspended, but a securities transaction tax of 0.3% or 0.1% is imposed. During the period of 30 January 2002 through 31 December 2009, income derived from trading in corporate bonds and financial bonds (as defined in the Banking Law of ROC) is exempt from securities transaction tax.

Administration. The tax year is normally the calendar year. Permission must be obtained to use any other period. An annual tax return must be filed during the month of May of the year following the tax year. Companies that meet certain specified conditions may file a blue return and accordingly qualify for a higher limit for the deduction of entertainment expenses. An extension to file a tax return is no longer available.

Payment of tax after the original due date or payment of additional assessed tax is subject to interest, computed from the date immediately following the original due date to the date of payment, at the prevailing interest rate provided by the Directorate General of Postal Remittances and Savings Bank (PRSB). In general, the late filing penalty is the greater of 10% of tax due or NT$1,500, and the nonfiling penalty is 20% of the tax assessed by the authorities, but not less than NT$4,500. Underreporting of taxable income is subject to a penalty of up to two times the underpayment of tax. A penalty of up to three times the tax payable may be imposed for tax evasion if a return has not been filed.

During the month of September, a profit-seeking enterprise must pay an interim tax equal to 50% of the preceding year's tax liability. Under the Income Tax Law, qualified enterprises may pay interim tax based on the operating income derived in the first six months of the current year. If the interim tax payment is made after 30 September but before 31 October, late payment interest accrues on a daily basis at the prevailing interest rate provided by the PRSB. If the interim payment is not made by 31 October, the tax authorities assess one month's interest at the prevailing interest rate provided by the PRSB.

Dividends. The dividend withholding tax is 25% for nonresident corporations and 30% for nonresident individuals. The rates for nonresidents are reduced to 20% if the investments are approved by the ROC government pursuant to the Statute for Investment by Foreign Nationals or the Statute for Investment by Overseas Chinese. Withholding tax is not imposed on dividends paid to residents or on remittances of after-tax profits by a branch to its foreign home office.

Under an imputation system, which took effect on 1 January 1998, a 10% surtax is imposed on the undistributed profits of companies in the second year following the year in which the profits are earned. This tax is in addition to the normal corporate income tax imposed on the profits (see *Tax Rates* above). Resident individuals who receive dividends from resident companies include the dividends in their taxable income and are granted tax credits for the corporate income tax and the 10% surtax paid by the distributing company in the ROC. For nonresident individuals and corporations, the tax credit is limited to 10% of the franked dividends (dividends paid out of company profits on which corporate tax has been imposed) that were subject to the 10% surtax at the corporate level. Cash refunds for excess credits are granted to shareholders who are resident individuals.

Companies are required to maintain an imputation credit account and calculate the imputation credits that are allocated to shareholders. These accounts are designed to limit credits to the amount of corporate income tax and surtax paid in the ROC. The total tax credits available are determined by multiplying the dividends received by the ratio of total tax paid at the corporate level to accumulated retained earnings since 1998.

Dividends and imputation tax credits received by companies from resident companies are exempt from corporate income tax. However, imputation credits may not be used by companies and must be passed on to shareholders who are individuals. The tax credits are passed through to the company's individual shareholders by adding the tax credits received to the numerator of the ratio described in the preceding paragraph.

Foreign Tax Relief. A tax credit is allowed for foreign income tax paid directly by a domestic profit-seeking enterprise, but it may not exceed the additional amount of the ROC tax resulting from the inclusion of the foreign-source portion in the profit-seeking enterprise's total income.

C. Determination of Trading Income

General. Income for tax purposes is computed according to generally accepted accounting principles, adjusted for certain provisions included in the tax code.

Necessary and ordinary expenses of a profit-seeking enterprise are deductible, provided these are adequately supported by documentation. The Assessment Rules for Income Tax Returns of Profit-Seeking Enterprises, promulgated by the Ministry of Finance, provide guidelines for determining deductible business expenses. Transactions must conform to regular business practice; otherwise, tax authorities may assess tax based on industry statistics.

Tax Exemptions. A foreign enterprise engaging in international transportation that derives income in the ROC is exempt from tax if Taiwan and the home country of the foreign enterprise have entered into an international transportation income tax agreement, which provides reciprocal treatment to ROC international transportation enterprises operating in the foreign country. See Section F for a list of the countries with which Taiwan has entered into such agreements.

On approval from the competent authority, royalties paid to a foreign enterprise for the use of its patent rights or trademarks, or for the licensing of other special rights, may be exempt from tax if the rights are acquired to introduce new production technology or products, improve product quality or reduce production cost. In addition, amounts paid to a foreign enterprise for technical services rendered in the construction of a factory for an important productive enterprise approved by the competent authority may also be exempt from tax.

Interest received by a foreign financial institution for offering financing facilities to their ROC branch offices or other financial institutions in the ROC is exempt from tax. With the approval of the Ministry of Finance, interest received by a foreign financial institution for extending loans to legal entities in the ROC for financing important economic construction projects is also exempt from tax.

Inventories. Inventories are valued for tax purposes at either cost or the lower of cost or market value. In determining the cost of goods sold, specific identification, first-in, first-out (FIFO), last-in, first-out (LIFO), weighted average, moving average, average or any other method prescribed by competent authority may be used. However, the use of two different cost methods in one fiscal year is not allowed. In addition, if the LIFO method is adopted, valuation by lower of cost or market value must not be applied.

Provisions. Provisions for a retirement fund approved by the authorities are deductible in amounts of up to 15% of total payroll. The applicable percentage depends on whether the fund is managed separately from the business entity and whether it conforms to the provisions of the Labor Standards Law.

Allowance for bad debts is limited to 1% of the balance of outstanding trade accounts and notes receivable (secured or unsecured) at year-end.

Companies that obtain approval from competent authorities for their outbound investments may set up provisions for losses on outbound foreign investments, equal to 20% of the gross amount invested.

Tax Depreciation, Depletion and Amortization. A taxpayer may claim a depreciation deduction for most property (except land) used in a trade or business. Depreciation may be computed using the straight-line, declining-balance or working-hour method. Under the working-hour method, depreciation is computed based on the number of working hours that a depreciable asset is used in a tax year. The time periods over which an asset may be depreciated are specified by the tax authorities. The following are some of the applicable time periods.

Asset	Years
Commercial buildings	10 to 50
Industrial buildings	8 to 35
Office equipment	3 to 10
Motor vehicles	4 to 5
Plant and machinery	3 to 20

Companies may use an accelerated depreciation method if they meet certain criteria. If a taxpayer does not apply to the tax authorities for a particular method of depreciation, the tax authorities deem the taxpayer to have chosen the straight-line method.

Depletion of assets in the form of nonreplaceable resources is computed either annually or per unit. This method must be applied consistently from year to year. In addition, a taxpayer may claim an amortization deduction for intangibles and organization expenses. Licenses and copyrights are amortized over 10 and 15 years, respectively. Trademarks, patents and franchises must be amortized over the period prescribed by the respective laws governing the granting of these rights. Organizational and preoperating expenses must be amortized over five years or more starting from the first year of operation, except when the total life of the business is less than five years.

Tax Credits. Business enterprises may claim tax credits equal to 5% to 20% of amounts invested in equipment or technology used for the following: automation; reclamation of resources and, or, pollution control; employment of new and clean energy; energy saving; recycling of water for industrial use; reduction of greenhouse gas emission; enhancement of energy efficiency; or promotion of an enterprise's digital efficiency. Companies that invest in less-developed areas or in areas deficient in resources qualify for a credit equal to 20% of the amounts invested if they invest specified amounts or if they employ a specified number of employees.

Business enterprises or individuals who subscribe to and hold for three years or longer shares issued by a company within emerging, important and strategic industries may credit the amount paid for such shares against income tax payable. Business enterprises may credit up to 20% of the price paid for the stock against its income tax. Individuals may credit up to 8% (effective from 1 January 2004) of the price paid for the shares against the income tax payable, but the amount of the credit in each year, except for the last year of the carryforward period, is limited to 50% of the income tax payable in the relevant year. The tax credit rate for individuals is reduced by one percentage point every two years beginning in January 2000.

Investment credits not fully used in the current year may be carried forward for four years.

Relief for Losses. If certain requirements are met, companies may carry forward approved losses for five years. Carrybacks are not permitted.

Groups of Companies. In general, associated or related companies in a group are taxed separately for corporate income tax purposes and may not file consolidated tax returns. However, a financial holding company that holds 90% or more of the shares of subsidiaries in the ROC for twelve months or more may elect to file a consolidated profit-seeking enterprise income tax return under its own name.

In addition, effective from 6 February 2002, a company that acquires 90% or more of the shares of its subsidiaries through a merger, spin-off or other acquisition under the Merger and Acquisition Law and holds such shares for twelve months or more may elect to file a consolidated profit-seeking enterprise income tax return under its own name.

A 10% surtax on the undistributed consolidated retained earnings applies in addition to the corporate income tax on consolidated net income.

An election to file a consolidated profit-seeking enterprise return applies only to corporate income tax and, as a result, qualifying parent companies and their subsidiaries must calculate all other taxes separately.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Business tax or value-added tax (VAT), on sales and services; general rate	5
Tax on gross business receipts of specified businesses that are not subject to the general VAT rate	0 to 25

Nature of Tax	Rate (%)
Land value increment tax, on unearned increase in the value of land, payable by the seller at the time of ownership transfer (50% relief for land value increment tax is effective from 17 January 2002 through 16 January 2004)	40 to 60
Registration fee, on original or additional capital contributions	0.025
Government labor insurance scheme, on monthly salary up to NT$42,000; paid by	
Employer	4.55
Employee	1.3
National health insurance plan, on monthly salary up to NT$87,600; paid by	
Employer	4.859
Employee	1.365

E. Miscellaneous Matters

Foreign-Exchange Controls. Under foreign-exchange control regulations, registered business entities or adults legally residing in Taiwan may remit out (in) unlimited funds for the import (export) of goods and services. However, prior approval from the Central Bank is required for the following:

- An individual who has accumulated inward or outward remittances exceeding US$5 million in a year; or
- A business entity with accumulated inward or outward remittances exceeding US$50 million in a year.

In addition, supporting documents, such as transaction contracts, must be submitted at the time of remittance for the Central Bank's audit purposes with respect to the following remittances:

- A single remittance by an individual exceeding US$500,000; or
- A single remittance by a business entity exceeding US$1 million.

If an investor intends to repatriate invested capital or profits overseas without being subject to exchange control limits, the approval of the outward investment by the Ministry of Economic Affairs is required.

Debt-to-Equity Rules. The ROC Company Law does not impose any debt-to-equity ratio restrictions. The Ministry of Economic Affairs prescribes minimum capital for different types of companies and by industry.

Controlled Foreign Companies. Income derived by foreign subsidiaries of ROC companies is not subject to ROC income tax until it is repatriated to the ROC in the form of dividends.

Antiavoidance Legislation. The ROC Income Tax Law does not contain specific regulations to prevent the diversion of income and capital gains, provided the underlying transactions are carried out according to regular business practice. However, the general rule is that the tax authorities may ignore transactions that constitute an abuse of legal forms provided by the Civil Code. The same applies to sham transactions or transactions made to conceal the actual facts. Such transactions are not taken into account when taxes are calculated.

F. Treaty Withholding Tax Rates

The ROC has entered into double tax treaties with the countries listed in the table below. In addition, the ROC has signed double tax treaties with Paraguay, the Philippines, Senegal, Sweden and Thailand, which are currently awaiting ratification by the respective governments.

The ROC has entered into international transportation income tax agreements with Canada, the European Union, Germany, Israel, Japan, Korea, Luxembourg, Macau, the Netherlands, Norway, Sweden, Thailand and the United States.

The table below lists the withholding tax rates under the ROC's double tax treaties. The rates apply only if the recipient is the beneficial owner of the income.

	Dividends %	Interest %	Royalties %
Australia	10/15 (a)	10	12.5
Gambia	10	10	10
Indonesia	10	10	10
Macedonia	10	10	10
Malaysia	12.5	10	10
Netherlands	10	10	10
New Zealand	15	10	10
Singapore	– (b)	– (e)	15
South Africa	5/15 (c)	10	10
Swaziland	10	10	10
United Kingdom	10	10	10
Vietnam	15	10	15
Nontreaty countries	20/25/30 (d)	20	20

(a) The 10% rate applies to dividends paid to a company (other than a partnership) holding directly at least 25% of the capital of the payer. The 15% rate applies to other dividends.
(b) For dividends paid to Singapore residents, the withholding tax on the dividends and the corporate income tax payable on the profits of the payer may not exceed 40% of the taxable income of the payer out of which the dividends are paid.
(c) The 5% rate applies if the beneficial owner of the dividends holds directly at least 10% of the capital of the payer. The 15% rate applies to other dividends.
(d) The 25% rate applies to dividends paid to nonresident corporations and the 30% rate applies to dividends paid to nonresident individuals. A reduced 20% rate applies in certain circumstances (see Section B).
(e) The Singapore treaty does not state the withholding tax applicable to interest.

TANZANIA

(Country Code 255)

DAR ES SALAAM **GMT +3**

Massawe Ernst & Young
Mail Address:
P.O. Box 2475
Dar es Salaam
Tanzania

(22) 266-6853, 266-7227
211-8476, 211-0535
Fax: (22) 266-6948

Street Address:
Utalii House
36 Laibon Road
Dar es Salaam
Tanzania

Corporate Tax
Ernest S. Massawe **(22) 266-8846**
Mobile: 0744-780334
E-mail: ernest.s.massawe@tz.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	5/10 (a)
Interest	15 (b)
Royalties	20 (c)
Management and Professional Fees	3/20 (d)
Insurance Commissions	7.5 (e)
Rent, Premiums and Similar Consideration	15/20 (f)
Transportation Income	4 (g)
Goods and Services	2 (g)
Branch Remittance Tax	10 (h)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) The 10% rate is the general rate for residents and nonresidents. The rate is 5% for dividends paid by companies listed on the Dar es Salaam Stock Exchange. Dividends are exempt if a resident recipient company owns at least 25% of the voting capital of the payer of the dividends. The dividend withholding tax is a final tax.
(b) This tax applies to residents and nonresidents. It is a final tax for resident individuals and nonresidents. Resident companies may credit the withholding tax against their annual corporate income tax. Interest paid by mining enterprises on loans from unrelated foreign parties is exempt from tax.
(c) The withholding tax on royalties is a final tax that applies to nonresidents only.
(d) The withholding tax on management and professional fees is a final tax that applies to nonresidents only. The rate is 3% for management fees paid by mining enterprises if such expenses do not exceed 2% of the total operating expenses. Otherwise, a 20% withholding tax is imposed on the amount of the management fees exceeding 2% of operating expenses. The withholding tax rate for technical services fees paid by mining enterprises is 3%.
(e) This tax applies to residents and nonresidents.
(f) The 15% rate applies to residents. The 20% rate applies to nonresidents. This withholding tax is a final tax.
(g) This withholding tax applies to residents who have not obtained Tax Identification Numbers (TINs).
(h) This tax applies to the after-tax profits of branches of foreign companies.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies are considered resident for tax purposes if either of the following applies:
- They are incorporated, established or registered in Tanzania; or
- Management and control of the affairs of the company are exercised in Tanzania during any part of the tax year.

Resident companies are subject to tax on their worldwide income. Nonresident companies are subject to tax on their Tanzanian-source income only.

Rates of Corporate Tax. Both resident and nonresident companies are subject to tax at a rate of 30%.

Tax Incentives. Companies holding certificates of incentives under the Tanzania Investment Act, 1997 benefit from the following:
- Deferral of payment of value-added tax until beginning of production of goods and services; and
- Exemption from customs duty on capital goods.

Companies may claim a 50% deduction for qualifying capital expenditure in the year of expenditure and deduct the balance in subsequent years in accordance with the normal tax depreciation rules (see Section C).

Capital Gains. Capital gains are subject to tax at a rate of 10%.

Administration. A company's year-end for tax purposes is the same as its year-end for financial reporting purposes. Companies must file provisional tax returns by the end of the third month of their financial year, and file their final tax returns within six months after their year-end. The estimated tax must be paid in four equal installments, as set forth in the provisional return. The remaining balance of tax due is paid with the final return. The taxpayer's estimate of taxable income may not be less than its taxable income as finally determined for the preceding financial year. The commissioner may allow a lower estimate if justified by the facts and circumstances of the case. Companies may revise their provisional return if new developments suggest an increase or decrease in income. A penalty of 2.5% a month or part thereof is imposed for failure to file a return or for fraud related to the return. The minimum penalty is TSHS 10,000.

Interest is charged for unpaid and underestimated taxes. A 25% interest charge is immediately imposed on tax unpaid after the due date. If the tax is still unpaid after six months, a 5% charge is levied. An additional 5% is charged at the end of each succeeding five-month period that the tax remains unpaid. If the amount of tax payable is underestimated, interest is charged at 1.5% a month on the difference between the tax assessed and the estimated tax.

Dividends. A final withholding tax is imposed on dividends. A 10% rate generally applies to residents and nonresidents. A 5% rate applies to dividends paid by companies listed on the Dar es Salaam Stock Exchange. Dividends are exempt if a resident recipient company owns at least 25% of the voting capital of the payer of the dividends.

Dividends are generally taxable in the year payable. However, if the payment date is determined at an annual general meeting to be in a year other than the year in which the meeting is held, the dividend is taxed in the year of receipt.

C. Determination of Trading Income

General. The starting point for computing taxable income is financial statement income. Expenses and losses are generally not deductible unless they are incurred wholly and exclusively in the production of income.

Inventories. Inventories are valued at the lower of cost or net realizable value. The last-in, first-out (LIFO) method is not permitted.

Provisions. Provisions for losses are allowed only for losses that are specifically identified.

Depreciation. Depreciation computed for financial statement purposes is not deductible, but the following straight-line capital allowances are provided.

Asset	Rate (%)
Industrial buildings other than hotels (increased rates on industrial buildings are allowed under special circumstances)	5
Hotels	5
Plant and machinery	
Class I, computers, heavy industrial machinery and equipment, such as tractors and trucks	37.5
Class II, lighter machinery and equipment, such as automobiles, light trucks and airplanes	25
Class III, ships and machinery lighter than Class II	12.5

The maximum depreciable amount for a noncommercial automobile is limited to TSHS 5 million.

Mineral Deduction. Mining enterprises may deduct 100% of qualifying expenditure in the year of expenditure.

Investment Deduction. In addition to capital allowances, a one-time 20% investment deduction is available for the qualifying cost of industrial buildings and machinery; the deduction is increased to 40% for amounts invested in ships. A farm works deduction of 20% is also granted.

Relief for Losses. Companies may carry forward tax losses indefinitely. No carryback is permitted.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT)	20
Customs duties (imports may also be subject to VAT)	0/5/10/20/25
Property tax, imposed by local governments on the value of the real property	0.15
Skills and Development Levy; imposed on gross payroll	6
National Social Security Fund on basic salary; paid by	
Employer	10
Employee	10

E. Foreign-Exchange Controls

Tanzania does not impose any foreign-exchange controls.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Canada	10	15	20
Denmark	10	12.5	20
Finland	10	15	20
India	10	12.5	20
Italy	10	12.5	15
Norway	10	15	20
Sweden	10	15	20
Zambia	0	0	0
Nontreaty countries	10*	15*	20

* See Section A.

A tax treaty with South Africa is being renegotiated.

THAILAND

(Country Code 66)

BANGKOK **GMT +7**

Ernst & Young **(2) 264-0777, 661-9190**
Mail Address: **Fax: (2) 264-0790, 661-9192**
G.P.O. Box 1047
Bangkok 10501
Thailand

Street Address:
33rd Floor
Lake Rajada Office Complex
193/136-137 New Rajadapisek Road
(Opposite Queen Sirikit
National Convention Centre)
Klongtoey, Bangkok 10110
Thailand

Corporate Tax

Anthony V. Loh — **(2) 264-0777**
E-mail: anthony.v.loh@th.ey.com

Songdej Praditsmanont — **(2) 264-0777**
E-mail: songdej.praditsmanont@th.ey.com

Human Capital

Yupa Wichitkraisorn — **(2) 264-0777**
E-mail: yupa.wichitkraisorn@th.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	10
Interest	15 (b)
Royalties from Patents, Know-how, etc.	15
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) Reduced rates apply in certain circumstances (see Section B).
(b) Certain types of interest are exempt from tax [see footnote (a) to Section F].

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Thai resident companies are subject to corporate income tax on their worldwide income. Thai resident companies are those incorporated in Thailand. Branches of foreign corporations are subject to Thai tax on Thailand-source income only.

Rates of Corporate Tax. Thai resident companies and branches of foreign corporations are subject to corporate income tax at a flat rate of 30% on taxable profits.

The rate is reduced to 20% for companies listed on the Market for Alternative Investment, to progressive rates of 20% to 30% for locally incorporated companies with paid-up capital of not more than Baht 5 million, and to 25% on the first Baht 300 million of annual profit for companies listed on the Stock Exchange of Thailand.

Capital Gains. Capital gains are treated as ordinary business income subject to income tax.

Administration. Corporate income tax returns, together with the audited financial statements, must be filed with the Revenue Department within 150 days after the accounting year-end. Corporate income tax payments are due on the filing date.

Mid-year (interim) tax returns must be filed with interim tax payments within two months after the end of the first half of the accounting year. Listed companies, financial institutions and companies approved by the Director-General of the Revenue Department compute their interim tax based on actual operating results for the first half-year. For other companies, their interim tax is one-half of projected annual income tax. These companies do not have to submit audited or reviewed financial statements. The interim tax is creditable against the annual tax payable at the end of the year.

Dividends. In general, one-half of dividends received by resident companies from other resident companies may be excluded from taxable income. However, the full amount of the dividends may be excluded if either of the following applies:

- The recipient is a company listed on the Stock Exchange of Thailand; or
- The recipient owns at least a 25% equity interest in the distributing company, provided that the distributing company does not own a direct or indirect equity interest in the recipient company.

These rules apply if the related shares are acquired not less than three months before receiving the dividends and are not disposed of within three months after receiving the dividends.

Foreign Tax Relief. Thailand has concluded double tax treaties with 44 countries. In general, under the treaties, foreign tax relief is limited to the lower of the foreign tax and the amount of Thai tax calculated on such income.

Foreign tax payable in nontreaty countries may be credited against Thai tax, limited to the Thai tax computed on the foreign income, provided the foreign tax meets the conditions set forth in the relevant measure. If the foreign tax is not used as a credit, it may be claimed as a deduction for income tax purposes.

C. Determination of Trading Income

General. Corporate income tax is based on audited financial statements, subject to certain adjustments.

In general, expenses are tax-deductible if they are incurred wholly and exclusively for the purpose of generating income. However, expenses created by means of provisions or allowances, such as those for bad debts or stock obsolescence, are not tax-deductible until they are actually used.

Inventories. Inventories must be valued at the lower of cost or market value. Cost may be determined using any generally accepted accounting method. After a method is adopted, a change to another method may be made only with approval of the Director-General of the Revenue Department.

Depreciation and Amortization Allowance. A company may depreciate its fixed assets under any generally accepted accounting method, provided the number of years of depreciation under the selected method is not less than the minimum prescribed period. However, after a method is adopted, it may not be changed unless prior consent has been obtained from the Director-General of the Revenue Department. The following are the minimum prescribed periods applicable to some major fixed assets.

Asset	Time Period
Buildings	20 years
Furniture, fixtures, machinery, equipment and motor vehicles	5 years
Trademarks, goodwill, licenses, patents and copyrights (including software)	Over period of use (or 10 years if no period of use)
Computer hardware	3 years

Relief for Losses. Operating losses may be carried forward for a period of five years. Loss carrybacks are not allowed.

Groups of Companies. The Thai tax law does not include any provisions for consolidated treatment under which companies within a group may be treated as one tax entity. Each individual company must file its income tax return and pay its tax.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods sold, services rendered and imports	7
Specific business tax, on financial service and real estate businesses	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. On presentation of supporting documents, virtually all foreign-exchange transactions may be processed by a commercial bank.

Transfer Pricing. Under transfer-pricing guidelines issued by the Thai Revenue Department, all sales or service transactions must be executed at an arm's length price, and the taxpayer is required to prepare and maintain contemporaneous documentation to substantiate the price. Acceptable transfer-pricing methods include the comparable uncontrolled price method, the resale price method, the cost-plus method and other internationally accepted methods. If the taxpayer fails to prove that a transaction challenged by the tax authorities was executed on an arm's length basis, additional tax can be assessed. Transactions between related parties are subject to particular scrutiny.

F. Treaty Withholding Tax Rates

The rates in the table reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest (a)(b) %	Royalties %
Armenia	10	15 (c)	15
Australia	10	15 (c)	15
Austria	10	15 (c)	15
Bangladesh	10	15 (c)	15
Belgium	10	15 (c)	15 (f)
Bulgaria	10	15 (c)(e)	15 (f)
Canada	10	15 (c)	15 (f)
China	10	15 (c)	15
Cyprus	10	15 (c)(e)(q)	15 (r)
Czech Republic	10	15 (c)	15 (f)(g)
Denmark	10	15 (o)	15
Finland	10	15 (c)	15
France	10	15 (c)(d)	15 (f)(h)
Germany	10	15 (c)(e)	15 (f)
Hungary	10	15 (c)	15
India	10	15 (c)	15
Indonesia	10	15 (c)	15 (f)
Israel	10	15 (c)	15 (f)
Italy	10	15 (c)(e)	15 (f)
Japan	10	15 (c)	15
Korea	10	15 (c)	15
Laos	10	15 (c)(e)	15
Luxembourg	10	15 (c)	15
Malaysia	10	15 (c)	15
Mauritius	10	15 (c)	15 (f)
Nepal	10	15 (c)	15
Netherlands	10	15	15 (f)
New Zealand	10	15 (m)	15 (n)
Norway	10	15	15
Pakistan	10	15 (c)	15 (f)(h)
Philippines	10	15 (c)	15
Poland	10	15 (c)	15 (f)(h)
Romania	10	15 (c)	15
Singapore	10	15 (c)	15
South Africa	10	15 (c)	15
Spain	10	15 (c)	15 (l)
Sri Lanka	10	15 (c)	15
Sweden	10	15 (c)	15
Switzerland	10	15 (i)	15 (f)(g)

	Dividends %	Interest (a)(b) %	Royalties %
United Arab Emirates	10	15 (c)(e)(o)	15
United Kingdom	10	15 (c)	15 (f)
United States	10	15 (c)(j)	15 (k)
Uzbekistan	10	15 (c)(p)	15
Vietnam	10	15 (c)	15
Nontreaty countries	10	15	15

(a) The following types of interest are exempt from tax: interest paid to a financial institution wholly owned by another state; interest on certain foreign-currency loans brought into Thailand between 1 May 1979 and 28 February 1990; interest paid by the government or a financial institution established by a specific law of Thailand for the purpose of lending money to promote agriculture, commerce and industry; and interest paid by the central bank or state enterprises on loans approved by the Ministry of Finance.
(b) The rate is reduced to 10% if the interest is paid to banks, financial institutions or insurance companies of the treaty countries other than Norway.
(c) Interest paid to the government, subdivisions of contracting states or a central bank is exempt from tax.
(d) The withholding rate is 3% for interest on loans or credits granted for at least four years with the participation of a public financing institution to a statutory body or enterprise of the other contracting state, in relation to sales of equipment, or in relation to the survey, installation or supply of industrial, commercial or scientific premises, or public works.
(e) Interest paid to a financial institution wholly owned by the other contracting state is exempt.
(f) The withholding rate is 5% (10% for Indonesia and Pakistan) for royalties for copyrights of literary, artistic or scientific works.
(g) The withholding rate is 10% for royalties paid for patents, trademarks, designs, models, plans, or secret formulas or processes.
(h) Royalties and similar payments paid to the other contracting state or a state-owned company for films or tapes are exempt.
(i) Interest paid to residents of Switzerland with respect to loans guaranteed or insured under the Swiss provisions regulating the Export or Investment Risk Guarantee is exempt.
(j) The rate is reduced to 10% for interest paid on indebtedness resulting from sales on credit of equipment, merchandise or services. Interest on debt obligations guaranteed or insured by the government is exempt.
(k) The withholding rate is 5% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, including software and motion pictures and works on films, tape or other means of reproduction for use in connection with radio or television broadcasting. The withholding rate is 8% for royalties for the use of, or the right to use, industrial, commercial or scientific equipment.
(l) The withholding rate is 5% for royalties paid for the use of, or the right to use, copyrights of literary, dramatic or scientific works, excluding cinematographic films or films or tapes used for radio or television broadcasting. The withholding rate is 8% for amounts paid under financial leases for the use of, or the right to use, industrial, commercial or scientific equipment.
(m) The rate is reduced to 10% for interest paid on indebtedness resulting from sales on credit of equipment, merchandise or services, except for sales between persons not dealing with each other at arm's length. Interest derived by the government of New Zealand or its central bank from the investment of official reserves is exempt from tax.
(n) The withholding tax rate is 10% for royalties paid for the following: the use of or right to use, copyrights, industrial, scientific or commercial equipment, motion picture films, films or videotapes or other recordings for use in connection with television, and tapes or other recordings used in connection with radio broadcasting; for the reception of, or the right to receive, visual images or sounds transmitted to the public by satellite, cable, optic fiber or similar technology; and for the use of, or right to use, in connection with television or radio broadcasting, visual images or sounds transmitted by cable, optic fiber or similar technology.
(o) Interest on loans made, guaranteed or insured by the government, central bank, agency or body wholly owned or controlled by the government is exempt from tax.
(p) Interest is exempt from tax if it is paid on loans made, guaranteed or insured by the contracting state or by an authorized body of the state on behalf of the state or if it is paid on other debt claims or credits guaranteed or insured on behalf of the contracting state by an authorized body of the state.

(q) The rate is reduced to 10% for interest paid on indebtedness resulting from sales on credit of industrial, commercial, or scientific equipment or from sales on credit of merchandise between enterprises.
(r) A withholding tax rate of 5% applies to royalties for the use of, or the right to use, copyrights of literary, dramatic, musical, artistic or scientific works, including software, cinematographic films and films or tapes used for radio or television broadcasting. A withholding tax rate of 10% applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience.

TRINIDAD AND TOBAGO

(Country Code 1)

PORT-OF-SPAIN **GMT -4**

Ernst & Young
Mail Address:
P.O. Box 158
Port-of-Spain
Trinidad

(868) 628-1105
Fax: (868) 622-1153, 622-0918

Street Address:
5-7 Sweet Briar Road
Port-of-Spain
Trinidad

Corporate Tax

Wade George — **(868) 628-5185**, **E-mail: wade.george@tt.ey.com**

Nicole Lawrence — **(868) 628-1212**, **E-mail: nicole.lawrence@tt.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)
Short-Term Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%) (c)	
Dividends	10/15 (d)
Interest	20 (e)
Royalties from Patents, Know-how, etc.	20 (e)
Branch Remittance Tax	10 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) The rate for companies engaged in the petrochemcial and related sectors is 35%. A business levy and a green fund levy are also imposed (see Section B).
(b) See Section B.
(c) These withholding taxes apply to payments to nonresidents only.
(d) The 10% rate applies to dividends paid to corporations owning 50% or more of the voting power of the distributing company. The 15% rate applies to other dividends.
(e) Applicable to payments to companies and individuals.
(f) Applicable to remittances of profits to overseas head office.

B. Taxes on Corporate Income and Gains

Corporation Tax. Resident companies are subject to tax on their worldwide income from all sources. Relief from taxation of foreign-source income may be available under a double tax treaty. Nonresident companies engaged in business in Trinidad and Tobago are subject to tax on income directly or indirectly accruing in or derived from Trinidad and Tobago.

Rates of Tax. For the 2003 year of income, the basic rate of corporation tax is 30%.

The corporation tax rate for companies engaged in the petrochemical and related sectors is 35%.

A business levy at a rate of 0.20% is imposed on the annual gross sales or receipts of companies, including branches of nonresident companies operating in Trinidad and Tobago. This levy is credited against the corporation tax liability. It is the final liability if the corporation tax liability is less than the business levy. Certain companies are exempt from the levy, including the following: companies or statutory corporations exempt from corporation tax; certain government corporations under the jurisdiction of the Public Utilities Commission or exempted by order of the President; and companies subject to tax under the Petroleum Taxes Act. A company is not subject to the levy for the first 36 months following the date of the beginning of its business.

A green fund levy at a rate of 0.1% is imposed on the gross receipts of companies engaged in business in Trinidad and Tobago.

The long-term insurance business of an assurance company is subject to tax at a rate of 15%.

Capital Gains. Capital gains are generally not subject to tax. Depending on the class of asset and the nature of the company's business activities, however, the profit or loss on depreciable assets disposed of after being held for more than 12 months may require a balancing adjustment (see Section C).

Short-term capital gains are profits on the disposal of assets within 12 months of their acquisition. Although these gains are of a capital nature, they are generally subject to tax. Profits derived from the partial disposal of an asset within 12 months of acquisition are also subject to tax.

Administration. The tax year is the calendar year. Tax is calculated on the profits for the accounting period that ends during the tax year. For each quarter, a company is required to pay a green fund levy installment, as well as either a corporation tax or business levy installment, whichever is greater. The quarterly payments must be made by 31 March, 30 June, 30 September and 31 December in each tax year. Quarterly payments of corporation tax are determined based on the taxable income for the preceding accounting period, while the business levy and green fund levy installments are based on the actual gross sales or receipts of the company for the relevant quarter. The business levy calculation excludes income that is exempt for corporation tax purposes such as dividend income, but the green fund levy calculation takes into account such income.

If the current year's profits exceed the preceding year's profits, a company must pay by 31 December the sum of the tax liability on the preceding year's taxable profits plus 80% of the increase in tax liability over the preceding year. Annual tax returns must be filed by 30 April in the year following the tax year, and any balance of tax due is payable at that time.

If the balance of tax due is not paid by the 30 April deadline, interest accrues at a rate of 20% on the outstanding amount beginning on 1 May. A grace period to 31 October is granted for the filing of the tax return. If the return is not filed by 31 October, a penalty of TT$1,000 accrues beginning 1 November for each six-month period or part of such period that the return remains outstanding.

Dividends. Dividends received from nonresident companies out of profits not derived from or accruing in Trinidad and Tobago are subject to tax. Dividends received by resident companies from other resident companies are tax-exempt.

Dividends paid to nonresident companies and individuals are generally subject to a withholding tax of 15%. The rate is reduced to 10% if the recipient is a corporation owning 50% or more of the voting power of the distributing company.

Double Tax Relief. Bilateral agreements have been entered into between the government of Trinidad and Tobago and the governments of certain other countries to provide relief from double taxation. These agreements assure taxpayers that their trade or investment in the other countries is free from the deterrent of double taxation. Relief from double taxation is achieved by one of the following two methods:

- Exemption or a reduced rate on certain classes of income in one of the two countries concerned.
- Credit if the income is fully or partially taxed in the two countries. The tax in the country where the income arises is allowed as a credit against the tax on the same income in the country where the recipient is resident. The credit is the lower of the Trinidad and Tobago tax or the foreign tax on the same income.

C. Determination of Taxable Income

General. The assessment is based on financial statements prepared according to international accounting standards, subject to certain adjustments.

To be deductible, expenses must be incurred wholly and exclusively in the production of income. The deduction for business meals and entertainment expenses is limited to 75% of actual expenditure. Deductions for management charges paid to a nonresident company may not exceed 1% of the payer's expenses, exclusive of such charges, unless the charges are generated by a trade or business of the nonresident company in Trinidad and Tobago.

Special Allowances. The export allowance previously granted to companies was eliminated, effective from 1 January 2003. However, other special allowances (deductions), which are described below, were recently introduced for companies operating in Trinidad and Tobago.

Arts and Culture Allowance. This allowance is granted to companies incurring expenditure with respect to artistic works. The allowance is 150% of the actual expenditure incurred, capped at a maximum of TT$450,000.

Sports Allowance. A company that promotes or sponsors sporting activities or events as well as sports persons is allowed an allowance of 150% of expenditure incurred with respect to such promotion or sponsorship. This allowance is limited to a maximum of TT$450,000.

Audio, Visual or Video Productions Allowance. If a company sponsors audio, visual or video productions for the purpose of local education or the reflection of local culture on radio or television, it may claim an allowance equal to 150% of the actual expenditure incurred with respect to such activities. The maximum allowance is TT$450,000. A company must obtain a certificate to claim this allowance.

Aggregate Limitation. The maximum aggregate allowance that may be claimed each year is TT$450,000, except that production companies may claim the Audio, Visual or Video Productions Allowance plus one of the other allowances, up to an aggregate allowance of TT$900,000.

Inventories. Inventory may be valued at cost or market value, whichever is lower. A method of stock valuation, once properly adopted, is binding until permission to change is obtained from the Board of Inland Revenue.

Bad Debts. Trading debts that have become bad, and are proven to be so to the satisfaction of the Board of Inland Revenue, may be deducted from taxable income. In addition, doubtful debts are deductible to the extent that they have become bad during the year. If these debts are subsequently collected, they are included in taxable income in the year of recovery.

Tax Depreciation (Capital Allowances)

Depreciation (Wear-and-Tear) Allowances. Depreciation is calculated on the depreciated value of fixed assets at the beginning of each accounting year.

Industrial buildings used in certain specified industries qualify for depreciation allowances of 2% of cost. Buildings completed before 1 January 1995 that are used in retail or wholesale trade or as office buildings or rental properties are not entitled to any depreciation allowances, unless they are used exclusively to house plant and machinery and the amounts claimed for the depreciation allowance are reasonable.

Buildings or structures completed on or after 1 January 1995 and capital improvements made to buildings or structures on or after that date qualify for a 10% depreciation allowance under the declining-balance method. However, the allowance granted is tailored to reflect the period during which the building or structure is used in the production of income.

Other assets are depreciated using the declining-balance method. The depreciation rates vary depending on when the assets were acquired. The following are the applicable rates.

Asset	Acquired before 1 January 1995 (%)	Acquired on or after 1 January 1995 (%)
Office equipment	10 to 12.5	10 or 25
Motor vehicles	25	25
Computers	25	33.3
Plant and machinery		
Light	10 to 20	10 or 25
Heavy	20 to 25	25 or 33.3
Aircraft	40	40
Household furniture	10 to 12.5	10

The maximum cost for calculating depreciation on private automobiles used for business purposes is TT$100,000.

Balancing Adjustments. When assets on which depreciation allowances have been claimed are disposed of, an adjustment to taxable income may be required. If the asset is sold for more than the remaining undepreciated balance, the excess may have to be included in taxable income (a balancing charge). The excess included in taxable income is limited to the depreciation allowances granted. If the asset is sold for less than the undepreciated balance, a further amount of depreciation (balancing allowance) is granted.

Proceeds from disposals of assets acquired on or after 1 January 1995 are deducted from the residual value of the pool for that particular class of assets. The maximum amount of the deduction from the pool is the original cost of the asset. Under the pool system, balancing charges or balancing allowances arise only on the disposal of all of the assets in a particular class. Buildings are not pooled.

Initial Allowance. A 10% initial allowance is granted on industrial buildings used in manufacturing. Machinery and equipment used in manufacturing also qualify for an initial allowance at a rate of 60% in the year the expenditure is incurred. Lessees of plant and machinery may also claim this initial allowance if the lease transfers substantially all of the risks and rewards of ownership to the lessee. The rate of the 60% initial allowance is reduced to 20% for plant and machinery used in the production of sugar, petroleum or petrochemicals or in an industry enjoying concessions under the Fiscal Incentives Act.

The initial allowance reduces the asset's value for purposes of depreciation in subsequent periods.

Relief for Losses. Losses carried forward can be written off to the full extent of taxable profits for the tax year. The unrelieved balance can be carried forward indefinitely. No loss carryback is allowed.

Groups of Companies. Under group relief provisions in the tax law, a member of a group of companies (the surrendering company) may surrender current trading losses to another member of the group (the claimant company). The claimant company may then claim deductions for the losses in calculating its taxable income. To qualify for group relief, the surrendering company and the claimant company must be resident in Trinidad and Tobago and must be members of the same group throughout the respective accounting periods of each of the companies. Two companies are members of the same group if one is a wholly owned subsidiary of the other or both are wholly owned subsidiaries of a third company. The reduction in tax payable by the claimant company is limited to 25% of the tax that would have been payable if the relief had not been granted.

Group relief is available only if the claimant company has used all of its available capital allowances and offset its loss carryforwards against its current income.

D. Value-Added Tax

A value-added tax (VAT) applies to most products supplied and services rendered in Trinidad and Tobago. The standard rate is 15%. A 0% rate applies to certain items, including exports. Imports of inputs by highly capital intensive manufacturing corporations are exempt from VAT if the corporation is declared an approved enterprise under the Fiscal Incentives Act and if at least 80% of the production of the corporation is exported.

Companies and other businesses are required to register for the tax if their turnover exceeds TT$200,000 a year.

E. Miscellaneous Matters

Foreign-Exchange Controls. The Trinidad and Tobago dollar floats. Commercial banks and licensed foreign-exchange dealers set the exchange rate. Residents may hold foreign currencies for their own account. Profits may be repatriated without the approval of the Central Bank of Trinidad and Tobago.

Debt-to-Equity Rules. In general, no thin-capitalization rules are imposed in Trinidad and Tobago. However, if a local company pays or accrues interest on securities issued to a nonresident company and if the local company is a subsidiary of, or a fellow subsidiary in relation to, the nonresident company, the interest is treated as a distribution and may not be claimed as a deduction against the profits of the local company.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
CARICOM treaty (f)			
Antigua and Barbuda	0	15	15
Barbados	0	15	15
Belize	0	15	15
Dominica	0	15	15
Grenada	0	15	15
Guyana	0	15	15
Jamaica	0	15	15
Montserrat	0	15	15
St. Kitts and Nevis	0	15	15
St. Lucia	0	15	15
St. Vincent and the Grenadines	0	15	15
Canada	5/15 (e)	10	10
Denmark	10/15 (c)	15	15
France	10/15 (d)	10	10
Germany	10/15 (c)	10 (a)	10
India	10	10	10
Italy	10/15 (c)	10	5
Norway	10/15 (c)	15	15
Sweden	10/15 (c)	10 (a)	20
Switzerland	10/15 (d)	10	10
United Kingdom	10/15 (c)	10	10
United States	10/15 (d)	15 (a)	15
Venezuela	5/10 (c)	15	10
Nontreaty countries	10/15 (b)	20	20

(a) The rate applies to interest paid to banks and financial institutions. Interest paid to other recipients is taxed at 15% (Germany and Sweden) or 20% (United States).
(b) See footnote (d) to Section A.
(c) The lower rate applies if the recipient is a corporation owning 25% or more of the voting power of the distributing company.
(d) The lower rate applies if the recipient is a corporation owning 10% or more of the voting power of the distributing company.
(e) The lower rate applies if the recipient is a corporation owning 50% or more of the voting power of the distributing company.
(f) The listed countries have ratified the Caribbean Community and Common Market (CARICOM) double tax treaty.

TUNISIA

(Country Code 216)

TUNIS **GMT +1**

AMC Ernst & Young
8, Rue du Sénégal
Place d'Afrique
1002 Tunis
Tunisia

(71) 792-922
Fax: (71) 782-212

Corporate Tax

Fayçal Charfeddine — **(71) 792-922**, **E-mail: faycal.charfeddine@tn.ey.com**

Imed Chorfi — **(71) 792-922**, **E-mail: imed.chorfi@tn.ey.com**

★ Ridha Ben Zaied — **(71) 846-987**, **Mobile: (98) 303-164**, **E-mail: ridha-ben.zaied@tn.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	0
Interest	20 (a)(b)
Royalties	15 (c)
Gross Rents	5/10/15 (d)
Management Fees	2.5/15 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) Applicable to payments to residents and nonresidents.
(b) The rate is 2.5% for interest paid on loans made by nonresident banks.
(c) Applicable to payments to nonresidents. For further details, see Section B.
(d) The 5% rate applies to payments to hotels. The 10% rate applies to payments to residents. The 15% rate applies to payments to nonresidents.
(e) The 2.5% rate applies to payments to residents; the 15% rate applies to payments to nonresidents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income. A company is considered to be resident in Tunisia if it satisfies one of the following conditions:

- Its head office is located in Tunisia;
- It has a permanent establishment in Tunisia; or
- It is engaged in activities in Tunisia for more than 183 days in any 365-day period.

Nonresident companies are subject only to final withholding taxes on certain types of income derived from Tunisia, including interest and royalties (see *Royalties and Similar Payments* below).

Tax Rates. The corporate income tax rate is 35%.

The minimum tax payable is the lesser of TD 2,000 or 0.5% of annual turnover. The minimum tax may be credited against the corporate income tax payable for the current financial year, but it is not refundable.

Tax benefits, such as exemptions from certain taxes and duties, may be granted to companies established in a Tunisian Free Zone and to companies engaged wholly or partly in exporting.

Capital Gains. Capital gains are included in ordinary income and are taxed at the regular corporate income tax rate.

Administration. The financial year is generally the calendar year.

Tax returns must be filed by the 25th day of the third month following the end of a company's financial year. Consequently, for companies using the calendar year as their financial year, tax returns are due by 25 March.

Beginning with the second year of their activities, companies must pay tax in three installments. Each installment is equal to 30% of the corporate income tax due for the preceding financial year. The installments are payable during the first 25 days of the sixth, ninth and twelfth months following the end of the financial year. The balance of tax due must be paid when a tax bill (a document that specifies the amount of tax due and when the tax must be paid) is filed.

Dividends. Dividends are not subject to tax in Tunisia.

Royalties and Similar Payments. The following types of payments to nonresidents are subject to a 15% withholding tax:
- Copyright royalties;
- Payments for the use of, or the right to use, patents, trademarks, designs, models, plans, formulas, manufacturing processes and movies, including proceeds received from sales of such items;
- Payments for the use of, or the right to use, industrial, commercial, agricultural, harbor or scientific equipment, except for amounts paid to charter a plane or vessel for international operations;
- Payments for information concerning industrial, commercial or scientific experience; and
- Payments for technical or economic studies or for technical assistance.

Companies wholly engaged in exporting (as defined) are exempt from the withholding tax on royalties.

Foreign Tax Relief. Tunisia does not grant any relief for foreign taxes.

C. Determination of Trading Income

General. Taxable income is based on financial statements prepared in accordance with generally accepted accounting principles, subject to certain adjustments.

Business expenses are generally deductible unless specifically disallowed by the tax law. The following expenses are deductible:
- All types of expenses relating to production or the operation of a business;
- Tax depreciation (see *Tax Depreciation* below);
- Attendance fees paid to members of the board of directors or the supervisory board, limited to the amount of expenses incurred by these individuals in carrying out their duties;
- Interest paid to shareholders on loans if the amount of the loan does not exceed 50% of authorized capital, if the interest rate does not exceed 12% and if the share capital is fully paid up;
- Donations and subsidies paid to charities and organizations established for the public good that are engaged in philanthropic, educational, scientific, social or cultural activities, up to a maximum deduction of 2% of gross turnover;
- Amounts paid to social funds established for employees in accordance with the law; and
- Gifts and meal expenses, up to a maximum deduction of the lower of 1% of annual gross income or TD 20,000.

Inventories. Inventories are valued at cost.

Provisions. Doubtful debts of up to TD 100 per debtor are deductible if they were due at least one year prior to the date on which they were written off and if the company has had no further business relationship with the debtor. Reserves for doubtful debts for which recovery is being pursued in the courts are deductible, with a maximum deduction of 20% of taxable income.

Provisions for finished goods are deductible, up to 50% of the cost of the items.

Tax Depreciation. Under the Tunisian Tax Code, depreciation must be computed using the straight-line method. Depreciation is deductible only if it is recorded in the accounts and if it is in accordance with the customs of companies carrying out the business activity (*les usages*).

The following are some of the standard rates of depreciation allowed in Tunisia.

Asset	Rate (%)
Furniture and tools	10
Cars and movable equipment	20
Engines and ships	20
Computer hardware	15
Computer software	33

For equipment other than transportation equipment, the depreciation rates may be increased by 50% if the equipment is used at least 16 hours a day and may be doubled if it is used 24 hours a day. Computer hardware with a useful life of five or more years may be depreciated at a rate of 2.5 times the normal straight-line rates.

The costs of setting up a business may be amortized at a rate of 33% if the costs are very high. Otherwise, 100% of the costs may be deducted in the year of expenditure. Assets worth less than TD 200 are fully deductible in the year of acquisition.

Relief for Losses. Losses may be carried forward three years, but may not be carried back.

Groups of Companies. Tunisian law does not provide for the fiscal integration of related parties equivalent to a consolidated filing position.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, on all transactions carried on in Tunisia, including imports	
Normal rate	18%
Highest rate	29%
Lowest rate	6%
Tax on industrial, professional and commercial entities; imposed on gross income of companies subject to corporate income tax	0.2%
Professional training tax, on salaries, allowances and fringe benefits paid by an employer	2%
Fund for the Promotion of Employee Housing (Fonds pour la Promotion du Logement des Salariés or FORPROLOS), on salaries, allowances and fringe benefits paid by an employer	1%
Social security contributions, on employee's annual salary; paid by	
Employer	16%
Employee	7.75%
Registration duties	
Work contracts	TD 10 per page
Company formation	TD 100 per copy of the articles of association

E. Foreign-Exchange Controls

For companies wholly or partially owned by nonresidents, the remittance of benefits, dividends, attendance fees and interest payments to nonresidents is guaranteed. Tunisian branches of foreign companies may freely remit their after-tax profits. Remittances must be made through a registered intermediary, which is generally a bank. Foreign loans not exceeding TD 3 million a year may be obtained by Tunisian companies.

F. Treaty Withholding Tax Rates

	Dividends (t) %	Interest %	Royalties %
Algeria	20/30	15	15
Austria	20 (a)	10	10/15 (j)
Belgium	15	15	5/15/20 (b)(k)
Canada	15	15	15/20 (b)(l)

	Dividends (t) %	Interest %	Royalties %
Denmark	15	12	15
Egypt	–	10	15
France	–	12	0/5/15/20 (b)(m)
Germany	15 (a)	10	10/15 (n)
Italy	15	12	5/12/16 (o)
Korea	–	12	15
Morocco	– (c)	– (i)	15
Netherlands	20 (v)	10	11
Norway	20	12	5/15/20 (b)(p)
Romania	12	10	12
Senegal	– (c)	15	–
Spain	15 (d)	10	10
Sweden	20 (e)	12	5/15 (q)
Switzerland	10	10	10
Turkey	15 (f)	10	10
United Kingdom	20 (g)	10/12 (s)	15
United States	20 (h)	15	10/15 (r)
Nontreaty countries	0	20 (u)	15 (w)

(a) The rate is 10% if the recipient is a company that holds at least 25% of the capital of the payer.
(b) Tunisia applies a 15% rate instead of the highest rate.
(c) Dividends are taxed at the domestic rate of the country from which the dividends originate.
(d) The rate is 5% if the beneficial owner of the dividends is a company that holds directly at least 50% of the capital of the payer.
(e) The rate is 15% if the recipient is a company that owns at least 25% of the capital of the payer.
(f) The rate is 12% if the recipient is a company that owns at least 25% of the capital of the payer.
(g) The rate is 12% if the beneficial owner is a company that controls directly at least 25% of the voting power of the payer.
(h) The rate is 14% if the recipient is a company that owns at least 25% of the capital of the payer.
(i) Taxed at the domestic rate of the country of domicile of the recipient.
(j) The 10% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, but not including cinematographic and television films. The 15% rate applies to royalties paid for the use of or right to use technical and economic studies; cinematographic and television films; patents, trademarks, designs and models, plans, and secret formulas and processes; industrial, commercial and scientific equipment; or information concerning agricultural, industrial, commercial or scientific experience.
(k) The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works. The 15% rate applies to royalties or other amounts paid for the use of or right to use patents, designs and models, plans, and secret formulas and processes; information relating to industrial, commercial or scientific experience; technical and economic studies; and technical assistance relating to the use of the above-mentioned items. The 20% rate applies to royalties or other amounts paid for the use of or right to use trademarks; cinematographic and television films; and agricultural, industrial, harbor, commercial or scientific equipment.
(l) The 20% rate applies to royalties paid for the use of or right to use trademarks, cinematographic and television films or videotapes for television, and industrial, harbor, commercial or scientific equipment. The 15% rate applies to other royalties.
(m) The 0% rate applies to amounts paid to a public body of the other contracting state for the use of cinematographic films or radio and television broadcasts. The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, but not including cinematographic and television films. The 15% rate applies to royalties or other amounts paid for the use of patents, designs and models, plans, and secret formulas and processes; information relating to industrial, commercial or scientific experience; or technical and economic studies. The 20% rate applies to royalties or other amounts paid for the use of or right to use trademarks; cinematographic and television films; and agricultural, industrial, harbor, commercial or scientific equipment.

(n) The 10% rate applies to royalties or other amounts paid for the use of or right to use the following: copyrights of literary, scientific or artistic works, but not including cinematographic and television films; information concerning agricultural, industrial, commercial or scientific experience; and economic and technical studies. The 15% rate applies to royalties paid to use patents, trademarks, designs and models, plans, secret formulas and processes, and cinematographic and television films.

(o) The 5% rate applies to royalties relating to literary, scientific or artistic works. The 16% rate applies to royalties relating to trademarks, cinematographic and television films, or industrial, commercial or scientific equipment. The 12% rate applies to other royalties.

(p) The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, but not including cinematographic and television films. The 15% rate applies to royalties or other amounts paid for the use of patents, designs and models, plans, and secret formulas and processes; information relating to industrial, commercial or scientific experience; or technical or economic studies. The 20% rate applies to royalties or other amounts paid for the use of or the right to use trademarks; cinematographic and television films; and agricultural, industrial, harbor, commercial or scientific equipment.

(q) The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, not including motion picture and television films. The 15% rate applies to other royalties.

(r) The 10% rate applies to royalties paid for the use of or the right to use industrial, commercial or scientific equipment, or to remuneration for the performance of accessory technical assistance for the use of property or rights described above, to the extent such technical assistance is performed in the contracting state where the payment for the property or right has its source. The 15% rate applies to royalties or other amounts paid for the use of or right to use copyrights of literary, artistic and scientific works, including cinematographic and television films and videotapes used in television broadcasts; pat-ents, trademarks, designs and models, plans, and secret formulas and processes; and information relating to industrial, commercial or scientific experience.

(s) The 10% rate applies if the beneficial owner of the interest is a bank or other financial institution. The 12% rate applies to other interest.

(t) Under Tunisian domestic law, dividends are not subject to tax. Consequently, withholding tax is not imposed on dividends paid from Tunisia to other countries.

(u) A 2.5% rate applies to interest paid to banks.

(v) The rate is 0% if the beneficiary of the dividends owns at least 10% of the payer.

(w) For further details, see Section B.

TURKEY

(Country Code 90)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@tr.ey.com

The e-mail address varying from the standard format is listed below the respective person's name.

ISTANBUL **GMT +3**

Ernst & Young
Büyükdere Caddesi,
Beytem Plaza
80220 Sisli
Istanbul
Turkey

(212) 315-3000
Fax: (212) 234-1067

International Tax

★ Mustafa Çamlica — **(212) 315-3000**, **Mobile: (532) 612-6181**

Corporate Tax

Erdal Çalikoglu	**(212) 315-3000** **Mobile: (542) 215-7854**
Feridun Güngör	**(212) 315-3000** **Mobile: (532) 342-1203**

Human Capital and Indirect Tax

Sami Sener	**(212) 315-3000** **Mobile: (532) 295-0306** **E-mail: sami.b.sener@tr.ey.com**

This chapter reflects information as of 1 January 2004. Readers are strongly encouraged to obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	10 (a)
Interest	
From Repurchase (REPO) Agreements	20 (b)(c)
From Turkish Government Bonds and Treasury Bills	0
From Private Sector Bonds	12 (b)
From Deposit Accounts	7 to 24 (b)(d)
From Loans Made by Foreign Financial Institutions	0 (e)
Royalties from Patents, Know-how, etc.	20/25 (f)(g)
Professional Fees	
Petroleum-Exploration Activities	5 (f)(h)
Other Activities	20 (f)(h)
Salaries	25 (f)
Progress Billings on Long-Term Construction and Repair Contracts	5 (f)(i)
Payments on Financial Leases	1 (f)
Real Estate Rental Payments	20 (b)
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (j)

(a) This withholding tax is imposed on dividends distributed to resident and nonresident companies (except for dividends paid to Turkish permanent establishments or permanent representatives of nonresident companies) and to resident and nonresident individuals. For further details, see Section B. Profits derived by group B securities investment funds and securities investment companies (see Section C) are subject to a 10% withholding tax, regardless of whether the profits are distributed.

(b) This withholding tax applies to resident and nonresident companies and individuals.

(c) This withholding tax applies if the repurchase agreement is based on a state bond or treasury bill.

(d) Special withholding tax rates apply to interest derived from deposit accounts opened or renewed (in Turkey, a deposit account is renewed on the maturity date if no contrary instructions are provided by the owner of the account) on or after 31 December 2003. The following are the rates for deposit accounts denominated in foreign currencies.

Maturity	**Rate (%)**
Less than 1 year	24
1 year and over	18

For deposit accounts denominated in Turkish lira, the withholding tax rate is 18% for demand deposits. For time deposits, the following are the rates.

Maturity	Rate (%)
Up to 3 months	18
Between 3 and 6 months	16
Between 6 and 12 months	12
1 year and over	7

(e) Principal and interest on loans made by foreign financial institutions with an average maturity of less than one year are subject to a 3% contribution to the Resource Utilization Support Fund (RUSF).
(f) This withholding tax applies to nonresident companies.
(g) The 20% rate applies to payments under licenses of rights. The 25% rate applies to payments on sales of rights.
(h) This withholding tax is an optional final tax imposed on these payments. Alternatively, net income is subject to corporation tax at a rate of 30%.
(i) Credited against final tax liability.
(j) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies whose legal or business headquarters (as stated in their articles of association) are located in Turkey or whose operations are centered and managed in Turkey are subject to corporation tax on worldwide income. In Turkish tax legislation, they are described as full liability taxpayers; they are also known as resident companies.

Taxable income of limited liability taxpayers (nonresident companies or taxpayers other than full liability taxpayers) is comprised of the following:
- Salaries obtained in Turkey;
- Professional fees obtained in Turkey;
- Profits from commercial, agricultural and industrial enterprises in Turkey (if they have an establishment or a permanent representative in Turkey);
- Income arising from rental of real estate, rights and movable property in Turkey;
- Income obtained in Turkey from various types of securities; and
- Other income and revenue obtained in Turkey.

Rates of Corporate Tax. Companies are subject to corporation tax at a rate of 30%.

Effective from 1 January 2004, the 10% surtax on the corporation tax and on withholding taxes no longer applies.

Capital Gains. Capital gains derived by all companies, including branches of foreign companies, are included in ordinary income and are subject to corporation tax. Capital gains are generally computed by subtracting the cost of the asset, including the related expenses paid by the seller, from the selling price.

On disposals of assets, to take into account the effects of inflation on the amount of capital gains, the historical cost is increased by applying the rate of increase in the wholesale price index of the Institute of State Statistics since the date of acquisition, excluding the month of disposal.

Capital gains derived from sales of depreciable fixed assets are not taxable to the extent the gains are reinvested in new fixed assets. However, the amount of gains used to acquire new assets is subtracted from the depreciable cost of the new asset. Capital gains that will be used for reinvestment are transferred to a special reserve account. If the special reserve is not used to finance the purchase of similar new assets in the following three years, the balance in the reserve is included in taxable income.

Capital gains derived from sales of shares by nonresident companies without a permanent establishment in Turkey are subject to corporation tax. In computing these gains, changes in exchange rates are not taken into account, and the indexing of the cost basis described above does not apply.

Administration. Companies file tax returns based on their financial accounting year.

Tax returns are submitted to the relevant tax office during the fourth month after the end of the accounting period. The return must be accompanied by a balance sheet and an income statement.

Effective from 1 January 2004, corporation tax due must be paid by the due date for the filing of the tax return.

Companies must make quarterly payments of provisional (advance) corporation tax during the tax year. These payments are each equal to 30% of the taxable income for the quarter. The provisional tax may be offset against the tax shown on the annual corporation tax return.

If provisional corporation tax exceeds the tax payable, the excess can be deducted from the company's other tax liabilities or it can be refunded.

Dividends. Dividends received from resident companies are not subject to corporation tax.

Effective from 24 April 2003, withholding tax is not imposed on dividends paid by resident corporations to other resident corporations or to nonresident corporations receiving dividends through a permanent establishment or permanent representative in Turkey. A 10% withholding tax is imposed on dividends paid by resident corporations to the following recipients: resident individuals; resident recipients who are not subject to corporation tax and income tax, or are exempt from such taxes; nonresident individuals; nonresident corporations (excluding those receiving dividends through a permanent establishment or permanent representative in Turkey); and nonresident recipients who are exempt from corporation tax and income tax.

Profits derived by group B securities investment funds and securities investment companies (see Section C) are subject to a 10% withholding tax, regardless of whether the profits are distributed.

Foreign Tax Relief. Resident companies may credit against corporation tax foreign taxes paid on income earned abroad and received in Turkey, but the amount of the credit may not exceed the Turkish corporation tax payable on such income.

C. Determination of Trading Income

General. The base for corporation tax is revenues of the enterprise after deduction of expenses. However, the following items are not subject to corporation tax: dividends derived from interests in other full liability taxpayers; and proceeds derived by a corporation from the sale of its preferred shares, and profits derived by a joint stock company from the sale of its shares that are issued when the company is established or from the sale of its shares at a price exceeding the par value of the shares.

The following corporate tax exemptions apply to Turkish and foreign investment funds and companies:

- Profits derived by securities investment funds (excluding foreign-exchange funds) and by securities investment companies from transactions involving their operating portfolio if at least 25% of such portfolio consists of stock certificates. Funds and companies meeting this condition are called group A securities investment funds and securities investment companies.
- Profits derived by securities investment funds (excluding foreign-exchange investment funds) and securities investment companies, other than the funds and companies described in the preceding item, from transactions involving their operating portfolio. These funds and companies are called group B securities investment funds and securities investment companies. However, the profits described in this item are subject to withholding tax at a rate of 10%.
- Profits derived by risk capital investment funds or companies from transactions involving their operating portfolio.
- Profits derived by real estate investment funds or companies from transactions involving their operating portfolio.
- Profits derived by designated private pension investment funds.

All business-related expenses are deductible, with the following exceptions:

- Interest on shareholder's equity or on advances from shareholders;
- Reserves set aside from profits (except technical reserves of insurance companies and doubtful debts from debtors against whom legal proceedings have been instituted);
- Corporation tax and all monetary and tax penalties and interest imposed on such tax;
- Discounts or other losses arising from selling the corporation's own securities for less than par value; and
- For nonresident companies, commissions, interest and other charges paid to headquarters or other offices outside Turkey on purchases or sales made on their behalf, as well as allocated charges to contribute to losses or expenses of headquarters or branches outside Turkey.

Provisions. Tax-deductible provisions include provisions for bad debts, for abandoned claims and for insurance technical reserves.

Tax Depreciation. The straight-line depreciation method and the declining-balance method of depreciation are allowed. The straight-line depreciation rates for land and buildings range from 2% to 10%. For other assets, the maximum straight-line depreciation rate is 20%. The Ministry of Finance may allow higher rates for certain types of assets. A company may change from the declining-balance method to the straight-line method (but the reverse change is not permitted) at any time during the life of a fixed asset. A company may exercise this option on an asset-by-asset basis.

For company automobiles, tax depreciation for the year of purchase is calculated on a monthly basis. For example, if an automobile that was purchased for TL 1 billion is depreciated using a straight-line depreciation rate of 20%, the regular depreciation for a full year is TL 200 million. Under the applicable rules, if such an automobile is acquired in November, tax-deductible depreciation for the year of acquisition is calculated as follows:

$$\frac{2 \text{ months}}{12 \text{ months}} \times \text{TL } 200 \text{ million} = \text{TL } 33{,}333{,}333$$

The balance of the regular depreciation for the year of acquisition is deductible in the last year of depreciation of the asset, together with the regular depreciation for the last year.

Investment Allowance. Effective from 24 April 2003, Investment Incentive Certificates are no longer required to benefit from the investment allowance. In addition, the rate of the allowance is fixed at 40%. However, expenditure made with respect to investments for which applications for Investment Incentive Certificates were filed before 24 April 2003 may continue to be subject to the prior rules. Taxpayers may elect to benefit from the new rules by filing a written notification with their respective tax office.

Under the new rules, all expenditures on fixed assets qualify for the investment allowance, except for expenditure on the following assets:
- Commercial assets with a value of less than TL 5 billion;
- Commercial assets previously used either overseas or locally (excluding floating docks and vessels less than 12 years old);
- Intangible assets;
- Tools, equipment, furnishings and fixtures and office essentials that are not directly related to the production of goods and the rendering of services;
- Commercial assets acquired free of charge;
- Buildings purchased or constructed (excluding those that are built to be used as a location for the production of goods and rendering of services);
- Land and plots (land made suitable for construction by the establishment of a cadastral plan);
- Passenger vehicles and similar land vehicles (for example, station wagons), yachts, cutters, boats and similar motor vessels, and air vehicles, such as planes and helicopters; and
- Commercial assets purchased for use in overseas investments.

Relief for Losses. In general, losses may be carried forward for five years. Losses cannot be carried back. An order of priority applies for the use of losses and exemptions to offset taxable income for the year. Past years' losses must be used first, then exemptions and finally investment allowances.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on goods delivered and services rendered, including imported goods and services, communications, conveyances by pipeline and certain leases; exports are excluded	
General rate	18
Rates on other items	1/8

Nature of Tax	Rate (%)
Local withholding taxes, on amounts paid to nonresident corporations for advertising, building construction, entertainment and petroleum products	Various
Banking and insurance transactions tax, on all types of payments received by banking and insurance companies with respect to all types of transactions, except for financial leasing transactions	
Interbank deposit accounts	1
Cambio transactions	0.1
Other payments	1 to 5
Special consumption tax; imposed on the importation and the initial acquisition of certain goods	
Cars	27 to 50
Trucks	4
Planes	0.5
Sailboats	6.7 to 8
Alcoholic beverages	48.7 to 212
Tobacco	49.5
Luxury goods	6.7
Social security contributions, on monthly wages up to TL 637 billion; paid by	
Employer for	
Expatriates (not covered in home country)	8.5
Turkish citizens	19.5
Employee	
Expatriates (not covered in home country)	5
Turkish citizens	14
Unemployment insurance contributions, paid on same base as social security contributions	
Employer	2
Employee	1

E. Miscellaneous Matters

Foreign-Exchange Controls. Turkey has significantly relaxed its foreign-exchange controls in recent years. Local foreign-exchange accounts are now permitted, and the holders of such accounts are not required to disclose the origin of the funds.

Law No. 4875 guarantees the remittance of profits. The company's bank may transfer profits, provided the company subsequently submits to the bank its approved tax statement and its tax accrual and payment slips. This law also guarantees the remittance of the proceeds from the liquidation of an investment.

Fees and royalties from management agreements, technical services agreements and license contracts may be remitted abroad, and applicable withholding tax must be deducted.

Foreign investment partnerships and funds may invest in Turkish securities and freely remit dividends, interest, profits and capital.

Transfer Pricing. Transactions between related parties specified in the Corporation Tax Law should be at arm's length. The Turkish tax authorities may adjust the taxable income of a company by substituting arm's length income and expense amounts for transactions between related parties not carried out at arm's length.

Debt-to-Equity Rules. Under the tax law, a loan to a company from an affiliated company or from a shareholder may be recharacterized as "disguised capital," and consequently a deduction for interest paid on the loan may be disallowed. Court decisions and other interpretations have indicated that this legislative provision applies to loans of more than one year and that the loan is generally considered "disguised capital" if the borrower's debt-to-equity ratio exceeds 1:2.

The Undersecretariat of Treasury establishes minimum equity requirements for financing investments that qualify for incentives. Communiqué No. 02/1 concerning encouragement of investment projects provides a general minimum equity requirement of 20%. However, this requirement does not apply to the following investments: build-operate-transfer investments; investments by public institutions; investments made through financial leasing companies; investments in the building of shipyards, ships and yachts; and investments in the importation of planes and helicopters.

Mergers and Acquisitions. Mergers, acquisitions and demergers may be tax-free if the transaction involves two resident companies and if the assets are transferred at book value.

F. Treaty Withholding Tax Rates

The following are the maximum withholding rates for dividends, interest and royalties provided under the treaties.

	Dividends %	Interest %	Royalties %
Albania	5/15 (a)	10	10
Algeria	12	10	10
Austria	25/35 (b)	15	10
Azerbaijan	12	10	10
Belarus	10/15 (c)	10	10
Belgium	15/20 (d)	15	10
Bulgaria	10/15 (c)	10	10
China	10	10	10
Croatia	10	10	10
Denmark	15/20 (e)	15	10
Egypt	5/15 (a)	10	10
Finland	15/20 (e)	15	10
France	15/20 (d)	15	10
Germany	15/20 (d)	15	10
Hungary	10/15 (c)	10	10
India	15	10/15 (j)	15
Indonesia	10/15 (c)	10	10
Israel	10	10	10
Italy	15	15	10
Japan	10/15 (c)	10/15 (k)	10
Jordan	10/15 (c)	10	12
Kazakhstan	10	10	10
Korea	15/20 (e)	10/15 (l)	10

	Dividends %	Interest %	Royalties %
Kuwait	10	10	10
Kyrgyzstan	10	10	10
Lithuania	10	10	5/10
Macedonia	5/10 (f)	10	10
Malaysia	10/15 (c)	15	10
Moldova	10/15 (c)	10	10
Mongolia	10	10	10
Netherlands	5/10 (o)	10/15 (l)	10
Northern Cyprus	15/20 (e)	10	10
Norway	25/30 (g)	15	10
Pakistan	10/15 (c)	10	10
Poland	10/15 (c)	10	10
Romania	15	10	10
Russian Federation	10	10	10
Singapore	10/15 (c)	7.5/10 (n)	10
Slovak Republic	5/10 (f)	10	10
Sweden	15/20 (e)	15	10
Tajikistan	10	10	10
Tunisia	12/15 (h)	10	10
Turkmenistan	10	10	10
Ukraine	10/15 (c)	10	10
United Arab Emirates	10/12 (i)	10	10
United Kingdom	15/20 (e)	15	10
United States	15/20 (d)	10/15 (m)	5/10
Uzbekistan	10	10	10
Nontreaty countries	10 (p)	– (q)	20/25 (q)

(a) The 5% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 15%.
(b) The 25% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 35%.
(c) The 10% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 15%.
(d) The 15% rate applies if the recipient owns more than 10% of the distributing corporation. Otherwise, the rate is 20%.
(e) The 15% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 20%.
(f) The 5% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 10%.
(g) The 25% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 30%.
(h) The 12% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 15%.
(i) The 10% rate applies if the recipient owns more than 25% of the distributing corporation. Otherwise, the rate is 12%.
(j) The 10% rate applies to interest on loans paid by banks and financial institutions. The 15% rate applies to other interest payments.
(k) The 10% rate applies to interest on loans granted by credit financing institutions. The 15% rate applies to other interest payments.
(l) The 10% rate applies to interest on loans with a term exceeding two years. The 15% rate applies to other interest payments.
(m) The 10% rate applies to interest on loans paid by banks, financial institutions and insurance companies. The 15% rate applies to other interest payments.
(n) The 7.5% rate applies to interest on loans paid by financial institutions. The 10% rate applies to other interest payments.
(o) The 5% rate applies to dividends distributed by Dutch companies, while the 10% rate applies to dividends distributed by Turkish companies.
(p) See Section B.
(q) See Section A.

UGANDA

(Country Code 256)

KAMPALA **GMT +3**

Ernst & Young **(41) 343-520, 343-524**
Ernst & Young House **Fax: (41) 251-736**
18 Clement Hill Road
P.O. Box 7215
Kampala
Uganda

Corporate Tax

Muhaise-Bikalemesa John	**(41) 343-520** **Mobile: (75) 760-082** **E-mail: john.muhaise-bikalemesa@ug.ey.com**
Patrick M. Kamau *(resident in Nairobi)*	**[254] (2) 715-300** **E-mail: patrick.m.kamau@ke.ey.com**
Muhammed Ssempijja	**(41) 343-520** **Mobile: (75) 240-012** **E-mail: muhammed.ssempijja@ug.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30 (a)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	15 (b)
Interest	15 (b)
Royalties from Patents, Know-how, etc.	15 (c)
Management Fees	15 (c)
Professional Fees	
Residents	4 (d)
Nonresidents	15
Payments by Government Entities, etc.	4 (e)
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) Applicable to capital gains on business assets only.
(b) Applicable to residents and nonresidents (see Section B for further details regarding the dividend withholding tax).
(c) Applicable to nonresidents.
(d) This withholding tax is imposed on resident professionals who are not registered for value-added tax.
(e) Imposed on payments in excess of U Sh 1 million to any person in Uganda for goods and services supplied to, or under a contract with, the government, a local authority, an urban authority or a company controlled by the government of Uganda.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident companies are subject to tax on their worldwide income, but tax credits are granted for taxes paid on foreign-source income (see *Foreign Tax Relief* below). Nonresident companies are subject to tax on income derived from sources in Uganda.

A company is resident in Uganda if any of the following applies:
- It is incorporated in Uganda;
- The management and control of its affairs are exercised in Uganda during the tax year; or
- During the tax year, it performs the majority of its operations in Uganda.

Rates of Corporate Tax. For the year ending 30 June 2004, the regular corporate income tax rate is 30%. For mining companies, the tax rate ranges from 25% to 45%, depending on the profitability of the mine.

Capital Gains. Capital gains on business assets are subject to tax at a rate of 30%.

Administration. Companies must file provisional income tax returns within six months after the beginning of the accounting period. This return includes an estimate of the income that will be earned by the company during the accounting period. The tax liability shown in the provisional return must be paid in two equal installments, which are due 6 months and 12 months after the beginning of the accounting period. A final tax return must be filed within four months after the end of the accounting period, and any balance of tax due must be paid when this return is filed.

Penalties are imposed if the final tax liability for the year exceeds the tax liability shown in the provisional return by more than 10%. However, the penalty for underestimating provisional tax does not apply to companies engaged in agricultural, plantation or horticultural farming.

Dividends. Dividends paid to residents and nonresidents are subject to a final withholding tax at a rate of 15%. However, this withholding tax does not apply if the recipient of the dividends is a resident company that controls at least 25% of the voting power in the payer. The withholding tax on dividends paid to nonresidents and to resident individuals is considered a final tax.

Foreign Tax Relief. A foreign tax credit is granted for foreign tax paid on foreign-source income taxable in Uganda. The credit is limited to the Uganda tax on such income.

C. Determination of Trading Income

General. Taxable income is the income reported in the companies' financial statements, subject to certain adjustments. Expenses are deductible to the extent that they are incurred in the production of taxable income.

Inventories. For tax purposes, inventory is valued at the lower of cost or market value.

Provisions. Only financial institutions and insurance companies may deduct specific provisions for bad debts.

Bad trade debts may be deducted when they are written off.

Tax Depreciation. Depreciation charged in companies' financial statements is not deductible for tax purposes, but capital allowances are granted.

Capital expenditure on buildings that are designated as industrial buildings, excluding the cost of the land, qualify for an annual industrial building allowance of 5%. Wear-and-tear allowances, which are calculated using the declining-balance method, are granted for machinery at the following rates.

Class	Assets	Rate (%)
I	Computers and data handling equipment	40
II	Automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicles designed to carry or pull loads of less than 7 tons, and construction and earth-moving equipment	35
III	Buses with a seating capacity of 30 or more passengers, goods vehicles designed to carry or pull loads of more than 7 tons, specialized trucks, tractors, trailers and trailer-mounted containers, and plant and machinery used in farming, manufacturing or mining operations	30
IV	Railroad cars, locomotives, equipment vessels, barges, tags and similar water transportation equipment, aircraft, specialized public utility plant, equipment and machinery, office furniture, fixtures and equipment, and depreciable assets not included in another class	20

An initial allowance at a rate of 50% is allowed for certain types of plant and machinery. The rate of the allowance is increased to 75% for capital expenditure in areas outside Kampala, Entebbe, Jinja, Namanve and Njeru. Initial allowances are granted in the year the plant and machinery is placed in service. Industrial buildings, excluding approved commercial buildings, qualify for an initial allowance of 20% if their construction begins on or after 1 July 2000.

An asset may qualify for both the initial allowance and the annual depreciation deduction. Both allowances are claimed in the same year with respect to an asset. The amount of the initial allowance is subtracted from the depreciable cost of the asset.

Relief for Losses. Losses may be carried forward for an indefinite period of time to offset future profits. No carryback is permitted.

Groups of Companies. There are no provisions for filing consolidated returns or for relieving losses within a group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	17
Social security contributions to the National Social Security Fund (NSSF), on salaries; the contributions are not tax deductible; paid by	
Employer	10
Employee	5

E. Foreign-Exchange Controls

The foreign-exchange market is now fully liberalized. A company can freely transfer foreign exchange into and out of Uganda without restriction.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Denmark	10/15*	10	10
Norway	10/15*	10	10
South Africa	10/15*	10	10
United Kingdom	15	15	15
Nontreaty countries	15	15	15

* The 10% rate applies if the recipient is a company resident in the other contracting state that owns at least 25% of the capital of the payer. The 15% rate applies to other dividends.

Uganda has signed a tax treaty with Italy, but this treaty has not yet been ratified.

UKRAINE

(Country Code 380)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ua.ey.com

KYIV **GMT +2**

Ernst & Young Ukraine	**(44) 490-3000**
19A Khreshchatyk Street	**Fax: (44) 490-3030**
Kyiv 01001	
Ukraine	

Office Managing Partner

Marco Groen	**(44) 490-3004**

Corporate Tax

Marco Groen	**(44) 490-3004**
Vica Borisenko	**(44) 490-3007**
	Mobile: (67) 507-7361
Vladimir Kotenko	**(44) 490-3006**
	Mobile: (67) 507-7369
Svitlana Musienko	**(44) 490-3027**
	Mobile: (67) 507-7378

Because of possible tax changes and the rapidly changing economic and political situation in Ukraine, readers should obtain further and more detailed information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	15*
Interest	15

Royalties	15
Freight	6
Other Ukrainian-Source Income	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

* See Section B.

B. Taxes on Corporate Income and Gains

Corporate Profits Tax. Ukrainian enterprises are subject to tax on their worldwide income and gains. Ukrainian enterprises are enterprises incorporated under the law of Ukraine. Foreign enterprises are subject to tax on income derived from sources in Ukraine and profits earned through a "permanent representation" in Ukraine. The concept of "permanent representation" under Ukrainian domestic law is similar to that of "permanent establishment" under most double tax treaties, but it has broader application.

Rates of Tax. The standard rate of tax is 25%, effective from 1 January 2004. Other rates apply to profits derived from certain specified activities.

Capital Gains. Capital gains are included in taxable income and taxed at the regular corporate rates.

Administration. Enterprises must report income for each quarter. Declarations of income for a quarter must be filed by the 40th day of the quarter following the reporting quarter; annual declarations must be filed by the 40th day of the year following the reporting year.

Dividends. Under the Corporate Profit Tax Law, a company distributing a dividend to a resident or nonresident must pay a 25% advance tax on the amount of the dividend. The distributing company pays the 25% tax in addition to the amount of the dividend and, accordingly, bears the cost of the tax. However, the distributing company may credit the 25% tax against its regular corporate profit tax.

Dividends distributed to nonresidents are also subject to withholding tax at a rate of 15%, unless an applicable double tax treaty specifies otherwise.

Ukrainian entities do not include dividends received in taxable income.

Foreign Tax Relief. Ukrainian enterprises may receive a credit for foreign taxes paid. This credit may be offset against Ukrainian tax imposed on the same income and is limited to the amount of such Ukrainian tax. The credit is granted only if the taxpayer submits a written confirmation of the tax authorities from the foreign country certifying payment of the foreign tax and if Ukraine has entered into a double tax treaty with the foreign country.

C. Determination of Taxable Profit

General. Taxable profit is not based directly on accounting profit but is instead calculated as adjusted gross income, less gross expenses and depreciation, each of which is prescribed in the law.

Income received (accrued) in foreign currency is translated into local currency at the rate of the National Bank of Ukraine (NBU) prevailing on the date of receipt (accrual) of such income.

In general, expenses incurred in connection with an enterprise's business activities are deductible for profits tax purposes. However, certain expenses, such as the expenses of operating automobiles, are not deductible, and the deductibility of other expenses, such as repairs and promotional expenses, is subject to limitations. In addition, see Section E for restrictions on the deductibility of certain other expenses.

Depreciation. Depreciation is calculated in accordance with the declining-balance method. For purposes of tax depreciation, fixed assets are divided into four groups and depreciated at the following rates.

Group	Assets	Quarterly Depreciation Rate (%)
1	Buildings and structures and their structural components; transmission devices; and residential buildings and their parts	2*
2	Motor vehicles (excluding automobiles) and their assemblies (spare parts); furniture; household electronic, optical, electromechanical appliances and instruments, including computer and other devices for automatic processing of information; information systems; and telephones, microphones and other office equipment and devices	10*
3	Fixed assets not included in the other groups	6*
4	Computer hardware and related software, telephones, microphones and radios	15

* These rates are effective from 1 January 2004.

Intangible assets are amortized on a straight-line basis for a period not exceeding 10 years.

Relief for Losses. A Ukrainian enterprise that incurs a loss for the reporting period may carry forward the loss without limitation. However, losses incurred before 1 January 2003 may be carried forward only for 12 periods (quarters) following the period of loss.

Groups of Companies. The Ukrainian tax law does not provide for the grouping of different legal entities.

The Ukrainian tax law allows the offset of profits and losses among the branches of a company. Under Ukrainian law, a branch is a subdivision of a company that does not have legal entity status and is located in a different region from the company. Branches are normally treated as separate taxpayers. However, a Ukrainian legal entity may elect to pay consolidated tax by taking into account the net profits or losses of its branches.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax	
Standard rate	17
Exports	0
Excise duties	Various
Customs duties	Various
Pollution tax	Various
Taxes, royalties and rent payments with respect to natural resources	Various
Land tax	Various

E. Miscellaneous Matters

Foreign-Exchange Controls. The Ukrainian currency is the hryvnia (UAH). The current exchange rate of the hryvnia against the U.S. dollar is approximately UAH 5.33 = US$1. A wide variety of controls are imposed with respect to the use, circulation and transfer of foreign currency within Ukraine and by Ukrainian legal entities. These controls, which affect almost all international business transactions, include the following:

- Transactions between Ukrainian residents and cash transactions within Ukraine may not be carried out in foreign currency;
- All statutory accounting and tax reporting, as well as tax payments, must be in Ukrainian currency;
- Wages and salaries paid to Ukrainian citizens must be in Ukrainian currency;
- Ukrainian currency may be used to purchase foreign currency;
- Ukrainian enterprises must obtain approval from the NBU to engage in certain business transactions, including the opening of bank accounts abroad, as well as payments for services rendered by nonresidents if the amount under the contract exceeds □50,000; and
- Fifty percent of most foreign currency receipts in bank accounts of Ukrainian legal entities is subject to mandatory conversion to local currency.

Debt-to-Equity Ratios and Other Restrictions on the Deductibility of Interest. No debt-to-equity or other thin-capitalization rules exist in Ukraine. However, the tax law provides that the deduction for interest paid by foreign-owned Ukrainian entities to nonresidents may not exceed the total of interest income received during the reporting period plus 50% of taxable profit, exclusive of interest income and expense. Ukrainian enterprises subject to this rule are entities that have 50% or more of their capital owned or managed (directly or indirectly) by nonresidents of Ukraine or by legal entities that are exempt from profits tax in accordance with the tax law. In addition, interest on a loan is deductible only if it is paid to a bank or financial institution.

Payments to Residents of Offshore Locations. Only 85% of the amount of payments of goods and services to residents of "offshore zones" is tax-deductible. The Cabinet of Ministers of Ukraine publishes an annual list of offshore zones. The current list includes more than 40 tax havens and countries with concessionary tax regimes.

Transfer Pricing. Transactions between related parties, as defined by the law, should be at arm's length. The Ukrainian tax authorities may adjust the taxable profit of a company by deeming income and expense amounts for transactions between related parties to be at fair market value.

F. Treaty Withholding Tax Rates

Ukraine honors the double tax treaties of the former USSR, except for treaties that have been superseded by new treaties concluded directly by Ukraine or renounced by the other party to the treaty. Ukraine is not a member of the Organization for Economic Cooperation and Development (OECD). As a result, the Ukrainian tax authorities may not follow commentary in the OECD model convention. The rates in the following table reflect the lower of the treaty rate and the rate under domestic tax law for dividends, interest and royalties paid from Ukraine to residents of treaty countries. Exceptions or conditions may apply, depending on the terms of the particular treaty.

	Dividends %	Interest %	Royalties %
Armenia	5/15 (d)	0/10 (e)	0
Austria	5/10 (d)	2/5 (h)	0/5 (k)
Azerbaijan	10	0/10 (e)	10
Belarus	15	10	15
Belgium	5/15 (d)	2/5 (h)	0/5 (k)
Bulgaria	5/15 (d)	10	10
Canada	5/15 (d)	0/10 (e)	0/10 (f)
China	5/10 (d)	10	10
Croatia	5/10 (d)	10	10
Cyprus	0	0	0
Czech Republic	5/15 (d)	5	10
Denmark	5/15 (d)	0/10 (e)	0/10 (g)
Egypt	12	0/12 (q)	12
Estonia	5/15 (d)	0/10 (e)	10
Finland	0/5/15 (m)	5/10 (n)	5/10 (l)
France	0/5/15 (a)	2/10 (j)	0/10 (k)
Georgia	5/10 (d)	10	10
Germany	5/10 (d)	2/5 (h)	5
Hungary	5/15 (d)	0/10 (e)	5
India	15	15	15
Indonesia	10/15 (d)	10	10
Iran	10	0/10 (e)	10
Italy	15	0	0
Japan	15	10	0/10 (b)
Kazakhstan	5/15 (d)	10	10
Korea	5/15 (d)	0/5 (q)	5
Kyrgyzstan	5/15 (d)	10	10
Latvia	5/15 (d)	0/10 (e)	10
Lithuania	5/15 (d)	10	10
Macedonia	5/15 (d)	10	10
Malaysia	15	15	10/15 (c)
Moldova	5/15 (d)	0/10 (e)	10
Mongolia	0	0	0
Netherlands	0/5/15 (i)	2/10 (j)	0/10 (k)
Norway	5/15 (d)	0/10 (e)	5/10 (l)
Poland	5/15 (d)	0/10 (e)	10
Romania	10/15	10	10/15

	Dividends %	Interest %	Royalties %
Russian Federation	5/15 (o)	10	10
Slovak Republic	10	10	10
Spain	15	0	0/5 (b)
Sweden	5/10 (d)	10	10
Switzerland	5/15 (d)	0/10 (p)	0/10 (k)
Turkey	10/15 (d)	0/10 (e)	10
Turkmenistan	10	10	10
United Kingdom	5/10 (d)	0	0
United States	5/15 (d)	0	10
Uzbekistan	10	10	10
Vietnam	10	0/10 (e)	10
Yugoslavia	5/10 (d)	0/10 (e)	10
Nontreaty countries	15	15	15

(a) The 0% rate applies to dividends paid to companies that hold directly at least 50% of the capital of the payer and have invested at least FF 5 million in the capital of the payer. The 5% rate applies to dividends paid to companies that own at least 20% of the capital of the payer. The 15% rate applies to other dividends.

(b) The 0% rate applies to royalties for copyrights of cultural works. The higher rate applies to other royalties.

(c) The 15% rate applies to royalties for copyrights including film and radio broadcasting. The 10% rate applies to other royalties.

(d) The lower rate applies to dividends paid to companies owning a minimum percentage of the capital of the payer (under the treaties, this percentage ranges from 10% to 50%). The higher rate applies to other dividends.

(e) The 0% rate applies to interest paid to government institutions of the contracting states. The 10% rate applies to other interest.

(f) The 0% rate applies to payments for the use of, or the right to use, computer software. The 10% rate applies to other royalties.

(g) The 0% rate applies to payments for the use of, or right to use, secret formulas or processes, or for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.

(h) The 2% rate applies to interest on loans from banks or financial institutions as well as to interest in connection with sales on credit of merchandise or services between enterprises or sales of industrial, commercial or scientific equipment. The 5% rate applies to other interest.

(i) The 0% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 50% of the capital of the payer of the dividends and have made an investment in the capital of the payer of at least US$300,000 or the equivalent in the currencies of the contracting states. The 5% rate applies to dividends paid to companies owning at least 20% of the payer. The 15% rate applies to other dividends.

(j) The 2% rate applies to interest on loans from banks and financial institutions as well as to interest in connection with sales on credit of machinery and equipment. The 10% rate applies to other interest.

(k) The 0% rate applies to payments for the use of, or the right to use, copyrights of scientific works, patents, trademarks, designs or models, plans, and secret formulas or processes, as well as to information concerning industrial, commercial or scientific experience. The higher rate applies to other royalties.

(l) The 5% rate applies to royalties paid for the use of, or right to use, patents, plans, or secret formulas or processes, as well as to information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.

(m) The 0% rate applies to dividends paid to companies that hold directly at least 50% of the capital of the payer and have made an investment of at least US$1 million in the capital of the payer. The 5% rate applies to dividends paid to companies owning at least 20% of the capital of the payer. The 15% rate applies to other dividends.

(n) The 5% rate applies to interest related to commercial credit. The 10% rate applies to other interest.

(o) The 5% rate applies to dividends paid to companies that have invested at least US$50,000 in the capital of the payer. The 15% rate applies to other dividends.

(p) The 0% rate applies to the following: interest paid to government institutions; interest on loans from banks; and interest in connection with sales on credit of machinery and equipment. The 10% rate applies to other interest.

(q) The 0% rate applies to interest paid to government institutions of the contracting states. The higher rate applies to other interest.

Ukraine has ratified double tax treaties with Brazil, Italy and Portugal, but these treaties are not yet in force. Ukraine has signed double tax treaties with Cyprus, Greece, India and Luxembourg, but these treaties have not yet been ratified. Ukraine has negotiated double tax treaties with Algeria, Malta, Mongolia, Pakistan and the United Arab Emirates, but these treaties have not yet been signed. Ukraine is negotiating double tax treaties with Guinea, Israel, Lebanon and Tunisia.

UNITED ARAB EMIRATES

(Country Code 971)

The e-mail addresses for the persons listed below are in the following standard format:
firstname.surname@ae.ey.com

ABU DHABI **GMT +4**

Ernst & Young **(2) 627-7522**
Mail Address: **Fax: (2) 627-3383**
P.O. Box 136
Abu Dhabi
United Arab Emirates

Street Address:
Al Ghaith Tower
11th Floor
Hamdan Street
Abu Dhabi
United Arab Emirates

Corporate Tax
Bassam Hage **(2) 627-4347**
Mobile: (50) 445-0435

DUBAI **GMT +4**

Ernst & Young **(4) 332-4000**
Mail Address: **Fax: (4) 332-4004**
P.O. Box 9267
Dubai
United Arab Emirates

Street Address:
Floor 28
Kendah House
Sheikh Zayed Road
Dubai
United Arab Emirates

Corporate Tax
Nicole Azzam **(4) 312-9153**
Mobile: (50) 613-3410
Edward Quinlan **(4) 312-9102**
Mobile: (50) 645-9803

A. At a Glance

Corporate Income Tax Rate (%)	0*
Capital Gains Tax Rate (%)	0*
Branch Tax Rate (%)	0*
Withholding Tax (%)	0*

* No taxes are imposed by the federal government of the United Arab Emirates, but see Section B for information on corporate taxes in the individual emirates.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The federal government of the United Arab Emirates has not promulgated any tax laws. Most of the individual emirates have issued corporate tax decrees, but, in practice, taxes have been imposed only on oil and gas producing companies and certain petrochemical companies at rates set forth in their government concession agreements, and on branches of foreign banks at rates fixed in agreements with the Rulers of the Emirates in which the branches operate. Withholding taxes are not imposed.

Tax Incentives. Several of the emirates have free zones, which offer tax and business incentives aimed at making the United Arab Emirates a global business and commercial center. The incentives usually include tax holidays for a guaranteed period, 100% foreign ownership, no customs duty within the free zone and "one-stop shop" administrative services. Dubai's free zones include Jebel Ali, Dubai Internet City, Dubai Media City, the Dubai Airport Free Zone, the Dubai International Financial Centre and the Dubai Health Care City.

C. Foreign-Exchange Controls

No foreign-exchange controls are imposed by either the federal government of United Arab Emirates or the individual emirates.

D. Tax Treaties

Tax treaties are in force with the following countries: Belarus; Belgium; the Czech Republic; Egypt; Finland; France; Germany; India; Italy; Malaysia; Pakistan; Poland; Romania; Singapore; Switzerland; Tunisia; and Turkey. Treaties have been concluded with Armenia, Canada, China, Indonesia, Lebanon, Morocco, Thailand and Ukraine, but these treaties have not been formally ratified.

UNITED KINGDOM

(Country Code 44)

The e-mail addresses for the persons listed below who are resident in the United Kingdom are in the following standard format:

first initial (directly followed by) surname@uk.ey.com

For example, the e-mail address for Noel Davison is the following:

ndavison@uk.ey.com

The e-mail addresses for persons who are not resident in the United Kingdom or who have e-mail addresses varying from the standard format are listed below the respective persons' names.

U.K. mobile phone numbers are not preceded by a city code. When dialing these numbers from within the United Kingdom, a zero must be added as a prefix.

LONDON **GMT**

Ernst & Young
1 More London Place
London SE1 2AF
England

(20) 7951-2000
Fax: (20) 7951-1345

Corporate Tax – Energy, Chemicals and Utilities

Nicola Corp	**(20) 7951-4723** **Mobile: 7976-204-466**
Alan Jones	**(20) 7951-3260** **Mobile: 7774-265-596** **E-mail: ajones3@uk.ey.com**
Alan McCrae	**(20) 7951-0013**

Corporate Tax – Industrial Products/Consumer Products

Caroline Artis	**(20) 7951-4084** **Mobile: 7887-634-607**
Malcolm P. Burke	**(20) 7951-3266** **Mobile: 7775-703-115**
Helen Carruthers	**(20) 7951-0606**
Tina Gill	**(20) 7951-4478**
Richard A. Law	**(20) 7951-4412** **Mobile: 7768-337-931**
Keith G. Thomas	**(20) 7951-4760**

Corporate Tax – Technology, Communications and Entertainment

Jon Harlow	**(20) 7951-3812** **Mobile: 7887-833-919**
Mike Lambourne	**(20) 7951-6319** **Mobile: 7880-788-241**
Jeremy M. McIlroy	**(20) 7951-4877** **Mobile: 7836-566-216**
Chris Nunn	**(20) 7951-3375**

Corporate Tax – Real Estate, Hospitality and Construction

Paul G. Davies	**(20) 7951-4050**
Dean Hodcroft	**(20) 7951-4870** **Mobile: 7747-790-126**
Martin Lambert	**(20) 7951-4768** **Mobile: 7931-501-542**
Richard W. White	**(20) 7951-4699** **Mobile: 7887-823-594**

International Tax Services

Jim Charlton	**(20) 7951-7210** **Mobile: 7919-164-947**
Alistair Craig	**(20) 7951-0582**
Gay Deuchar	**(20) 7951-1120** **Mobile: 7774-777-003**
David Evans	**(20) 7951-4246** **Mobile: 7909-907-292**
Nigel D. Fleming *(resident in New York)*	**[1] (212) 773-8764** **E-mail: nigel.fleming@ey.com**
Jonathan W. Fox *(resident in New York)*	**[1] (212) 773-6564** **E-mail: jonathan.fox@ey.com**
David Gregory	**(20) 7951-2255**
Claire Hooper	**(20) 7951-2486** **Mobile: 7990-564-006**
★ Ken MacKenzie	**(20) 7951-0569** **Mobile: 7881-811-320**
Craig McAree	**(20) 7951-7714** **Mobile: 7881-953-581**
★ Mat Mealey	**(20) 7951-0739** **Mobile: 7747-792-544**
David Nickson	**(20) 7951-8134** **Mobile: 7780-875-810**
Jason Short	**(20) 7951-1769** **Mobile: 7880-787-367**
Tim Steel	**(20) 7951-1149**

International Tax Services – Structured Finance – Capital Markets

★ Stephen Barrett	**(20) 7951-2235** **Mobile: 7831-268-479**
Martin Brown	**(20) 7951-1238** **Mobile: 7768-152-861** **E-mail: mbrown1@uk.ey.com**
David Curtis	**(20) 7951-0097** **Mobile: 7776-225-553**
David Hill	**(20) 7951-5608** **Mobile: 7770-802-715**
Craig Hillier, *United States*	**(20) 7951-4618** **Mobile: 7776-490-801**
Simon Long	**(20) 7951-0232** **Mobile: 7759-515-394**
Clare McMath	**(20) 7951-4889** **Mobile: 7789-273-739**
Robert D. Moncrieff *(resident in New York)*	**[1] (212) 773-5021** **Mobile: [1] (917) 385-2898** **E-mail: robert.moncrieff@ey.com**
Roger Muray	**(20) 7951-1945** **Mobile: 7768-152-862**
Christopher Price	**(20) 7951-2313** **Mobile: 7771-978-255**
Roderick Roman	**(20) 7951-1549** **Mobile: 7778-854-642**
Cara Schulze	**(20) 7951-0777** **Mobile: 7764-678-662**
Leonard Shuter	**(20) 7951-4164**
Graham Williams	**(20) 7951-2540**
Mark Wrafter	**(20) 7951-1593** **Mobile: 7989-355-590**

International Tax Services – Mergers and Acquisitions

(for other mergers and acquisitions contacts, see listing for Mergers and Acquisitions, page 924)

Noel Davison	**(20) 7951-1944** **Mobile: 7768-230-993**
★ John Dixon	**(20) 7951-2164** **Mobile: 7785-550-815** **E-mail: jdixon1@uk.ey.com**
Stephen Hales	**(20) 7951-1907** **Mobile: 7785-258-944**

International Tax Services – Supply Chain/Transfer Pricing

Miroslav Cerovic	**(20) 7951-1492** **Mobile: 7818-012-277**
Colin Clavey	**(20) 7951-6377** **Mobile: 7789-397-263**
★ Owen Crassweller	**(20) 7951-3395** **Mobile: 7768-792-169**
Graeme Crawford *(resident in Glasgow)*	**(141) 626-5307** **Mobile: 7710-572-201**
Stephen Curtis, *United States*	**(20) 7951-4556** **Mobile: 7766-776-228**
Novella De Renzo	**(20) 7951-0395**
Nick Evans	**(20) 7951-2174** **Mobile: 7901-517-281**
Laure Fau	**(20) 7951-2247** **Mobile: 7990-015-961**
Glen Hutchings	**(20) 7951-3869** **Mobile: 7771-501-268**
Ana Maria Janschek *(resident in Amsterdam)*	**[31] (20) 549-7333** **E-mail: ana-maria.janschek@nl.ey.com**

Stuart Jarrold	**(20) 7951-1015** **Mobile: 7711-344-728**
Deborah Knowles	**(20) 7951-1995**
Ellis Lambert *(resident in New York)*	**[1] (212) 773-0407** **E-mail: ellis.lambert@ey.com**
Mike Lowe	**(20) 7951-2206** **Mobile: 7990-550-031**
Robert Miall	**(20) 7951-1411** **Mobile: 7768-647-137**
Gary J. Mills	**(20) 7951-1608** **Mobile: 7801-754-666**
Sian Morgan	**(20) 7951-1305** **Mobile: 7977-046-435**
Julian Robertson-Kellie	**(20) 7951-1320**

International Tax Services – Foreign Desks

Emma Boyd-Boland, *Australia* *(International Tax)*	**(20) 7951-0293**
Steven C. Browning, *United States* *(International Tax)*	**(20) 7951-7876** **Mobile: 7880-780-771**
Andrew Cooper, *United States* *(International Tax)*	**(20) 7951-3272** **Mobile: 7909-895-566**
Stephen Curtis, *United States* *(Transfer Pricing/Tax-Effective Supply Chain Management)*	**(20) 7951-4556** **Mobile: 7766-776-228**
Kevin Glen, *United States* *(Real Estate)*	**(20) 7951-7945** **Mobile: 7776-460-059**
Philip Green, *United States* *(U.S. Desk Leader)*	**(20) 7951-1518** **Mobile: 7909-876-388**
Ard Groot, *Netherlands* *(Dutch Desk Leader)*	**(20) 7951-7925** **Mobile: 7776-460-001**
Craig Hillier, *United States* *(Structured Finance – Capital Markets)*	**(20) 7951-4618** **Mobile: 7776-490-801**
Raymond Krawczykowski, *Luxembourg* *(International Tax)*	**(20) 7951-0198** **Mobile: 7880-740-949**
Yumiko Morita, *United States* *(International Tax)*	**(20) 7951-1556** **Mobile: 7747-007-058**
Laynie Pavio, *United States* *(International and Transaction Tax)*	**(20) 7951-2351** **Mobile: 7769-954-957**
Roderik Rademakers, *Netherlands* *(International Tax)*	**(20) 7951-8235** **Mobile: 7766-422-383**
Edward Rieu, *United States* *(International Tax)*	**(20) 7951-1514** **Mobile: 7887-537-386**
James W. Sanderson, Jr., *United States* *(International Tax)*	**(20) 7951-7927** **Mobile: 7766-505-541**
Erwin Sieders, *Netherlands*	**(20) 7951-1481**
Mark Siegel, *United States* *(Tax Risk Management)*	**(20) 7951-8712**
Robert Spence, *United States* *(International Tax)*	**(20) 7951-8393** **Mobile: 7795-120-529**
Sandra van Loon, *Netherlands* *(International Tax)*	**(20) 7951-0350** **Mobile: 7748-761-240**

Tax Risk Management

Bob Brown	**(20) 7951-4724** **Mobile: 7770-802-439**
Chris Chipperton	**(20) 7951-7726** **Mobile: 7881-801-866**
Keith Hobson	**(20) 7951-4279**
Richard A. Law	**(20) 7951-4412** **Mobile: 7768-337-931**
Chris Oates	**(20) 7951-3318** **Mobile: 7775-827-361**

Human Capital

Jeremy Allan	**(20) 7951-2600**
Nigel Davies	**(20) 7951-1923**
Michael Kaltz	**(20) 7951-2700** **Mobile: 7768-231-035**
Duncan McBride	**(20) 7951-2800**

Financial Services

Michael Barnett	**(20) 7951-2017**
Richard Hagon	**(20) 7951-1660** **Mobile: 7881-811-375**
Jeremy McCallum	**(20) 7951-8256**
Kevin Paterson	**(20) 7951-1347** **Mobile: 7785-728-472**
Aamar Rafiq	**(20) 7951-2033** **Mobile: 7771-527-309**
★ Anne Redston	**(20) 7951-2215**
Samantha Woodhouse	**(20) 7951-1656** **Mobile: 7713-402-210**

Indirect Taxes (VAT and Customs)

Dario Garcia	**(20) 7951-4755** **Mobile: 7976-406-876**
Graham Gunning	**(20) 7951-5737** **Mobile: 7887-628-341**
Sue Holt	**(20) 7951-5810** **Mobile: 7770-674-371**
★ Peter S. Jenkins	**(20) 7951-2299** **Mobile: 7887-833-525** **E-mail: pjenkins1@uk.ey.com**
Peter Milnes	**(20) 7951-3451** **Mobile: 7775-701-565**
Martin Scammell	**(20) 7951-3577** **Mobile: 7767-617-786**
Stephen West	**(20) 7951-3787**

Insurance

David P.J. Arnold	**(20) 7951-1913** **Mobile: 7710-845-520**
Anne Redston	**(20) 7951-2215**
Matthew Taylor	**(20) 7951-1942** **E-mail: mtaylor3@uk.ey.com**

International Asset Finance

Kevin Paterson	**(20) 7951-1347** **Mobile: 7785-728-472**

International Asset Management

Lynne Ed	**(20) 7951-2893** **Mobile: 7711-898-524**

Foreign Direct Investment into the United Kingdom

Pat Billingham, *Inward Investments*	**(20) 7951-2341** **Mobile: 7970-807-498**
Shaun De Boo, *Entrepreneurial Services and Japanese Businesses*	**(20) 7951-5614** **Mobile: 7973-227-287**
Melissa Gough-Rundle, *Global Expansion*	**(20) 7951-5977**
Peter S. Jenkins, *VAT & Customs*	**(20) 7951-2299** **Mobile: 7887-833-525**
Michael Kaltz, *Expatriate/Work Permits*	**(20) 7951-2700** **Mobile: 7768-231-035**

Richard A. Law, *Corporate Tax*	(20) 7951-4412 Mobile: 7768-337-931
Dawn Ross, *Inward Investments*	(20) 7951-5828 Mobile: 7410-514-805

Mergers and Acquisitions

Jonathan Anderson	(20) 7951-4863 Mobile: 7748-133-318
Stephen Curr	(20) 7951-2972 Mobile: 7810-507-355
Noel Davison	(20) 7951-1944 Mobile: 7768-230-993
★ John Dixon	(20) 7951-2164 Mobile: 7785-550-815 E-mail: jdixon1@uk.ey.com
Andrew Drysch	(20) 7951-7076 Mobile: 7747-101-289
Stephen Hales	(20) 7951-1907 Mobile: 7785-258-944
Julie Hooper	(20) 7951-2486 Mobile: 7899-910-502
Samantha King	(20) 7951-1274 Mobile: 7769-643-345
Pip McCrostie	(20) 7951-3186 Mobile: 7370-802-492
David Oldknow	(20) 7951-3703 Mobile: 7769-672-059
Mandy Pachol	(20) 7951-7096 Mobile: 7786-747-937
Matthew Peppitt	(20) 7951-4860 Mobile: 7771-678-683
Richard Sheldon	(20) 7951-7690 Mobile: 7946-513-788
Allan Siva	(20) 7951-2668 Mobile: 7703-476-567
Melanie Trotter	(20) 7951-2716 Mobile: 7867-537-358
Bridget Walsh	(20) 7951-4176 Mobile: 7748-106-165

ABERDEEN, SCOTLAND — GMT

Ernst & Young 50 Huntly Street Aberdeen AB10 1ZN Scotland	**(1224) 653-000 Fax: (1224) 653-111**

Corporate Tax and Human Capital

Peter Drury	(1224) 653-206 Mobile: 7884-233-549
Derek Leith	(1224) 653-246 Mobile: 7887-628-318
Colin Pearson	(1224) 653-128 Mobile: 7799-476-563

BELFAST, NORTHERN IRELAND — GMT

Ernst & Young Bedford House 16 Bedford Street Belfast BT2 7DT Northern Ireland	**(2890) 443-500 Fax: (2890) 443-501**

Corporate Tax

◆ Ivan J. Carruthers	**(2890) 443-519** **Mobile: 7867-905-143**
Michael Hall	**(2890) 443-523** **Mobile: 7776-225-619**
Janette Jones	**(2890) 443-524** **Mobile: 7748-933-987**
Gary Lynch	**(2890) 443-528** **Mobile: 7747-638-718**

BIRMINGHAM GMT

Ernst & Young
One Colmore Row
Birmingham
B3 2DB
England

(121) 535-2000
Fax: (121) 535-2001

International Tax Services

Andrew Dale	**(121) 535-2512** **Mobile: 7803-987-376**
Jason Lester	**(121) 535-2998** **Mobile: 7765-240-481**

Corporate Tax

Paul Harris	**(121) 535-2240** **Mobile: 7776-163-862**
Kevin Honey	**(121) 535-2115** **Mobile: 7771-703-353**
Pete Miller	**(121) 535-2909** **Mobile: 7802-197-269**
Andy Oliver	**(121) 535-2545** **Mobile: 7990-563-075**
Chris Pedley	**(121) 535-2472** **Mobile: 7739-643-860**
Charles Sandison	**(121) 535-2070** **Mobile: 7770-445-440**
Stephen Sandys	**(121) 535-2109** **Mobile: 7901-513-462**
Alan Wheatley	**(121) 535-2394**

Indirect Taxes (VAT and Customs)

Henry Cairns-Terry	**(121) 535-2159** **Mobile: 7748-933-754**
Adrienne McStocker	**(121) 535-2563** **Mobile: 7990-972-229**
Peter Skelhorn	**(121) 535-2350** **Mobile: 7850-483-634**

BRISTOL GMT

Ernst & Young
One Bridewell Street
Bristol BS1 2AA
England

(117) 981-2050
Fax: (117) 981-2051

Corporate Tax

Wayne Harvey	**(117) 981-2259** **Mobile: 7768-018-809**
Malcolm Joy	**(117) 981-2066** **Mobile: 7818-012-270**
Caroline Winnan	**(117) 981-2214** **Mobile: 7818-428-270**

CAMBRIDGE — GMT

Ernst & Young — **(1223) 557-000**
Compass House — **Fax: (1223) 557-001**
80 Newmarket Road
Cambridge CB5 8DZ
England

Corporate Tax

Martin Goddard	(1223) 557-045 Mobile: 7771-957-758
Ed Hall	(1223) 557-188 Mobile: 7899-960-580
Kevin Jones	(1223) 557-210 Mobile: 7900-406-326
Christine Oates	(1223) 557-137 Mobile: 7767-790-810
Gail Perkins	(1223) 557-031 Mobile: 7771-898-178
Cathy Taylor	(1223) 557-090 Mobile: 7881-500-419

Human Capital

Paulette Dupuy	(1223) 557-038 Mobile: 7974-390-299

Indirect Tax

Martin Robey	(1223) 557-068 Mobile: 7867-906-569

Transfer Pricing

Melanie Horrigan	(1223) 557-057 Mobile: 7899-061-410
Cathy Taylor	(1223) 557-090 Mobile: 7881-500-419

EDINBURGH, SCOTLAND — GMT

Ernst & Young — **(131) 777-2000**
Ten George Street — **Fax: (131) 777-2001**
Edinburgh EH2 2DZ
Scotland

Corporate Tax

Simon Burke	(131) 777-2220
Margaret Doyle	(131) 777- 2351
Gary Gilbert	(131) 777-2383 Mobile: 7881- 848-009
Alison Green	(131) 777-2236
Ian Hunter	(131) 777-2255 Mobile: 7810-756-296
Rob Kernohan	(131) 777-2259 Mobile: 7780-776-590
Richard Laverick	(131) 777-2291 Mobile: 7771-978-077
Elspeth Orcharton	(131) 777-2125 Mobile: 7710-436-151
Susan Reid	(131) 777-2416
Rick Schofield	(131) 777-2320
Lynne Sneddon	(131) 777-2339
James Young	(131) 777-2358

EXETER — GMT

Ernst & Young — **(1392) 284-300**
Broadwalk House — **Fax: (1392) 284-301**
Southernhay West
Exeter EX1 1LF
England

Corporate Tax

Bruce Lockhart	**(1392) 284-440** **Mobile: 7899-067-218**
Clive Townsend	**(1392) 284-441** **Mobile: 7748-933-243**

Transaction Tax

Brian Garner	**(1392) 284-434** **Mobile: 7771-937-056**

GLASGOW, SCOTLAND — GMT

Ernst & Young — **(141) 626-5000**
George House — **Fax: (141) 626-5001**
50 George Square
Glasgow G2 1RR
Scotland

Corporate Tax

Graeme Crawford	**(141) 626-5307** **Mobile: 7710-572-201** **E-mail: gcrawford1@uk.ey.com**
Margaret Khnichich	**(141) 626-5262** **Mobile: 7770-738-487**
Jim I. Wilkes	**(141) 626-5276** **Mobile: 7901-511-405**
Ken Wright	**(141) 626-5299** **Mobile: 7818-077-012**

Human Capital

Phil Smith	**(141) 626-5284** **Mobile: 7799-470-971**

Indirect Taxes

John H. Kay, *Customs and International Trade*	**(141) 626-5238** **Mobile: 7385-387-267**
Nigel D. Roberts, *VAT*	**(141) 626-5507** **Mobile: 7775-538-430**

HULL — GMT

Ernst & Young — **(1482) 590-300**
P.O. Box 3 — **Fax: (1482) 590-301**
Lowgate House
Lowgate
Hull HU1 1JJ
England

Corporate Tax

Sue Guilliatt	**(1482) 590-331** **Mobile: 7968-081-611**
Alan Kirkman	**(1482) 590-304**

LEEDS — GMT

Ernst & Young — **(113) 298-2200**
P.O. Box 61 — **Fax: (113) 298-2201**
Cloth Hall Court
14 King Street
Leeds LS1 2JN
England

Corporate Tax

George Hardy	**(113) 298-2476** **Mobile: 7769-935-830**
◆ Robert J. Lowe	**(113) 298-2352** **Mobile: 7831-328-513** **E-mail: rlowe1@uk.ey.com**

Mike D. Myerson	**(113) 298-2501**
Tim West	**(113) 298-2330** **Mobile: 7768-548-733**

LIVERPOOL — GMT

Ernst & Young
Silkhouse Court
Tithebarn Street
Liverpool L2 2LE
England

(151) 210-4200
Fax: (151) 210-4201

Corporate Tax

Mike Amos	**(151) 210-212** **Mobile: 7801-522-287**
Catherine Fairhurst	**(151) 210-4233** **Mobile: 7887-823-556**
Clare Maass	**(151) 210-4279** **Mobile: 7880-787-573**

LUTON — GMT

Ernst & Young
400 Capability Green
Luton, Bedfordshire LU1 3LU
England

(1582) 643-000
Fax: (1582) 643-001
(1582) 643-007 (Tax)

Corporate Tax

Peter A. Male	**(1582) 643-170** **Mobile: 7775-706-155**
Roger Parr	**(1582) 643-194** **Mobile: 7785-502-623**
Vijay Thakrar	**(1582) 643-120** **Mobile: 7747-761-897**

Human Capital

Debbie Leak	**(1582) 643-164** **Mobile: 7771-937-031**

Indirect Taxes

Martin George	**(1582) 643-155** **Mobile: 7979-703-250**

Transfer Pricing

Peter A. Male	**(1582) 643-170** **Mobile: 7775-706-155**

MANCHESTER — GMT

Ernst & Young
100 Barbirolli Square
Manchester M2 3EY
England

(161) 333-3000
Fax: (161) 333-3001

Corporate Tax

David Brewin	**(161) 333-2802**
Dominic Coupes	**(161) 333-2813**
Neil Eardley	**(161) 333-2759**
Barry Emberton	**(161) 333-2820**
Sarah Foster	**(161) 333-2824**
Steve Hamer	**(161) 333-2832**
Beverly Harper	**(161) 333-2833**
Neil James	**(161) 333-2838**
Mark F. Jones	**(161) 333-2842** **Mobile: 7887-600-963**
Ceris Law	**(161) 333-2911**

Mike Leary	**(161) 333-2900** **Mobile: 7775-625-009**
Ruth McSweeney	**(161) 333-2849**
Susan Sinagola	**(161) 333-2863**
Mark Thorp	**(161) 333-2867**
Michael J. Wildig	**(161) 333-2873** **Mobile: 7885-294-990**
Linda Wilkins	**(161) 333-2886**
Barbara Williams	**(161) 333-2875**
Tracy Wood	**(161) 333-2913**

NEWCASTLE-UPON-TYNE GMT

Ernst & Young
Citygate
St. James' Boulevard
Newcastle-upon-Tyne NE1 4JD
England

(191) 247-2500
Fax: (191) 247-2501

Corporate Tax

David Bradshaw	**(191) 247-2672** **Mobile: 7771-940-783**
Craig Cumpson	**(191) 247-2747** **Mobile: 7799-075-430**
David Mattu	**(191) 247-2533** **Mobile: 7901-514-200**
Adrienne Paterson	**(191) 247-2536** **Mobile: 7796-937-539**
Andrew Spence	**(191) 247-2588** **Mobile: 7909-892-222**
Phil Walsh	**(191) 247-2545** **Mobile: 7768-631-433**

Indirect Taxes

Nigel Smith	**(191) 247-2555** **Mobile: 7747-007-936**

NOTTINGHAM GMT

Ernst & Young
City Gate West
Toll House Hill
Nottingham NG1 5FY
England

(115) 954-2090
Fax: (115) 954-2091

Corporate Tax

Eric Kwiecinski	**(115) 954-2111** **Mobile: 7785-245-113**
Tom Parry	**(115) 954-2118** **Mobile: 7785-226-316**

Indirect Taxes (VAT and Customs)

Peter Skelhorn	**(115) 954-2557** **Mobile: 7850-483-634**

READING GMT

Ernst & Young
Apex Plaza
Forbury Road
Reading, RG1 1YE
England

(118) 928-1100
Fax: (118) 928-1101

International Tax Services

David Nickson	**(118) 928-1300** **Mobile: 7974-921-598**

Corporate Tax

Lawrence Hall	**(118) 928-1321** **Mobile: 7880-787-881**
Andrew Jupp	**(118) 928-1374** **Mobile: 7785-348-936**
Graham Nattrass	**(118) 928-1503** **Mobile: 7769-708-648**
Simon Palmer	**(118) 928-1455** **Mobile: 7747-101-209**
John Print	**(118) 928-1353** **Mobile: 7768-558-367**
Ashok Shah	**(118) 928-1432** **Mobile: 7770-570-954**

International Trade and VAT

Sarah Johnson	**(118) 928-1363** **Mobile: 7786-111-187**

Transfer Pricing

Janet Allen	**(118) 928-1444** **Mobile: 7876-390-653**

Transaction Tax

Alan Millar	**(118) 928-1318** **Mobile: 7770-950-303**

SOUTHAMPTON **GMT**

Ernst & Young
Wessex House
19 Threefield Lane
Southampton SO14 3Q8
England

(23) 8038-2000
Fax: (23) 8038-2001

Corporate Tax

Fiona Bradford	**(23) 8038-2248** **Mobile: 7970-252-989**
Nigel Warren	**(23) 8038-2102** **Mobile: 7785-738-369**

International Trade and VAT

Peter Hewitt	**(23) 8038-2271** **Mobile: 7767-884-346**

The government has published several proposals for a far-reaching reform of corporation tax in the United Kingdom. These proposals, which are discussed in Section G of the chapter, include the extension of the coverage of the U.K. transfer-pricing rules to all transactions between U.K. parties, in addition to overseas transactions, and the incorporation of the U.K. thin-capitalization rules into the transfer-pricing regime. Because of the major changes contained in the proposals, readers should obtain updated information before engaging in transactions.

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)(b)
Capital Gains Tax Rate (%)	30 (c)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	0 (d)
Interest	20 (e)
Royalties from Patents, Know-how, etc.	22 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1
Carryforward	Unlimited

(a) The "small" companies rate of 19% applies in certain circumstances if taxable profits are below £300,000. This benefit is phased out for taxable profits from £300,000 to £1.5 million. These limits are reduced if associated companies exist.
(b) A 0% rate applies to companies with taxable profits of less than £10,000.
(c) Capital gains are subject to tax at the normal corporation tax rate. See Section B for details concerning the taxation of capital gains derived by nonresidents.
(d) Advance corporation tax at 20/80 was payable on dividends distributed before 6 April 1999 (see Section B).
(e) Applicable to payments to nonresidents and noncorporate residents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies that are resident in the United Kingdom are subject to corporation tax on their worldwide profits. Tax is imposed on the total amount of income earned from all sources in the company's accounting period, including any chargeable capital gains. Capital gains are subject to corporation tax at the same rate as ordinary income, after relief for inflation since 1982. A nonresident company is taxed on the income of a branch carrying on a trade in the United Kingdom, on U.K.-source investment income and on chargeable capital gains on the disposal of trading assets situated in the United Kingdom.

Nonresident companies are subject to U.K. corporation tax only if they carry on a trade in the United Kingdom through a permanent establishment. A permanent establishment arises either from a fixed place of business in the United Kingdom through which the nonresident company carries on its business, or from an agent exercising authority to do business in the United Kingdom on behalf of the nonresident company. The amount of profit attributable to a permanent establishment is computed in accordance with the arm's length principle.

A company is resident if it is incorporated in the United Kingdom or if the central management and control of the company is exercised there. However, companies regarded as resident under domestic law, but as nonresident under the tie breaker clause of a double tax treaty, are regarded as nonresident for all tax purposes.

Rates of Corporation Tax. The tax rate for the 2004 financial year (the year commencing 1 April 2004) is 30%. If an accounting period does not coincide with the financial year, the profits for the accounting period are time-apportioned and the appropriate rate applied to each part. The small companies rate of corporation tax, 19%, may be claimed by a company if its taxable profits for an accounting period are below £300,000. Marginal relief is available to a company if its taxable profits are between £300,000 and £1.5 million; these limits are divided by one plus the number of associates if a company has associated companies (subsidiaries or fellow subsidiaries), regardless of whether they are within or outside the United Kingdom.

A 0% rate of corporation tax applies to companies with taxable profits of less than £10,000. Marginal relief applies to taxable profits between £10,000 and £50,000. These limits are reduced if associated companies exist.

Capital Gains. Capital gains on chargeable assets are taxed at the normal corporation tax rate. For U.K. tax purposes, a capital gain is usually the excess of the sale proceeds over the original cost plus any subsequent qualifying capital expenditure incurred on the chargeable asset being disposed of. If chargeable assets acquired before 31 March 1982 are disposed of, only the portion of the gain after that date is usually taxable. An allowance is available for inflation; the amount of the reduction is based on the increase in the retail price index. The inflation allowance may be used only to eliminate a gain; it may not be used to create an allowable loss.

Capital gains tax is not generally levied on nonresidents; consequently, no tax is levied on a gain on the sale of shares in a U.K. subsidiary by the foreign nonresident parent company. However, gains on the sale of assets situated in and used in a trade carried on by a branch or agency in the United Kingdom are subject to tax.

Special provisions permit the deferral of the capital gains charge on qualifying business assets if the sales proceeds are reinvested. There are numerous other special rules relating to capital gains.

Capital losses may be offset against capital gains of the same accounting period or carried forward indefinitely, but may not be carried back. Capital losses may not be used to reduce trading profits. If an asset is sold outside a group of companies, the seller and another group company may jointly elect to treat the sale as being made by the other group company. As a result, the gain or loss is effectively transferred to the other group company.

Administration. Companies may select any accounting period.

Tax returns, accounts and computations must be filed within 12 months after the end of the accounting period.

Large companies are required to make quarterly installment payments of their corporation tax. Payments are due 6 months and 13 days, 9 months and 13 days, 12 months and 13 days and 15 months and 13 days from the beginning of the accounting period. These payments are based on the tax liability for the current year. Fewer payments may be required for shorter accounting periods.

All other companies must pay estimates of their corporation tax liability within nine months after the end of their accounting period.

Companies not complying with the filing and payment deadlines described above are subject to interest and penalties.

A self-assessment system requires companies to correctly assess their tax liabilities or face significant penalties. In addition, the tax authorities have extensive investigative powers.

Dividends and Advance Corporation Tax. Until 6 April 1999, the United Kingdom had a partial imputation system of corporation tax. For dividends paid before 6 April 1999, a company making a distribution paid 20/80 of the distribution as advance corporation tax (ACT). The ACT paid was offset against corporation tax liabilities, subject to detailed rules.

However, the ACT system was abolished for dividends paid on or after 6 April 1999 and replaced by the quarterly installment payment system (see *Administration* above). Companies with surplus ACT as of 6 April 1999 may carry forward the ACT and set it off against profits in accordance with the rules that were in effect before the abolition of the ACT system. However, this setoff is limited through a system of “shadow ACT.”

In conjunction with the abolition of ACT, for dividends paid on or after 6 April 1999, the tax credit attaching to dividends is reduced to 10/90 of the net dividend and tax credits are no longer repayable to U.K. shareholders. Under several of the U.K.'s double tax treaties, a foreign shareholder in a U.K. company may still claim payment of part or all of the tax credit that would have been available to a U.K. individual. Consequently, tax credit repayments continue to be available to foreign shareholders if so provided in the relevant treaty. However, effective from 6 April 1999, the size of the benefit decreases dramatically. In most cases, the benefit is eliminated or reduced to a negligible amount.

Dividends received from U.K. resident companies are not subject to further U.K. taxation in the hands of a U.K. recipient company. U.K. resident shareholders other than companies are subject to income tax on the distribution received plus the deemed tax credit.

Foreign Tax Relief. Foreign direct tax on income and gains of a U.K. resident company may be credited against the corporation tax on the same profits. The foreign tax relief cannot exceed the U.K. corporation tax charged on the same profits. If a company receives a dividend from a foreign company in which it has at least 10% of the voting power, it may also obtain relief for the underlying foreign tax on the profits out of which the dividend is paid.

Until 31 March 2001, foreign tax relief was granted on a source-by-source basis. Surplus foreign tax on one source of income could not be offset against the U.K. tax on another source and could not be carried forward or back. Effective from 1 April 2001, a new regime applies. Surplus foreign tax may be carried forward indefinitely, or back for up to three years, to offset U.K. tax on income from the same source. The new regime also provides for limited onshore pooling of dividend income, with all foreign tax on the pooled income eligible for offset against U.K. tax on the pooled income. However, dividends paid by controlled foreign companies are not included in the pool, and the underlying tax attributable to any overseas dividend is restricted to the mainstream corporation tax rate (currently, 30%).

C. Determination of Trading Income

General. The assessment is based on financial statements prepared according to generally accepted accounting principles, subject to certain adjustments and provisions.

Expenses must be incurred wholly and exclusively for the purposes of the trade. However, no deduction is allowed for entertainment expenses, except for the entertaining of company employees in certain circumstances.

Corporate and Government Debt and Foreign-Exchange Differences. The rules under the corporate and government debt regime are designed to allow the tax treatment of interest, discounts and premiums on debt instruments to follow the accounting treatment in most circumstances. However, the regime includes several anti-abuse provisions.

Most foreign-exchange differences are treated as income or expenses under the accrual method. In general, the tax treatment follows the accounting treatment.

Inventory. Inventory is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis; the last-in, first-out (LIFO) basis is not acceptable.

Provisions. As a result of U.K. case law, the Inland Revenue announced in July 1999 that effective immediately, provisions made in accordance with U.K. generally accepted accounting principles (GAAP) are tax deductible unless specific legislation provides to the contrary. However, no expenditure may be relieved more than once.

Tax Depreciation (Capital Allowances)

Plant and Machinery. A depreciation allowance of 25% a year on a declining-balance basis is available on most plant and machinery expenditure, including automobiles. There are, however, restrictions imposed on allowances for cars costing over £12,000 when new. Assets purchased on or after 26 November 1996 with a useful life of 25 years or more (long-life assets) are depreciated using the declining-balance method at an annual rate of 6% per year.

Small and medium-sized businesses may claim first-year capital allowances of 40% for most types of plant and machinery purchased on or after 1 July 1998. Long-life assets do not qualify for first-year capital allowances. Small businesses may claim a 100% first-year allowance on purchases of information and communications technologies until 31 March 2004.

Energy-Saving Assets. Effective from 17 April 2002, a 100% depreciation allowance is available to businesses for expenditure on low-emission cars, gas refueling infrastructure, water technologies and energy-saving technologies.

Industrial Buildings. Beginning when they are brought into use, industrial buildings may be depreciated using the straight-line method at an annual rate of 4% of cost. Depreciation allowances may also be available on existing buildings that are acquired. In designated Enterprise Zones (development areas), an initial allowance of 100% is available for most buildings and integral plant and machinery. However, very few Enterprise Zones remain in the United Kingdom.

Commercial Buildings. Commercial buildings qualify for capital allowances only if they are located in Enterprise Zones.

General. Capital allowances are available for expenditures on agricultural buildings, mineral extraction and hotels. Allowances are usually subject to recapture on the disposal of an asset on which capital allowances have been claimed.

Relief for Trading Losses. Trading losses may be used to relieve other income and chargeable gains of the year in which the loss was incurred and of the preceding year, provided the same trade was then carried on. Losses may also be carried forward, without time limit, for relief against future income from the same trade. A trading loss in one company may be offset against profits (including capital gains) for the same period of another company within a 75%-owned group of companies (as defined). A company that ceases trading may carry back trading losses and offset them against profits of the previous 36 months.

Groups of Companies. U.K. law does not provide for tax consolidation. However, a trading loss incurred by one company within a 75%-owned group of companies may be grouped with profits for the same period realized by another member of the group. Similar provisions apply in a consortium situation; for this purpose, a U.K. resident company is owned by a consortium if 75% or more of its ordinary share capital is owned by other U.K. resident companies, none of which individually has a holding of less than 5%. However, the consortium-owned company must not be a 75%-owned subsidiary of any company.

In a 75%-worldwide group, the transfer of assets between group companies does not result in a capital gain if the companies involved are subject to U.K. corporation tax. This rule applies regardless of the residence status of the companies or their shareholders. The transferee company assumes the transferor's original cost of the asset plus subsequent qualifying expenditure and indexation. However, under an antiavoidance provision, if the transferee company leaves the group within six years of the date of the transfer of the asset, that company is deemed to have disposed of the asset at market value immediately after the start of the accounting period of departure or, if later, the original date of the transfer.

Interest payments on "short loans" (loans with a duration that cannot exceed 364 days) may be made without the need to account for withholding tax. Effective from 1 April 2001, all interest payments by U.K.-resident companies may be paid without the imposition of withholding tax if the paying company reasonably believes that the interest is subject to U.K. tax in the hands of the recipient.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods or services, other than an exempt supply, made in the United Kingdom by a taxable person in the course of business (taxable if annual supplies exceed £56,000)	0/5/17.5
Stamp duty; imposed on transfers of shares, securities and interests in partnerships; duty charged on the sales proceeds (tax applies from 1 December 2003)	
Shares	0.5
Other assets	
Up to £60,000	0
£60,001 to £250,000	1
£250,001 to £500,000	3
More than £500,000	4
Stamp duty land tax (SDLT); imposed on transfers of land and buildings; tax charged on the sales proceeds	
Residential property	
Up to £60,000	0
£60,001 to £250,000	1
£250,001 to £500,000	3
More than £500,000	4

Nature of Tax	Rate (%)
Nonresidential or mixed-use property	
Up to £150,000	0
£150,001 to £250,000	1
£250,001 to £500,000	3
More than £500,000	4
Social security contributions, on employees' salaries and wages; payable on weekly wages by	
Employer; imposed on employee's weekly wages exceeding £89	12.8
Employee; imposed on employees earning weekly wages of £89 or more	
On first £89	0
On next £506	11
On balance of weekly wage	1

E. Miscellaneous Matters

Foreign-Exchange Controls. Foreign-exchange regulations were suspended in 1979 and subsequently abolished. No restrictions are imposed on inward or outward investments. The transfer of profits and dividends, loan principal and interest, royalties and fees is unlimited. Nonresidents may repatriate capital, together with any accrued capital gains or retained earnings, at any time, subject to company law or tax considerations.

Antiavoidance Legislation. The U.K. tax law contains several antiavoidance provisions, which include the substitution of an arm's length price for intercompany transactions with foreign affiliates, the levy of an exit charge on companies transferring a trade or their tax residence from the United Kingdom and the recharacterization of income for certain transactions in securities and real property. These and other antiavoidance provisions generally apply if the transaction is not carried out for bona fide commercial reasons. In general, advance clearance from the Inland Revenue can only be obtained under certain specified provisions of the legislation, including the provision on arm's length pricing. In practice, rulings may be granted informally if the legislative provisions are unclear.

The U.K. courts have been developing the concept of substance over form, but the concept is still of limited applicability. The U.K. law does not contain a general antiavoidance or "abuse of law" measure.

Transfer Pricing. The U.K. tax law contains provisions that substitute an arm's length price for certain intercompany transactions, including those with foreign affiliates. For accounting periods ending on or after 1 July 1999, companies are required to prepare their tax returns in accordance with the arm's length principle or suffer substantial penalties. These rules have other far-reaching consequences, and taxpayers should seek specific advice concerning their circumstances. For accounting periods ending before 1 July 1999, the Inland Revenue must issue a direction (notice) to a company before applying the transfer-pricing provisions.

Controlled Foreign Companies. Resident companies that hold a 25% or greater interest in a controlled foreign company (CFC) may be taxed on their shares of the profits (excluding capital

gains) of the CFC. The CFC legislation applies if a nonresident company is controlled by persons resident in the United Kingdom, and is subject to a "lower level of taxation." For accounting periods beginning after 21 March 2000, a nonresident company is considered to be controlled by U.K. residents if U.K. residents hold a greater than 50% interest in the company or if U.K. residents hold a 40% or greater interest in the company and a nonresident holds an interest of at least 40%, but not greater than 55%, in the company. A company is subject to a lower level of taxation if the tax paid in its country of residence is less than three-quarters of the corresponding U.K. tax that would have been payable had it been resident in the United Kingdom. The CFC legislation does not apply if one of the exemptions in the legislation is satisfied. These include the following:
- The CFC's profits are less than £50,000 for a 12-month period;
- The CFC carries out certain exempt activities; or
- The CFC follows an "acceptable distribution policy" by remitting sufficient dividends to the United Kingdom.

A CFC is also excluded from the legislation if it engages in activities that fulfill both of the following "motive" criteria:
- The primary purpose of the CFC's activities is not to reduce U.K. tax; and
- The diversion of profits from the United Kingdom is not the underlying reason for the CFC's existence.

For accounting periods ending on or after 1 July 1999, U.K. companies are required to include amounts chargeable under the CFC legislation in their tax returns. For accounting periods ending before 1 July 1999, the CFC legislation applies only if the Inland Revenue issues a direction (notice) to a company.

Dual-Resident Companies. A dual-resident company that is not a trading company loses the right to surrender its losses to fellow group members and is prevented from enjoying certain other reliefs. These rules effectively prevent dual-resident investment companies from obtaining a double deduction for interest costs in both countries of residence.

Debt-to-Equity Ratios. Although no statutory debt-to-equity limits are in effect, highly leveraged U.K. subsidiaries of overseas companies are closely scrutinized by the Inland Revenue, and interest deductions may be disallowed on thin-capitalization grounds.

Interest paid to 75%-nonresident affiliated companies is treated as a distribution only to the extent it exceeds an arm's length amount. These rules apply to all nonresident lenders, regardless of whether they are located in a treaty or nontreaty country.

Debt-to-equity ratios in excess of 1:1 are usually subject to scrutiny. However, the tax authorities can be persuaded to accept a higher ratio if the nature of the business or the particular circumstances warrant special consideration.

F. Treaty Withholding Tax Rates

The rates in the table below reflect the lower of the treaty rate and the rate under domestic tax law. The table is for general guidance only.

Residence of Recipient	Payments by U.K. Companies of Dividends (a)(b)	Interest %	Royalties %
Antigua and Barbuda	(2)	20	0
Argentina	(2)	0/12 (l)	3/5/10/15 (m)
Australia	(3)	10	10
Austria	(1)	0	0/10 (t)
Azerbaijan	(2)	10	5/10 (n)
Bangladesh	(2)	7.5/10 (o)	10
Barbados	(1)	15	0
Belarus	(2)	0	0
Belgium	(4)	15	0
Belize	(1)	20	0
Bolivia	(2)	15	15
Botswana	(1)	15	15
Brunei	(1)	20	0
Bulgaria	(2)	0	0
Canada	(4)	10	0/10 (d)
China	(2)	10	7/10 (n)
Côte d'Ivoire	(2)	15	10
Croatia	(1)	10	10
Cyprus	(1)	10	0
Czech Republic	(2)	0	0/10 (h)
Denmark	(2)	0 (c)	0 (c)
Egypt	(2)	15	15
Estonia	(2)	10	5/10 (j)
Falkland Islands	(2)	0	0
Fiji	(1)	10	0/15 (n)
Finland	(2)	0	0
France	(1)	0	0
Gambia	(1)	15	12.5
Germany	(2)	0	0
Ghana	(2)	12.5	12.5
Greece	(2)	0	0
Grenada	(2)	20	0
Guernsey	(2)	20	22
Guyana	(2)	15	10/22 (r)
Hungary	(2)	0	0
Iceland	(1)	0	0
India	(3)	0/15 (o)	10/15 (j)
Indonesia	(1)	0/10 (o)	10/15 (j)
Ireland	(2)	0	0
Isle of Man	(2)	20	22
Israel	(2)	15	0
Italy	(4)	10	8
Jamaica	(1)	12.5	10
Japan	(1)	10	10
Jersey	(2)	20	22
Kazakhstan	(2)	10	10
Kenya	(1)	15	15
Kiribati	(1)	20	0
Korea	(2)	10	2/10 (i)
Kuwait	(2)	0	10
Latvia	(2)	10	5/10 (j)
Lesotho	(2)	10	10
Luxembourg	(4)	0	5

Residence of Recipient	Payments by U.K. Companies of Dividends (a)(b)	Interest %	Royalties %
Macedonia	(1)	10	10
Malawi	(1)	0/20 (p)	0/22 (p)
Malaysia	(1)	10	8
Malta	(3)	10	10
Mauritius	(1)	0/20 (o)	15
Mexico	(2)	15	10
Mongolia	(2)	7/10 (o)	5
Montserrat	(2)	20	0
Morocco	(2)	10	10
Myanmar	(2)	20	0/22 (s)
Namibia	(2)	20	0/5/22 (s)(u)
Netherlands	(4) (c)	0	0
New Zealand	(3)	10	10
Nigeria	(2)	12.5	12.5
Norway	(2) (c)	0	0
Oman	(2)	0	0
Pakistan	(2)	15	12.5
Papua New Guinea	(2)	10	10
Philippines	(1)	10	25
Poland	(1)	0	10
Portugal	(2)	10	5
Romania	(1)	10	10/15 (n)
Russian Federation	(2)	0	0
St. Kitts and Nevis	(2)	20	0
Sierra Leone	(2)	20	0
Singapore	(2)	10	10
Slovak Republic	(2)	0	0/10 (h)
Slovenia	(1)	10	10
Solomon Islands	(1)	20	0
South Africa	(2)	0	0
Spain	(1)	12	10
Sri Lanka	(2)	0/10 (o)	0/10 (n)
Sudan	(1)	15	10
Swaziland	(2)	20	0
Sweden	(4)	0	0
Switzerland	(4)	0	0
Taiwan	(2)	10	10
Tajikistan	(2)	0	0
Thailand	(1)	0/25 (o)	5/15 (n)
Trinidad and Tobago	(1)	10	0/10 (n)
Tunisia	(2)	10/12 (o)	15
Turkey	(2)	15	10
Turkmenistan	(2)	0	0
Tuvalu	(1)	20	0
Uganda	(2)	15	15
Ukraine	(2)	0	0
USSR (f)	(2)	0	0
United States	(2)	0	0
Uzbekistan	(2)	5	5
Venezuela	(2)	0/5 (o)	5/7 (k)
Vietnam	(2)	10	10
Yugoslavia (g)	(1)	10	10
Zambia	(1)	10	10
Zimbabwe	(1)	10	10
Nontreaty countries	– (e)	20	22

(a) Under U.K. domestic law, withholding tax is not imposed on dividends. As explained in Section B, under existing law, a U.K. resident individual receiving a dividend obtains a tax credit of 10/90 of the dividend; this satisfies his or her basic rate income tax liability on the grossed up amount. The United Kingdom's double tax treaties fall into the following four general categories concerning dividends:
   (1) Treaties that give no tax credit to companies resident in the other state possessing more than a portfolio holding of the company paying the dividend (usually more than 10% of the voting power), but give a full credit to other shareholders resident in the other state, subject to a reduction based on the total of the dividend and the tax credit.
   (2) Treaties that give no tax credit to residents of the other state.
   (3) Treaties that give no tax credit to corporations, but give a full credit to other shareholders resident in the other state, subject to a reduction of 15% of the total of the dividend and the tax credit.
   (4) Treaties that give the following to residents of the other state:
      (i) A half tax credit to companies possessing 10% or more of the voting power of the company paying the dividend, subject to a reduction of 5% (10% for Canada and Norway) of the total of the dividend and credit.
      (ii) A full credit to other shareholders, subject to a reduction of 15% (20% for Belgium) of the total of the dividend and the tax credit. However, effective from 6 April 1999, the tax credit available to shareholders resident in the other state is eliminated. This results from the reduction of the tax credit available to U.K. shareholders to 10/90.

(b) Under a European Union (EU) directive, no withholding tax may be imposed on dividends paid to a parent company resident in an EU member state by a subsidiary resident in another EU member state that is owned 25% or more by the parent company.

(c) Antiavoidance provisions restrict the tax credit repayment or other treaty benefits in certain circumstances.

(d) No withholding tax is imposed on copyright royalties for any literary, dramatic, musical or artistic work (except motion pictures, films, videotapes, etc.).

(e) See Section B.

(f) The USSR treaty applies to all of the republics of the former USSR other than Azerbaijan, the Baltic states (Estonia, Latvia and Lithuania), Belarus, Kazakhstan, the Russian Federation, Ukraine and Uzbekistan. The United Kingdom has concluded tax treaties with Azerbaijan, Belarus, Estonia, Kazakhstan, Latvia, the Russian Federation, Ukraine and Uzbekistan. Details concerning the withholding rates under these treaties are provided in the above table.

(g) The United Kingdom applies the treaty with the former Yugoslavia to all of the independent states that formerly comprised Yugoslavia. The Inland Revenue is aware that all of these states, except for Bosnia-Herzegovina, also apply the treaty to the United Kingdom. The Inland Revenue is not aware of the position taken by Bosnia-Herzegovina.

(h) The higher rate applies to industrial royalties.

(i) The 2% rate applies to payments for the use of, or right to use, industrial, commercial or scientific equipment. The 10% rate applies to other royalties.

(j) The lower rate applies to payments for the use of industrial, commercial or scientific equipment. The higher rate applies to other royalties.

(k) The 5% rate applies to royalties for patents, trademarks or processes as well as to royalties for know-how concerning industrial, commercial or scientific experience. The 7% rate applies to royalties for copyrights of literary, artistic or scientific works.

(l) The standard rate of withholding tax on interest is 12%. Interest is exempt from withholding tax if any of the following apply:
   • The state is the payer of the interest;
   • The interest is paid on a loan made, guaranteed or insured by the other contracting state;
   • The interest is paid on a loan granted by a bank to an unrelated party at preferential rates and the loan is repayable over a period of not less than five years; or
   • The interest is paid on a debt resulting from either of the following:
      — Sales on credit of industrial, commercial or scientific equipment by a resident of the other contracting state (excluding sales between related persons); or
      — Purchases of industrial, commercial or scientific equipment financed through a leasing contract.

(m) The 3% rate applies to royalties for the right to use news. The 5% rate applies to royalties for copyrights of artistic works. The 10% rate applies to royalties for patents. The 15% rate applies to other royalties.
(n) The lower rate applies to copyright royalties.
(o) The lower rate applies to interest paid to banks and other financial institutions.
(p) The higher rate applies if the recipient is a Malawi company that controls more than 50% of the voting power in the U.K. company that makes the payment.
(q) The lower rate applies to interest on listed bonds.
(r) The higher rate applies to cinema, television and radio broadcasting royalties.
(s) The higher rate applies to motion picture film royalties.
(t) The higher rate applies to royalties paid to a company controlling more than 50% of the payer.
(u) The 5% rate applies to patent royalties.

The United Kingdom has also entered into tax treaties with Algeria, Brazil, Cameroon, Ethiopia, Iran, Lebanon, Saudi Arabia and Zaire. These treaties do not have articles covering dividends, interest or royalties. Payments to these countries are subject to withholding tax at the nontreaty countries' rates set forth in the above table.

The United Kingdom has signed a tax treaty with Lithuania, but the treaty has not yet been ratified. The United Kingdom is negotiating a tax treaty with Jordan. It also plans exploratory talks regarding treaties with Bahrain, Guinea, Hong Kong, Iran, Qatar, Saudi Arabia, Taiwan and the United Arab Emirates.

G. Proposed Tax Reform

In August and December 2003, the government published a revised set of proposals for major reform of the U.K. corporation tax system. Business groups and accountants are currently responding to the proposals, which are expected to enter into effect, in one form or another, over the next two years. At the time of writing, the transfer-pricing and thin-capitalization proposals were expected to take effect on 1 April 2004. The following are some of the key proposals:

- Reform of the existing schedular basis of corporation tax assessment through the introduction of either of the following:
  - — Full pooling of all sources of income; or
  - — Pooling all sources of trading income and income from property, while assessing other activities outside this pool.
- Potential removal of the tax differences between trading and investment companies.
- Revising the taxation of capital assets not covered by earlier reforms to make it more in line with the accounting treatment and replacing the chargeable gains regime for companies.
- A wider debate on the current system of capital allowances and the possibility of replacing the system with relief for commercial depreciation.
- Shifting the entitlement to capital allowances on leased assets from the lessor to the lessee.
- Extension of the coverage of the U.K. transfer-pricing rules to transactions between U.K. parties, with an exemption from compliance obligations for small and medium-sized businesses.
- As part of the extension of the transfer-pricing rules to U.K. transactions, the incorporation of thin-capitalization measures into the transfer-pricing regime.

UNITED STATES

(Country Code 1)

The e-mail addresses for the persons listed below who are resident in the United States are in the following standard format:

firstname.surname@ey.com

The e-mail addresses for persons who are not resident in the United States or who have e-mail addresses varying from the standard format are listed below the respective persons' names.

NEW YORK, NEW YORK — GMT -5

Ernst & Young LLP **5 Times Square** **New York, NY 10036**	**(212) 773-3000** **Fax: (212) 977-9359, 773-5116** **(212) 773-5582, 773-5583** **(212) 773-5584**

International Tax

Sofia Alvarez	**(212) 773-2615** **Mobile: (646) 334-1381**
Anthony Amitrano	**(212) 773-7404** **Mobile: (201) 602-2686**
Kenneth G. Appel	**(212) 773-6474**
Atikah Arifin *(resident in Stamford)*	**(203) 674-3029** **Mobile: (203) 219-5018**
Ernest F. Aud, Jr. *(resident in Chicago)*	**(212) 773-0148** **(312) 879-3611**
Michael J. Beeman	**(212) 773-0705** **Mobile: (616) 304-6189**
Marilee Bernart-Shenk	**(212) 773-7731**
Paul J. Biehl *(resident in Stamford)*	**(203) 674-3387** **Mobile: (203) 856-4935**
Nancy F. Boitnott	**(212) 773-3707**
David Caracciolo	**(212) 773-2543** **Mobile: (646) 554-4960**
Frank A. Caratzola	**(212) 773-6388**
Jan Carnevale *(resident in Metropark)*	**(732) 516-4284** **Mobile: (732) 586-3230**
Brian T. Charbonnier	**(212) 773-3839**
Charles Chongo	**(212) 773-0122**
Aaron Daniels	**(212) 773-7081** **Mobile: (646) 320-8830**
Victor J. DeMarco *(resident in Metropark)*	**(732) 586-3698** **Mobile: (201) 892-2614**
Louis A. DiBerardino	**(212) 773-8788** **Mobile: (203) 856-1386**
Joshua P. Feiler	**(212) 773-2838** **Mobile: (202) 246-1243**
Victoria W. Fernandez	**(212) 773-2360** **Mobile: (917) 306-2027**
Laura Y. Fiske **Washington, D.C.:**	**(212) 773-4855** **(202) 327-7867**
Jonathan W. Fox	**(212) 773-6564**
Katherine H. Fritts	**(212) 773-1217** **Mobile: (646) 229-1655**
Elizabeth A. Galvin	**(212) 773-2590** **E-mail: beth.galvin@ey.com**
Marc D. Ganz	**(212) 773-2229** **Mobile: (917) 613-8766**

Declan Gavin	**(212) 773-8744** **Mobile: (917) 400-7958**
Rissa G. Gerych	**(212) 773-3427** **Mobile: (917) 593-4162**
Murray L. Gordon *(resident in Chicago)*	**(212) 773-2218** **(312) 879-2802**
David A. Grech	**(212) 773-0289**
Angela Gruber	**(212) 773-3753** **Mobile: (201) 913-6748**
John D. Hamilton	**(212) 773-8122** **Mobile: (917) 865-2497**
Todd W. Hedgpeth	**(212) 773-6732** **Mobile: (347) 385-3759**
Frank G. Hertz	**(212) 773-5675** **Mobile: (914) 924-3230**
★ Scott B. Hill, *Director of International Tax Services*	**(212) 773-5550** **Mobile: (917) 270-8589** **(917) 443-7162 (International)**
Karen S. Holden	**(212) 773-5421** **Mobile: (917) 361-0356**
Lee Holt	**(212) 773-9636** **Mobile: (917) 232-7056**
Charles I. Kingson	**(212) 773-4529**
◆ Pete M. Kloet, *Global Accounts Leader–New York Area*	**(212) 773-9357** **Mobile: (917) 439-4854**
Dennis Kriek	**(212) 773-5212** **Mobile: (917) 769-1685**
David Levere	**(212) 773-4610** **Mobile: (914) 527-3265** **(914) 552-1695**
Carolyn C. Libretti	**(212) 773-3479**
Jonathan P. Lindroos	**(212) 773-1951** **Mobile: (646) 479-6663**
Katherine E. Loda	**(212) 773-6634** **Mobile: (732) 887-9162**
Marja I. Lutsep	**(212) 773-1263** **Mobile: (646) 621-5758**
Diane E. MacGillis *(resident in Metropark)*	**(732) 516-4250**
Mark Magnusen	**(212) 773-0595**
Josh W. McKniff	**(212) 773-2975**
◆ Louis J. Mezzo, *Hi-Growth Accounts Leader – New York Area*	**(212) 773-8158** **Mobile: (646) 541-2690**
Zregory J. Norsworthy	**(212) 773-1159** **Mobile: (646) 246-2275**
Colleen V. O'Neill	**(212) 773-0189** **E-mail: colleen.oneill@ey.com**
Kerry Plutte	**(212) 773-5396**
Louis A. Raniero	**(212) 773-5915** **Mobile: (862) 215-2783**
Lara C. Recknagel	**(212) 773-1586** **Mobile: (917) 355-4611**
Philip Rogers	**(212) 773-6433**
James D. Sauer	**(212) 773-1161**
Shannon Smit	**(212) 773-1297** **Mobile: (917) 250-4859**
Anthony J. Sportelli *(resident in Metropark)*	**(732) 516-3641** **Mobile: (973) 985-3334**
Lisa Streter	**(212) 773-5810**
Robert D. Tharaeparambil	**(212) 773-1258**
★ James J. Tobin, *Global CEO of International Tax Services*	**(212) 773-6400** **Mobile: (917) 365-9466**

Timothy W. Vannatta *(resident in Metropark)*	**(732) 516-4387**
James Wall *(resident in Stamford)*	**(203) 674-3369** **Mobile: (203) 246-9335** **E-mail: james.wall02@ey.com**
Jeffrey A. Weiss	**(212) 773-0626**

International Tax – Financial Services

David Berman	**(212) 773-0528**
Terence Cardew	**(212) 773-3628** **Mobile: (551) 206-4088**
Craig Hartman	**(212) 773-5340**
◆ Joyce Hsu	**(212) 773-6446** **Mobile: (732) 423-5619**
Dennis Olmstead	**(212) 773-9580** **Mobile: (203) 829-1788**
Louis A. Raniero	**(212) 773-5915** **Mobile: (862) 215-2783**
Debra F. Taylor	**(212) 773-2978** **Mobile: (201) 826-7656**

Transfer Pricing

★ Robert Ackerman *(resident in Washington, D.C.)*	**(202) 327-5944**
Paul R. Allutto	**(212) 773-5685** **Mobile: (516) 697-7945**
Paul Z. Chmiel *(resident in Metropark)*	**(732) 516-4482**
Alexander Dubok	**(212) 773-3907** **Mobile: (646) 369-4691**
Kelly Grady	**(212) 773-7681**
Michael G. Halloran	**(212) 773-4464** **Mobile: (917) 330-7973**
Masatake Kuramoto	**(212) 773-3419**
Ellis Lambert	**(212) 773-0407**
◆ Scott Layne	**(212) 773-1997** **Mobile: (516) 395-7352**
Peter Lee	**(212) 773-5475**
Eve K. Marcinkowski	**(212) 773-1226**
Michael McKee	**(212) 773-4175** **Mobile: (202) 251-5956** **Washington, D.C.: (202) 327-8702**
Yasuhiko Otani	**(212) 773-0497**
Ellen T. Rodgers	**(212) 773-7366**
Suzie M. Spaulding	**(212) 773-7320** **Mobile: (646) 369-2894**

International Capital Markets

Jeffrey M. Delle Fave *(resident in Philadelphia)*	**(215) 448-5478** **Mobile: (609) 238-8549**
Michael J. Eagan	**(212) 773-4457**
◆ David A. Golden *(resident in Washington, D.C.)*	**(202) 327-6526**
Karla Johnsen	**(212) 773-5510**
Arthur Kwok	**(212) 773-8916** **Mobile: (917) 331-7601**
◆ Marc Levy *(resident in Washington, D.C.)*	**(202) 327-8079**
Robert D. Moncrieff	**(212) 773-5021** **Mobile: (917) 385-2898**

Global Withholding Tax Reporter

Roger Cardinal *(resident in Boston)*	**(617) 859-6224**
Danielle C. Clark *(resident in Stamford)*	**(203) 674-3693** **Mobile: (914) 414-3233**

Mara S. Lamanna *(resident in Stamford)*	**(203) 674-3624**
◆ Elaine Sullivan-Marino *(resident in Stamford)*	**(203) 674-3608**

International Tax – Human Resources

Rosa Maceira	**(212) 773-0989**
Aimee Quick	**(212) 773-5516**

International Tax – Finance

Jessica Semonella	**(212) 773-5597**
Jiten P. Shah	**(212) 773-1994**

International Tax – Marketing

Susan Dimick, *Communications and Strategy*	**(212) 773-6271** **Mobile: (917) 446-3553**
Kaisa Kokkonen, *Events*	**(212) 773-5655**
Anne Robson, *Markets* *(resident in Mulvern, Pennsylvania)*	**(610) 640-5781** **Mobile: (610) 304-5110**

International Tax – Sales

John Kuzy	**(212) 773-3824**

Partnerships and Joint Ventures

Harvey Berenson	**(212) 773-8140** **Mobile: (917) 453-9474**
Michael A. Costa	**(212) 773-1074** **Mobile: (917) 518-1007**
Scott Kaplan	**(212) 773-4135** **Mobile: (917) 363-0683**
Robert G. Hudak	**(212) 773-0423** **Mobile: (732) 778-4404**
Amin A. Khalaf	**(212) 773-6316** **Mobile: (646) 522-0766**
Sherif Lotfi	**(212) 773-6501** **Mobile: (917) 327-0276**
Mark A. Ross	**(212) 773-7806** **Mobile: (732) 887-4976**
Isaac E. Sperka	**(212) 773-8490** **Mobile: (917) 817-7653**
Shari Tepper	**(212) 773-7734** **Mobile: (732) 245-7801**
Bruce H. Weinrib	**(212) 773-6588** **Mobile: (201) 873-8200**
Jay H. Zukerman	**(212) 773-3270** **Mobile: (917) 833-0599**

Inbound Investment into the United States

Michael P. Baldasaro	**(212) 773-0874**
Victor J. DeMarco *(resident in Metropark)*	**(732) 586-3698** **Mobile: (201) 892-2614**
Declan Gavin	**(212) 773-8744** **Mobile: (917) 400-7958**
Frank G. Hertz	**(212) 773-5675** **Mobile: (914) 924-3230**
Scott B. Hill	**(212) 773-5550** **Mobile: (917) 270-8589** **(917) 443-7162 (International)**
Kerry Plutte	**(212) 773-5396** **Mobile: (917) 365-5795 (International)**
Jeffrey A. Weiss	**(212) 773-0626**

Transaction Advisory Services (TAS)

Michael P. Baldasaro	**(212) 773-0874**
Frank A. Caratzola	**(212) 773-6388**

Steven G. Glenn	**(212) 773-1020** **Mobile: (917) 679-7136**
John D. Hamilton	**(212) 773-8122**
David Levere	**(212) 773-4610** **Mobile: (914) 527-3265, (914) 552-1695**
Joseph McKniff	**(212) 773-2975**
◆ Gerard B. Pompan	**(212) 773-2901** **Mobile: (917) 402-5707**
Paul F. Sheahen	**(212) 773-5578** **Mobile: (201) 921-4681**
Rick Solway	**(212) 773-8055** **Mobile: (917) 892-9147**
Anthony Sportelli *(resident in Metropark)*	**(732) 516-3641**

Customs and International Trade

Amie Ahanchian	**(212) 773-9331** **Mobile: (512) 789-4640**
Christine M. Berghofer	**(212) 773-3646**
Frank Chioccola	**(212) 773-1016**
◆ Charles L. Crowley	**(212) 773-1270** **Mobile: (914) 260-1982**
Sharon A. Martin	**(212) 773-0273**
★ William M. Methenitis *(resident in Dallas)*	**(214) 969-8585** **Mobile: (214) 616-0937**
Matthew G. Shaw	**(212) 773-5885** **Mobile: (914) 806-2907**
Andrew L. Siciliano	**(212) 773-8455** **Mobile: (646) 526-9082**
Michael V. Vitale	**(212) 773-5575**

International Tax Services – Global Tax Analysis Group (GTAG)

Nancy F. Boitnott	**(201) 934-1088** **Mobile: (201) 406-2562**
◆ James W. Corley	**(212) 773-7123**
Ricardo Gomez	**(212) 773-1291**
John E. Griffin	**(212) 773-1998** **UTC: (860) 728-7994**
William L. Inchoco	**(212) 773-8732** **Mobile: (917) 913-5308**
Scott A. Johnson	**(212) 773-4386** **Mobile: (908) 770-5394**
Tina L. Minozzi	**(212) 773-1348**
★ Donald V. Proper	**(212) 773-6542** **Mobile: (516) 647-3823**
Rene S. Tiotuyco	**(212) 773-3017**
Katherine Wu	**(212) 773-1173**

Real Estate

Kenneth G. Appel	**(212) 773-6474**
Marja I. Lutsep	**(212) 773-1263** **Mobile: (646) 621-5758**
Jan Karel Weststrate	**(212) 773-8505**

Human Capital

Michael A. Bussa	**(212) 773-7510** **Mobile: (516) 297-0190**
Patricia E. Farro-Ptucha	**(212) 773-3496** **Mobile: (646) 234-7545**
Michael W. Fischer *(resident in Metropark)*	**(732) 516-4766**
Don Robins	**(212) 773-6185**
Cheryl Spielman	**(212) 773-8711**

State and Local Tax

Roberta J. Anas	**(212) 773-3480**
◆ Timothy A. Burley	**(212) 773-2144** **Mobile: (201) 693-7220**
Joli Goldberg	**(212) 773-3813**
Jeffrey C. Kitzis	**(212) 773-2693**
William H. Korman *(resident in Metropark)*	**(732) 516-4288**
★ Gary LeDonne	**(212) 773-3681** **Mobile: (917) 488-0204**
Robert G. Lyons *(resident in Stamford)*	**(203) 674-3306**
Corey L. Rosenthal	**(212) 773-1613**
Brian J. Scanlon *(resident in Metropark)*	**(732) 516-4490**
Stanley A. Solomon *(resident in Stamford)*	**(203) 674-3174**
Kenneth Zemsky	**(212) 773-4220**

Foreign Tax Desks (excluding Asia and Latin America)

Simone Admiraal, *Netherlands*	**(212) 773-5812**
Francisco Almada, *Portugal*	**(212) 773-9417**
Steven Claes, *Belgium/Luxembourg*	**(212) 773-7907** **Mobile: (203) 722-4925**
Robin Mark Coleman, *Canada*	**(212) 773-7685**
Tony Cooper, *Australia*	**(212) 773-5280**
Thomas Eckhardt, *Germany*	**(212) 773-8265** **Mobile: (646) 339-4002**
Mario Ferrol, *Italy*	**(212) 773-6516** **Mobile: (646) 239-5011**
Nigel D. Fleming, *United Kingdom*	**(212) 773-8764** **Mobile: (646) 206-3354**
★ Jonathan W. Fox, *United Kingdom*	**(212) 773-6564**
Declan Gavin, *Ireland*	**(212) 773-8744** **Mobile: (917) 400-7958**
Richard Goodwin, *Australia*	**(212) 773-4562**
Gregory Hannays, *Carribean*	**(212) 773-9390**
Lior Harary, *Israel*	**(212) 773-1984** **Mobile: (201) 674-8997**
Carlos Heredia, *Spain*	**(212) 773-8692**
Ilona Kahl, *Germany*	**(212) 773-0350** **Mobile: (917) 309-6501**
Bas Leenders, *Netherlands*	**(212) 773-1974**
Robin Maxwell, *European VAT*	**(212) 773-3350** **Mobile: (917) 667-5027**
Terry J. McDowell, *Canada*	**(212) 773-3330**
Jörg Menger, *Germany*	**(212) 773-5250** **Mobile: (917) 981-5696**
Robert D. Moncrieff, *United Kingdom Structured Finance*	**(212) 773-5021** **Mobile: (917) 385-2898**
Dele Olaogun, *African Desk*	**(212) 773-2546**
Tibor Palszabo, *Hungary*	**(212) 773-1395**
Philippe Paul-Boncour, *France*	**(212) 773-9164**
Alfred Preisig, *Switzerland*	**(212) 773-6475** **Mobile: (646) 472-9380**
Edvard Rinck, *Netherlands*	**(212) 773-2711**
Christian Serao, *Italy*	**(212) 773-4602** **Mobile: (646) 338-5557**
Rikard Ström, *Sweden*	**(212) 773-8597**
Frederic Vallat, *France*	**(212) 773-5889**
Frank van Hulsen, *Netherlands*	**(212) 773-2006**

Edwin Van Keulen, *Netherlands TAS*	**(212) 773-0466**
Eric Westerburgen, *Netherlands*	**(212) 773-6677**
Jurjan Wouda Kuipers, *Netherlands*	**(212) 773-6464** **Mobile: (201) 887-0806** **E-mail: jurjanwouda.kuipers@ey.com**
Uwe Woywode, *Germany*	**(212) 773-2452**

Donahue & Partners LLP (Alliance Law Firm)

Laura Becking, *Netherlands*	**(212) 773-3829** **Mobile: (917) 373-1974**
Tony Caicoya Cecchini, *Spain*	**(212) 773-7232**
Joel Cullin, *United States*	**(212) 773-9646** **Mobile: (646) 220-6981**
Miwako Dai, *United States*	**(212) 773-0483** **Mobile: (917) 526-7468**
John DeFren, *United States*	**(212) 773-4827** **Mobile: (917) 582-4542**
Stephen d'Errico, *France*	**(212) 773-5242**
Stefano Francovich, *Netherlands*	**(212) 773-3292**
Kristine Grigorian, *General*	**(212) 773-6915**
Cornelius Grossmann, *Germany*	**(212) 773-6170** **Mobile: (917) 349-9853**
Jose Francisco Martos, *Spain*	**(212) 773-7817** **Mobile: (917) 450-7648**
Eloisa Miglio, *Italy*	**(212) 773-4340** **Mobile: (646) 526-7892**
Josephina Nadorp, *Netherlands*	**(212) 773-9697** **Mobile: (646) 229-5068**
Lee Potter, *United States*	**(212) 773-6687** **Mobile: (917) 359-3759**
★ Eberhard Rohm, *United States*	**(212) 773-5771** **Mobile: (203) 434-7304** **German Mobile: [49] (172) 609-1217**
Boukje Stoelinga, *Netherlands*	**(212) 773-3159** **Mobile: (646) 591-3317**
Eda Tanker, *Germany*	**(212) 773-8032** **Mobile: (917) 403-7645**
Jaime Valera, *Spain*	**(212) 773-5543** **Mobile: (646) 623-2725**
Urs Wolf, *Switzerland*	**(212) 773-7786** **Mobile: (917) 518-6990**
Vincent Wong, *United States*	**(212) 773-4912** **Mobile: (917) 601-3303** **E-mail: vincent.wong@dp.ey.com**
Alexander Zebe, *Germany*	**(212) 773-4858**

U.S. Desks Overseas

David Abrahams, *(resident in Tel-Aviv)*	**[972] (3) 623-2599** **Mobile: [972] (54) 736-437** **E-mail: david.abrahams@il.ey.com**
Elizabeth Alek *(resident in Munich)*	**[49] (89) 14331-26694** **Mobile: [49] (160) 9392-6694** **E-mail: elizabeth.alek@de.ey.com**
David M. Allgaier *(resident in Dublin)*	**[353] (1) 479-2157** **E-mail: david.allgaier@ie.ey.com**
Kirsten Anderson *(resident in Amsterdam)*	**[31] (20) 546-6221** **E-mail: kirsten.anderson@nl.ey.com**
Wayne H. Aoki *(resident in Tokyo)*	**[81] (3) 3506-2602** **Mobile: [81] (90) 7256-6562** **E-mail: wayne.aoki@jp.ey.com**
Cedric Bernardeau *(resident in Paris)*	**[33] (1) 46-93-85-62** **Mobile: [33] (6) 72-84-55-85** **E-mail: cedric.bernardeau@fr.eylaw.com**

Mark E. Bookman *(resident in Amsterdam)*	**[31] (20) 549-7431** **E-mail: mark.bookman@nl.ey.com**
Nelson Brooks *(resident in Vancouver)*	**[1] (604) 891-8374** **E-mail: nelson.brooks@ca.ey.com**
Steven C. Browning *(resident in London)*	**[44] (20) 7951-7876** **Mobile: [44] 7880-780-771** **E-mail: sbrowning@uk.ey.com**
Mark T. Campbell *(resident in Tokyo)*	**[81] (3) 3506-2460** **Mobile: [81] (90) 1530-9698** **E-mail: mark.t.campbell@jp.ey.com**
Alice Chan-Loeb *(resident in Shanghai)*	**[86] (21) 6219-1219, Ext. 293** **Mobile: [86] (1381) 680-8810** **E-mail: alice.chan@cn.ey.com**
David Colvin *(resident in Amsterdam)*	**[31] (20) 549-7472** **Mobile: [31] (6) 21-25-18-45** **E-mail: david.colvin@nl.ey.com**
Andrew Cooper *(resident in London)*	**[44] (20) 7951-3272** **Mobile: [44] 7909-895-566** **E-mail: acooper4@uk.ey.com**
Stephen Curtis *(resident in London)*	**[44] (20) 7951-4556** **Mobile: [44] 7766-776-228** **E-mail: scurtis@uk.ey.com**
Janette R. Cushman *(resident in Amsterdam)*	**[31] (20) 549-7258** **Mobile: [31] (6) 29-08-43-18** **E-mail: janette.cushman@nl.ey.com**
James Dockeray *(resident in Bermuda)*	**[1] (441) 294-5392** **E-mail: james.dockeray@bm.ey.com**
Warren Ely *(resident in Amsterdam)*	**[31] (20) 549-7653** **E-mail: warren.ely@hollandlaw.nl**
Richard E. Felske *(resident in Montreal)*	**[1] (514) 874-4428** **Mobile: [1] (514) 927-8236** **E-mail: richard.e.felske@ca.ey.com**
Stephen J. Ferguson *(resident in Sydney)*	**[61] (2) 9248-4524** **E-mail: stephen.ferguson@au.ey.com**
Tracy A. Fink *(resident in Sydney)*	**[61] (2) 9248-5761** **E-mail: tracy.fink@au.ey.com**
Channing P. Flynn *(resident in Milan)*	**[39] (02) 851-4569** **Mobile: [39] 335-689-5037** **E-mail: channing.flynn@it.ey.com**
James K. Frank *(resident in Toronto)*	**[1] (416) 943-2080** **Mobile: [1] (716) 465-8339** **E-mail: james.k.frank@ca.ey.com**
Kevin Glen *(resident in London)*	**[44] (20) 7951-7945** **Mobile: [44] 7776-460-059** **E-mail: kglen@uk.ey.com**
◆ Philip Green *(resident in London)*	**[44] (20) 7951-1518** **Mobile: [44] 7909-876-388** **E-mail: pgreen2@uk.ey.com**
Bruce K. Handa *(resident in Amsterdam)*	**[31] (20) 546-6415** **Mobile: [31] (6) 21-25-11-33** **E-mail: bruce.handa@nl.ey.com**
Patrik Heidrich *(resident in Munich)*	**[49] (89) 14331-13038** **E-mail: patrik.heidrich@de.ey.com**
Craig Hillier, *Structured Finance* *(resident in London)*	**[44] (20) 7951-4618** **Mobile: [44] 7776-490-801** **E-mail: chillier@uk.ey.com**
Svetlana Ignatieva *(resident in Amsterdam)*	**[31] (20) 549-7701** **Mobile: [31] (6) 29-08-32-97** **E-mail: svetlana.ignatieva@nl.ey.com**
◆ Stephen F. Jackson *(resident in Toronto)*	**[1] (416) 943-2340** **Mobile: [1] (905) 339-6658** **E-mail: steve.jackson@ca.ey.com**
Mark Jones *(resident in Duesseldorf)*	**[49] (211) 9352-10608** **Mobile: [49] (160) 9391-0608**

Christopher Kealy *(resident in Athens)*	**[30] (210) 288-6402** **Mobile: [30] (697) 373-0933** **E-mail: christopher.kealy@gr.ey.com**
Curt B. Kinsky *(resident in Paris)*	**[33] (1) 46-93-65-71** **Mobile: [33] (6) 84-51-81-28** **E-mail: curt.kinsky@fr.eylaw.com**
Gilbert L. Lederhos *(resident in Calgary)*	**[1] (403) 206-5371** **Mobile: [1] (403) 860-2312** **E-mail: gilbert.l.lederhos@ca.ey.com**
Joseph B. Lee-Gilligan *(resident in Paris)*	**[33] (1) 46-93-60-00**
◆ Lisa C. Lim *(resident in Singapore)*	**[65] 6424-8643** **E-mail: lisa.lim@sg.ey.com**
Jonathan E. Lubick *(resident in Tel-Aviv)*	**[972] (3) 568-8412** **Mobile: [972] (54) 736-347** **E-mail: jonathan.lubick@il.ey.com**
Shelley R. Lugon-Moulin *(resident in Zurich)*	**[41] (58) 286-31-08** **Mobile: [41] (79) 205-19-52** **E-mail: shelley.lugon@ch.ey.com**
Daniel Lundenberg *(resident in Montreal)*	**[1] (514) 874-4411** **Mobile: [1] (514) 992-8364** **E-mail: daniel.lundenberg@ca.ey.com**
Jason Max *(resident in Zurich)*	**[41] (58) 286-31-49** **E-mail: jason.max@ch.ey.com**
Bruce W. Miller *(resident in Tokyo)*	**[81] (3) 3506-2422** **Mobile: [81] (90) 7714-1134** **E-mail: bruce.w.miller@jp.ey.com**
Yumiko Morita *(resident in London)*	**[44] (20) 7951-1556** **Mobile: [44] 7747-007-058** **E-mail: ymorita@uk.ey.com**
Michael A. Nadler *(resident in Toronto)*	**[1] (416) 943-2697** **E-mail: michael.a.nadler@ca.ey.com**
Alyce Nelson *(resident in Milan)*	**[39] (02) 851-4284** **Mobile: [39] 349-462-4368** **E-mail: alyce.nelson@it.ey.com**
Christopher Newman *(resident in Singapore)*	**[65] 6421-8041** **Mobile: [65] 9159-3731** **E-mail: christopher.newman@sg.ey.com**
Lee A. Odden *(resident in Zurich)*	**[41] (58) 286-31-69** **Mobile: [41] (58) 234-4934** **E-mail: lee.odden@ch.ey.com**
Lee A. Oster *(resident in Paris)*	**[33] (1) 46-93-86-21** **Mobile: [33] (6) 71-04-21-61** **E-mail: lee.oster@fr.eylaw.com**
Jorge Pascual *(resident in Paris)*	**[33] (1) 46-93-86-49** **Mobile: [33] (1) 71-04-21-32** **E-mail: jorge.pascual@fr.eylaw.com**
Laynie Pavio *(resident in London)*	**[44] (20) 7951-2351** **Mobile: [44] 7769-954-957** **E-mail: lpavio@uk.ey.com**
Terry D. Pearson *(resident in Calgary)*	**[1] (403) 206-5182** **E-mail: terry.d.pearson@ca.ey.com**
Edward Rieu *(resident in London)*	**[44] (20) 7951-1514** **Mobile: [44] 7867-537-386** **E-mail: erieu@uk.ey.com**
Gianluca Romano *(resident in Singapore)*	**[65] 6421-8109** **E-mail: gianluca.romano@sg.ey.com**
James W. Sanderson, Jr. *(resident in London)*	**[44] (20) 7951-7927** **E-mail: jsanderson@uk.ey.com**
Guy Sanschagrin *(resident in Brussels)*	**[32] (2) 774-98-70** **Mobile: [32] (477) 98-06-78** **E-mail: guy.sanschagrin@be.ey.com**
Eric Sapperstein *(resident in Brussels)*	**[32] (2) 774-94-60** **Mobile: [32] (475) 75-50-48** **E-mail: eric.sapperstein@be.ey.com**

William P.C. Seto *(resident in Shanghai)*	**[86] (21) 6219-1219, Ext. 138** **Mobile: [86] (1390) 163-7875** **E-mail: bill.seto@cn.ey.com**
Harry A. Shannon III *(resident in Munich)*	**[49] (89) 14331-13623** **Mobile: [49] (160) 9391-3623** **E-mail: harry.shannon@de.ey.com**
Mark Siegel *(resident in London)*	**[44] (20) 7951-8712** **E-mail: msiegel@uk.ey.com**
Erik B. Smith *(resident in São Paulo)*	**[55] (11) 3165-5250** **Mobile: [55] (11) 9666-0519** **E-mail: erik.smith@br.ey.com**
Robert Spence *(resident in London)*	**[44] (20) 7951-8393** **Mobile: [44] 7795-120-529** **E-mail: rspence@uk.ey.com**
George Tsitouras *(resident in Montreal)*	**[1] (514) 874-4427** **Mobile: [1] (514) 993-4427** **E-mail: george.tsitouras@ca.ey.com**
Sabine Wahl-Moriarty *(resident in Paris)*	**[33] (1) 46-93-61-16** **Mobile: [33] (6) 74-57-73-04**

Asian Business Group

Kenji Amino, *Japan*	**(212) 773-0120**
Kazuo Ando, *Japan*	**(212) 773-7539**
Sunghak (Andy) Baik, *Korea/Pan Asia*	**(212) 773-6106** **Mobile: (917) 721-4758**
Hua Chen, *China/Hong Kong/Taiwan*	**(212) 773-3140** **Mobile: (917) 612-8772**
Yongjun (Peter) Ni, *China/Hong Kong/Taiwan*	**(212) 773-1346** **Mobile: (917) 656-6224**
Dharmesh Pandya, *India*	**(212) 773-4496**
◆ Michael A. View	**(212) 773-8533** **Mobile: (914) 522-8534**

Latin American Business Group

Michael J. Becka *(resident in Dallas)*	**(214) 969-8911** **Mobile: (214) 457-5214**
Paulo Espindula *(resident in Miami)*	**(305) 415-1311** **Mobile: (305) 799-2872**
Ana Gross *(resident in Miami)*	**(305) 415-1397** **Mobile: (305) 495-3771**
Terri Grosselin *(resident in Miami)*	**(305) 415-1344** **Mobile: (305) 987-6979**
John Guarin, *Latin American Legal Services*	**(212) 773-7316** **Mobile: (201) 755-8408**
Zsuzsanna Kadar	**(212) 773-2682** **Mobile: (917) 690-5923**
◆ Alberto Lopez	**(212) 773-0770** **Mobile: (646) 256-7223**
Ana Paola Mingramm	**(212) 773-9190**
Louis A. Raniero	**(212) 773-5915** **Mobile: (862) 215-2783**
Enrique Rios *(resident in Chicago)*	**(312) 879-2228**
Márcia Saito, *Brazil*	**(212) 773-2609**
★ Manuel Solano	**(212) 773-8114** **Mexico City: [52] (55) 2122-6437**
Ricardo Vargas *(resident in Miami)*	**(305) 415-1418**
Pablo Wejcman, *Argentina*	**(212) 773-5129** **Mobile: (646) 295-8054**
Michael (Suk Joon) Yoon *(resident in Houston)*	**(713) 750-5946**
(resident in Caracas)	**[58] (212) 953-5222, x349**

European Latin American Business Center

Luiz Frederico Battendieri, *Brazil* *(resident in Madrid)*	**[34] 915-727-598** **Mobile: [34] 619-254-739** **E-mail: luizfrederico.battendieri@es.ey.com**
Luis Nouel *(resident in Amsterdam)*	**[31] (20) 549-7770**
Javier Lasso Peña *(resident in Amsterdam)*	**[31] (20) 546-6074** **Mobile: [31] (6) 29-08-41-08** **E-mail: javier.lasso.pena@nl.ey.com**
Daniel Vanrell *(resident in Madrid)*	**[34] 915-727-250** **Mobile: [34] 649-971-530** **E-mail: daniel.vanrell@es.ey.com**
Sonia Zapata *(resident in Paris)*	**[33] (1) 46-93-69-66** **Mobile: [33] (6) 21-25-28-92**

ATLANTA, GEORGIA — GMT -5

Ernst & Young LLP
600 Peachtree Street, N.E.
Atlanta, GA 30308-2215

(404) 874-8300
Fax: (404) 817-4305

International Tax

Cindy Amisano	**(404) 817-4634** **Mobile: (404) 822-9537**
Jeffrey Greenstein	**(404) 817-5606**
Lewis King	**(404) 817-5471** **Mobile: (404) 409-6029**
Jeremy Litton	**(404) 541-7201** **Mobile: (678) 429-5323**
Keith Petroni	**(404) 817-5957** **Mobile: (404) 234-4178**
Stephen Puett	**(404) 817-4825** **Mobile: (305) 799-7300**
◆ William R. Seto	**(404) 817-5590**
Dennis Wieckert	**(404) 817-5769** **Mobile: (404) 368-2750**
Jennifer Williams	**(404) 541-7194** **Mobile: (404) 376-5101** **E-mail: jennifer.williams2@ey.com**

Human Capital

Linda Atkins	**(404) 817-7186**
Barbara Hodgdon	**(404) 817-5011**
◆ Samuel Mohr	**(404) 817-4790**
Linda Petruzzello	**(404) 817-5596**
Butch Sigmon	**(404) 817-5181**

Economic Consulting

Jay Camillo	**(404) 817-5035** **Mobile: (404) 226-4744**
Amy Chiba	**(404) 817-4189** **Mobile: (404) 966-2760**
◆ Mark Schuette	**(404) 817-5443** **Mobile: (404) 402-6208**

AUSTIN, TEXAS — GMT -6

Ernst & Young LLP
700 Lavaca
Suite 1400
Austin, TX 78701

(512) 478-9881
Fax: (512) 473-3499

International Tax

Donald L. Calvin	**(512) 473-3450** **Mobile: (512) 632-9924**

BIRMINGHAM, ALABAMA GMT -6

Ernst & Young LLP
AmSouth/Harbert Plaza
Suite 1900
1901 Sixth Avenue North
Birmingham, AL 35203

(205) 251-2000
Fax: (205) 226-7470 (Tax)

Corporate Tax

Ron Travis	**(205) 226-7402** **Mobile: (205) 910-6949**

BOSTON, MASSACHUSETTS GMT -5

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

(617) 266-2000
Fax: (617) 859-6201 (International)
(617) 859-6206 (Human Capital)

International Tax

Russell Antonevich Jr.	**(617) 867-2929** **Mobile: (781) 248-2184**
Matthew Blum	**(617) 859-6040** **Mobile: (617) 642-7955**
Jeffrey Chamberlain	**(617) 867-2622** **Mobile: (617) 429-3234**
Dana DiNuzzo	**(617) 859-6760** **Mobile: (617) 513-1977**
Anna Feinhaus	**(617) 867-2903** **Mobile: (617) 775-6284**
Joel Gross	**(617) 867-2046** **Mobile: (508) 954-2989**
Jeffrey Helman	**(617) 859-6091** **Mobile: (508) 965-3422**
Jan Johnson	**(617) 867-2992** **Mobile: (617) 413-1440**
David Kroop	**(617) 859-6816** **Mobile: (617) 869-7139**
Mike F. Lutz	**(617) 859-6499** **Mobile: (617) 905-8687**
Nancy Martinage	**(617) 859-6165** **Mobile: (978) 337-7061**
Daniel P. Messing	**(617) 859-6833** **Mobile: (781) 223-4933**
Irina Pisareva	**(617) 375-1494** **Mobile: (617) 784-7372**
Kent J. Schreiner	**(617) 859-6924** **Mobile: (617) 230-4985**
Sonal Shah	**(617) 859-6813** **Mobile: (617) 784-2006**
Catherine Sullivan	**(617) 859-6023** **Mobile: (978) 328-2665**
◆ Salvatore C. Vaudo, Jr.	**(617) 859-6185** **Mobile: (617) 877-0858**
Carter L. Vinson	**(617) 859-6361**
Jacqueline Washburn	**(617) 859-6729** **Car Phone: (508) 523-8414**

International Tax – Global Tax Analysis Group (GTAG)

Catherine Sullivan	**(617) 859-6023** **Mobile: (978) 328-2665**
Jacqueline Washburn	**(617) 859-6729** **Car Phone: (508) 523-8414**
Lewis Zachas	**(617) 859-6027** **Mobile: (603) 490-2908**

Human Capital

◆ Leslie Fiorentino	(617) 859-6149 Mobile: (508) 341-6376

Transfer Pricing

◆ Lisa Blanchard	(617) 867-2062 Mobile: (617) 645-2736
Kevin Burke	(617) 859-6146 Mobile: (617) 869-1167
Denise Gearraughty	(617) 867-2915 Mobile: (978) 835-8458
William James	(617) 859-6240 Mobile: (617) 818-4669

International Financial Services/Capital Markets

Matthew Blum	(617) 859-6040 Mobile: (617) 642-7955
Roger Cardinal	(617) 859-6224
◆ Carter L. Vinson	(617) 859-6361
Jacqueline Washburn	(617) 859-6729 Car Phone: (508) 523-8414

State and Local Taxes

◆ Larry Bedrosian	(617) 859-6971 Mobile: (617) 966-5911
Karl Frieden	(617) 859-6629 Mobile: (617) 851-9048
Jeffrey Saviano	(617) 859-6902 Mobile: (508) 864-1276

BUFFALO, NEW YORK — GMT -5

Ernst & Young LLP
1400 Key Tower
50 Fountain Plaza
Buffalo, NY 14202

(716) 843-5000
Fax: (716) 843-5175

International Tax

◆ David B. Joranko *(resident in Cleveland)*	(216) 583-3144 Mobile: (216) 924-1040 Fax: (216) 583-2576

Corporate Tax

◆ Michael T. Dings	(716) 843-5003 Mobile: (716) 998-4562
James K. Frank	(716) 843-5022 Toronto: (416) 943-2080 Mobile: (716) 465-8339
Eugene P. Gramza, Jr.	(716) 843-5072 Mobile: (716) 308-1224

State and Local Taxes

◆ Robert H. Lamb, *Income and Franchise*	(716) 843-5094 Mobile: (716) 818-5688
David E. Werth, *Sales and Use*	(716) 843-5113 Mobile: (716) 628-2318

CHARLOTTE, NORTH CAROLINA — GMT -5

Ernst & Young LLP
101 Independence Center
Suite 1100
101 N. Tryon Street
Charlotte, NC 28246

(704) 372-6300
Fax: (704) 331-1853 (Tax)
(704) 335-4204 (Audit)

International Tax

Laura Arthur	(704) 331-1961 Mobile: (704) 907-1563 Fax: (704) 331-1853

Doug Bailey	**(704) 331-1907** **Mobile: (704) 301-1472** **Fax: (704) 331-1853**
Scott C. Shell	**(704) 331-2056** **Mobile: (704) 236-1381** **Fax: (704) 331-1853**
◆ W. Shawn Smith	**(704) 331-1951** **Mobile: (864) 421-4153** **Fax: (704) 331-1853**

State and Local Taxes

Charles A. Long	**(704) 331-2004** **Mobile: (704) 579-7558** **Fax: (704) 331-1853**

CHICAGO, ILLINOIS — GMT -6

Ernst & Young LLP
Sears Tower
233 S. Wacker Drive
Chicago, IL 60606

(312) 879-2000
Fax: (312) 879-4000
(312) 879-4028
(International Tax)

International Tax

Peter A. Amster *(resident in Milwaukee)*	**(414) 223-7226** **Mobile: (312) 286-5347**
Ernest F. Aud, Jr	**(312) 879-3611** **Mobile: (847) 612-7445**
Jeffrey M. Banta	**(312) 879-3641** **Mobile: (630) 240-0206**
J. Russell Carr	**(312) 879-4684** **Mobile: (847) 710-4684**
Angela Chalberg-Pool	**(312) 879-4642** **Mobile: (708) 648-0090**
Scott DeMartino	**(312) 879-2914**
Daniel L. Farrell	**(312) 879-3033** **Mobile: (847) 530-5787**
Murray L. Gordon	**(312) 879-2802** **Mobile: (312) 848-6014**
Michael Krause	**(312) 879-2646**
Michael Masciangelo	**(312) 879-2980** **Mobile: (312) 315-9290**
Margarita M. Moreno	**(312) 879-3097** **Mobile: (917) 703-2504**
Kazuyo T. Parsch	**(312) 879-3085** **Mobile: (312) 286-0667**
Paul Pencak	**(312) 879-6508** **Mobile: (630) 712-7100**
Erich Pugh	**(312) 879-2000**
Steven Resnikoff	**(312) 879-5986** **Mobile: (312) 543-0054**
Curtis Schuhmacher	**(312) 879-5416** **Mobile: (773) 315-7334**
Jennifer Shulman	**(312) 879-6763**
Steven M. Surdell	**(312) 879-4123** **Mobile: (312) 882-1824**
Sean P. Thompson	**(312) 879-3918** **Mobile: (847) 975-3708**
◆ Anna Voortman	**(312) 879-3264** **Mobile: (312) 480-6557**
★ David A. Waimon, *National Director – Global Accounts/Transactions*	**(312) 879-5894** **Mobile: (312) 343-0608**

Transfer Pricing

Ernest F. Aud, Jr.	**(312) 879-3611** **Mobile: (847) 612-7445**
Murray L. Gordon	**(312) 879-2802** **Mobile: (312) 848-6014**

Tobin E. Hopkins	**(312) 879-3137** **Mobile: (312) 203-2790**
Scott W. McShan	**(312) 879-4164** **Mobile: (708) 516-7003**
◆ Mike J. Merwin	**(312) 879-6565** **Mobile: (312) 399-4840**
Robert A. Schultz	**(312) 879-4190** **Mobile: (847) 772-7173**
Andrew S. Sliwa	**(312) 879-4692** **Mobile: (630) 240-7957**
Colleen M. Warner	**(312) 879-3633** **Mobile: (312) 622-1303**
James J. Wisniewski	**(312) 879-3657** **Mobile: (847) 477-5094**

International Tax Services – Global Tax Analysis Group (GTAG)

Wendy S. Baum	**(312) 879-6732** **Mobile: (847) 833-7876**
Scott M. Bozzi	**(312) 879-2224**
Lester S. Fuwa	**(312) 879-3816** **Mobile: (312) 952-9542**
Maureen L. Garcia	**(312) 879-5313** **Mobile: (630) 632-2210**
Mark C. Gasbarra	**(312) 879-6261** **Mobile: (847) 682-3485**
Nancy J. Glover	**(312) 879-5710** **Mobile: (312) 560-9996**
Izeth Jameel	**(312) 879-6975**
Scott Jensen	**(312) 879-3821** **Mobile: (312) 286-4120**
David B. Joranko *(resident in Cleveland)*	**(216) 583-3144** **Mobile: (216) 924-1040**
Christine Ye	**(312) 879-4693** **Mobile: (847) 571-5066**

Global ITS Marketing

Meg Salzetta	**(312) 879-3683** **Mobile: (773) 817-9012**

ITS Marketing

Sharyl Schwartz	**(312) 879-3209** **Mobile: (312) 213-0211**

Foreign Tax Desks

Hugo J.M. Dams, *European VAT*	**(312) 879-5742** **Mobile: (312) 533-0123**
Nico Derksen, *Netherlands*	**(312) 879-5508** **Mobile: (312) 213-2817**
Robert Smith, *European VAT*	**(312) 879-6916** **Mobile: (312) 498-1101**

Donahue and Partners LLP (Alliance Law Firm)

Diana Gunckel, *Netherlands*	**(312) 879-4573**

Transaction Advisory Services (TAS)

Kurt Flory	**(312) 879-5321** **Mobile: (312) 560-5321**
Robert Kenost	**(312) 879-3263**
Richard Liebman	**(312) 879-3219**
Michael Williams	**(312) 879-3082** **Mobile: (312) 560-3082**
◆ Robert Wingels	**(312) 879-5751** **Mobile: (312) 480-0573**

International Tax Outsourcing

Bonnie Andreas	**(312) 879-4683** **Mobile: (773) 398-7193**
◆ Suzanne Lippe	**(312) 879-4254** **Mobile: (773) 294-9723**

Kathy MacDonald	**(312) 879-5271** **Mobile: (630) 606-1089**
Debra S. McCormick	**(312) 879-4425**
Margaret Nowak	**(312) 879-5949**
Kit On	**(312) 879-6738**
Carmen Ricupati	**(312) 879-3350**
Rutha Taylor	**(312) 879-4410**

Latin American Business Group

Enrique Rios, *Mexico*	**(312) 879-2228** **Mobile: (312) 879-6104**

Human Capital

◆ Michael S. O'Malley	**(312) 879-3320**
Linda Watson	**(312) 879-4150**

State and Local Taxes

William D. Bruno	**(312) 879-2125**
Darrell G. Coppin	**(312) 879-2133**
Donald Dennis	**(312) 879-3113**
Robert M. Fahrenbach	**(312) 879-3346** **Mobile: (608) 444-0021**
Stephen R. Miller *(resident in Grand Rapids)*	**(616) 336-8214**
◆ Dorothy Proux	**(312) 879-6856** **Mobile: (847) 858-7011**
Philip M. Tatarowicz	**(312) 879-2171**

CINCINNATI, OHIO — GMT -5

Ernst & Young LLP **1900 Scripps Center** **312 Walnut Street** **Cincinnati, OH 45202**	**(513) 612-1400** **Fax: (513) 612-1730**

International Tax

◆ Alan W. Higgins	**(513) 612-1610** **Mobile: (513) 238-4178**
Dave Hochwalt	**(513) 612-1476** **Mobile: (513) 312-7948**
Mike A. Patterson	**(513) 612-1553** **Mobile: (513) 652-6938**

Transfer Pricing

David Arnold	**(513) 612-1593** **Mobile: (251) 423-7979**

State and Local Taxes

Tim Kimmel	**(513) 612-1503** **Mobile: (513) 484-0082**

CLEVELAND, OHIO — GMT -5

Ernst & Young LLP **1300 Huntington Building** **925 Euclid Avenue** **Cleveland, OH 44115-1405**	**(216) 861-5000** **Fax: (216) 583-2576 (International Tax)** **(216) 583-1210 (Human Capital)** **(216) 583-8141 (State and Local Taxes)**

International Tax

John A. Buchta	**(216) 583-2385** **Mobile: (216) 346-6181**
Susan R. Gifford	**(216) 583-1798** **Mobile: (440) 821-9026** **E-mail: sue.gifford1@ey.com**
◆ John W. Gunn	**(216) 583-8290** **Mobile: (216) 973-7737**

Global Tax Analysis Group (GTAG)

David B. Joranko	**(216) 583-3144** **Mobile: (216) 924-1040**

Human Capital

◆ C. Michael Abdalian	**(216) 583-1508** **Mobile: (216) 375-4200** **E-mail: michael.abdalian@ey.com**
Therese M. Herubin	**(216) 583-1503** **Mobile: (216) 401-8663**
Neil Jamieson	**(216) 583-8140**
Walter Melnyk	**(216) 583-1824**
Amy Murray *(resident in Akron)*	**(330) 255-5849**

State and Local Taxes

Steven Gill, *Property Tax*	**(216) 583-1209** **Mobile: (216) 346-8545** **E-mail: stephen.gill@ey.com**
Scott Grugle, *Income and Franchise*	**(216) 583-4545** **Mobile: (440) 241-2658**
J. Christopher Gunder, *Income and Franchise*	**(216) 583-1716** **Mobile: (614) 832-2035** **E-mail: chris.gunder@ey.com**
Meegan Lally-Spicer, *Incentives*	**(216) 583-3435** **Mobile: (216) 214-7790** **E-mail: meegan.lallyspicer@ey.com**
Laura Lane, *Unclaimed Funds*	**(216) 583-3919** **Mobile: (216) 798-7487**
Ellen McCabe, *Income and Franchise*	**(216) 583-1228** **Mobile: (216) 598-4127** **E-mail: ellen.mccabe@ey.com**
William Nolan, *Sales and Use*	**(216) 583-3688** **Mobile: (216) 570-8233**

Transfer Pricing

Timothy Reichert	**(216) 583-8650** **Mobile: (440) 670-3130**
David Wallenstein	**(216) 583-3394** **Mobile: (440) 570-3730**

COLUMBUS, OHIO — GMT -5

Ernst & Young LLP **1100 Huntington Center** **41 South High Street** **Columbus, OH 43215-3400**	**(614) 224-5678** **Fax: (614) 222-3155**

International Tax

◆ Alan W. Higgins *(resident in Cincinnati)*	**(513) 612-1610** **Mobile: (513) 238-4178**

State and Local Taxes

Paul A. Naumoff	**(614) 222-3142** **Mobile: (614) 309-6870**

Transaction Advisory Services (TAS)

Robert S. Doane *(resident in Dayton)*	**(937) 226-5511** **Mobile: (937) 371-8209**

DALLAS, TEXAS — GMT -6

Ernst & Young LLP **Suite 1500** **2121 San Jacinto Street** **Dallas, TX 75201**	**(214) 969-8000** **Fax: (214) 969-8530 (International)** **(214) 969-8957 (Human Capital)**

International Tax

◆ James M. Kim	**(214) 969-8346** **Mobile: (214) 693-6820**
Timothy A. Larson	**(214) 969-8385**
Timothy R. Larson	**(214) 969-0637** **Mobile: (469) 471-4175**
Sarita E. Martinez	**(214) 969-8233** **Mobile: (214) 783-9674**
Timothy E. Murray	**(214) 969-8366** **Mobile: (214) 669-3630**

Transfer Pricing

◆ Purvez Captain *(resident in Houston)*	**(713) 750-8341** **Mobile: (832) 722-8454**
Michael E. Granfield	**(214) 969-8569** **Mobile: (817) 874-6572**

Customs and International Trade

Armando F. Beteta	**(214) 969-8596**
Kristine P. Carlson	**(214) 969-8602**
★ William M. Methenitis	**(214) 969-8585** **Mobile: (214) 616-0937**
Ray E. Shaw	**(214) 969-8590** **Mobile: (214) 725-8945**

Latin America Business Center

Michael J. Becka	**(214) 969-8911** **Mobile: (214) 457-5214**

Human Capital

Lisa M. Peck	**(214) 969-8792** **Mobile: (972) 741-5199**

Transaction Advisory Services (TAS)

◆ David Thach	**(214) 969-8486** **Mobile: (214) 707-4182**
August Helmbright	**(214) 969-8169** **Mobile: (214) 704-7548**

State and Local Tax

◆ Sandra Wells	**(214) 969-8472** **Mobile: (214) 335-8969**

DAYTON, OHIO — GMT -5

Ernst & Young LLP
Fifth Third Center
Suite 1800
Dayton, OH 45402

(937) 223-2000
Fax: (937) 226-5541

International Tax

Mike A. Patterson *(resident in Cincinnati)*	**(513) 612-1553** **Mobile: (513) 652-6938**

Transaction Advisory Services (TAS)

Robert S. Doane	**(937) 226-5511** **Mobile: (937) 371-8209**

DENVER, COLORADO — GMT -7

Ernst & Young LLP
370 17th Street, Suite 3300
Denver, CO 80202

(720) 931-4000
Fax: (720) 931-4444

International Tax

Doug Scheetz	**(720) 931-4012**

Randall Hampton	**(720) 931-4322** **Mobile: (303) 885-1475**
Frank Quintana	**(720) 931-4549** **Mobile: (720) 272-1989**
Douglas Wood	**(720) 931-4317** **Mobile: (704) 904-3822**

Transfer Pricing

Mark Bronson *(resident in Orange County)*	**(949) 437-0667** **Mobile: (949) 280-7159** **Fax: (949) 437-0591**

DES MOINES, IOWA — GMT -6

Ernst & Young LLP
801 Grand Avenue, Suite 3400
Des Moines, IA 50309-2764
(515) 243-2727
Fax: (515) 362-7200

International Tax

William Kaiser *(resident in St. Louis)*	**(314) 290-1228** **Mobile: (636) 346-2952** **Fax: (314) 290-1814**

Transfer Pricing

Gabriel Fuentes *(resident in Kansas City)*	**(816) 480-5193** **Mobile: (816) 352-9067** **Fax: (816) 480-5080**

DETROIT, MICHIGAN — GMT -5

Ernst & Young LLP
Suite 1700
500 Woodward Avenue
Detroit, MI 48226-3426
(313) 628-7100
Fax: (313) 628-7017 (International Tax and Transfer Pricing)
(313) 628-8007 (Customs and International Trade)

International Tax

David Buckner	**(313) 628-7176** **Mobile: (248) 894-5922**
Lisa Hargus	**(313) 628-8872** **Mobile: (248) 910-5068**
William Henson	**(248) 457-3875** **Mobile: (248) 342-7445** **Fax: (248) 457-3801**
Matthew Jones	**(313) 628-8083** **Mobile: (248) 756-6002** **E-mail: matthew.jones7@ey.com**
Christopher Kelley	**(313) 628-8876** **Mobile: (586) 489-8679**
Daniel F. Kelley	**(313) 628-8929** **Mobile: (248) 229-9660**
Karen M. Keown	**(313) 628-8926** **Mobile: (248) 320-0945**
Steven M. Micallef	**(313) 628-8941** **Mobile: (734) 776-7853**
◆ Jeffrey Michalak	**(313) 628-8460** **Mobile: (248) 207-1629**
Jason Rauhe	**(313) 628-8980** **Mobile: (248) 763-4711**
Stephen Slazinski	**(313) 628-8909** **Mobile: (248) 703-8785**

Transfer Pricing

◆ William Hahn	**(313) 628-8850** **Mobile: (248) 766-7387** **E-mail: william.hahn02@ey.com**
Brian Sturtz	**(313) 628-8793** **Mobile: (248) 379-4804**

Human Capital

◆ David E. Bowland *(resident in Toledo)*	**(419) 321-5523** **Mobile: (419) 265-7534** **Fax: (419) 241-1128** **E-mail: dave.bowland@ey.com**
Elizabeth Keppel	**(313) 596-8928** **Mobile: (248) 505-4318** **Fax: (313) 628-7017** **E-mail: beth.keppel@ey.com**

State and Local Taxes

◆ James Beckman	**(313) 628-7167** **Mobile: (734) 558-5770** **Fax: (313) 628-7012**

Customs and International Trade

◆ Steven J. Gardon	**(313) 628-8690** **Mobile: (248) 766-2828**
Laura H. Jones	**(313) 628-8692** **Mobile: (248) 229-3905**
Suzanne M. Yesta	**(313) 628-8698** **Mobile: (734) 748-3146**
Sava Zjalic	**(313) 628-8699** **Mobile: (313) 510-8658**

GREENVILLE, SOUTH CAROLINA — GMT -5

Ernst & Young LLP
Mail Address:
P.O. Box 10647
Greenville, SC 29603

(864) 242-5740
Fax: (864) 298-6414 (Tax)
(864) 298-6423 (Audit)

Street Address:
75 Beattie Place
Suite 800
Greenville, SC 29601

International Tax

Chris Housman	**(864) 298-6476** **Mobile: (864) 420-5260** **Fax: (864) 298-6414**

HOUSTON, TEXAS — GMT -6

Ernst & Young LLP
1221 McKinney Street
Suite 2400
Houston, TX 77010

(713) 750-1500
Fax: (713) 750-1501

International Tax

Deborah Byers	**(713) 750-8138** **Mobile: (713) 819-1287**
Donald L. Calvin *(resident in Austin)*	**(512) 478-3450** **Mobile: (512) 632-9924**
◆ Leland J. Cleland	**(713) 750-8105** **Mobile: (713) 553-8417**
Martin Dunagin	**(713) 750-5915**
David Leeds	**(713) 750-8113** **Mobile: (713) 553-4492**
Michael Moran	**(713) 750-5983**
Richard Overton	**(713) 750-8176** **Mobile: (713) 899-3490**
Robert Scott	**(713) 750-4801** **Mobile: (713) 553-8696**
Chris Work	**(713) 750-4961**

Transfer Pricing

Mark Camp	**(713) 750-4883**
◆ Purvez Captain	**(713) 750-8341**

Customs and International Trade

Todd H. Davis	**(713) 750-8849**
Michael J. Heldebrand	**(713) 750-8876**
Henry E. Lee	**(713) 750-8662**
◆ Michael H. Leightman	**(713) 750-1335**
Bryan J. Schillinger	**(713) 750-8290**

INDIANAPOLIS, INDIANA — GMT -5

Ernst & Young LLP
Bank One Center Tower
111 Monument Circle
Suite 2600
Indianapolis, IN 46204

(317) 681-7000
Fax: (317) 681-7416

International Tax

Beth Crowell	**(317) 681-7254** **Mobile: (317) 418-6143**
Mark Gargula	**(317) 681-7185** **Mobile: (317) 908-7742**
Thomas J. Miller	**(317) 681-7196** **Mobile: (317) 508-5310**

State and Local Taxes

Brian D. Myers	**(317) 681-7146** **Mobile: (317) 694-0600**

Transaction Advisory Services (TAS)

Daniel S. Corsaro	**(317) 681-7154** **Mobile: (317) 446-3908**

Human Capital

Christopher K. Cornelius	**(317) 681-7288** **Mobile: (317) 697-0603**

KANSAS CITY, MISSOURI — GMT -6

Ernst & Young LLP
One Kansas City Place
1200 Main Street
Suite 2000
Kansas City, MO 64105

(816) 474-5200
Fax: (816) 480-5555

International Tax

Ron Pierce	**(816) 480-5229** **Mobile: (816) 668-8176**

Transfer Pricing

Gabriel Fuentes	**(816) 480-5193** **Mobile: (816) 352-9067**
Benjamin Russell	**(816) 480-5174**

LOS ANGELES, CALIFORNIA — GMT -8

Ernst & Young LLP
725 S. Figueroa Street
8th Floor
Los Angeles, CA 90017-5418

(213) 977-3200
Fax: (213) 977-3978

International Tax

◆ Mike Bertolino *(resident in San Diego)*	**(619) 235-5024** **Mobile: (619) 992-7864**
Virna Betti	**(213) 977-3423** **Mobile: (213) 280-9562**
Claudia De Bemier	**(213) 977-7789**
Lance Gordon	**(213) 977-5892** **Mobile: (818) 652-9312**
Robert Jones	**(213) 977-3938** **Mobile: (310) 902-3004**

Maho Jordan *(resident in Orange County)*	**(949) 437-0519** **Mobile: (949) 633-0828**
Julieann Orr *(resident in Orange County)*	**(949) 437-0246** **Mobile: (949) 637-3765**
Manish G. Patel	**(213) 977-3911** **Mobile: (310) 403-4359**
Mary Ann Sigler	**(213) 977-3816** **Mobile: (213) 716-6060** **E-mail: maryann.sigler@ey.com**
Jeffrey Tolin	**(310) 201-8118** **Mobile: (310) 729-0497**
Lisa Tonnu	**(213) 977-4252** **Mobile: (818) 554-4906**
Bryant Turner	**(213) 977-7775** **Mobile: (310) 927-8864**
Alex Waniek *(resident in Orange County)*	**(949) 437-0663** **Mobile: (949) 338-6479**
Brian Wing	**(213) 977-3903** **Mobile: (310) 283-1792**
Douglas Wood *(resident in Denver)*	**(720) 931-4317** **Mobile: (704) 904-3822**
Frederick E. Wooldridge	**(213) 977-3963** **Mobile: (818) 425-3456**
Derik Wyckoff	**(213) 240-7410** **Mobile: (310) 741-8000**
Cynthia Yu	**(213) 977-3321** **Mobile: (626) 399-8951**

Transaction Advisory Services (TAS)

Dale Spiegel	**(213) 977-7760** **Mobile: (310) 779-4710**
Jeremy Welford	**(213) 977-5810** **Mobile: (310) 480-1766**

Transfer Pricing

Marc Alms *(resident in Orange County)*	**(949) 437-0232** **Mobile: (714) 717-4138**
Mark Bronson *(resident in Orange County)*	**(949) 437-0667** **Mobile: (949) 280-7159**
◆ Mike A. Denning *(resident in Orange County)*	**(949) 437-0260** **Mobile: (949) 370-1765**
Cara McKerracher *(resident in Orange County)*	**(949) 437-0366** **Mobile: (949) 300-1069**
John Nagy *(resident in Orange County)*	**(949) 437-0386** **Mobile: (949) 244-7932**
Michael F. Patton	**(213) 977-3200** **Mobile: (310) 600-9615** **E-mail: mike.patton@ey.com**

Customs and International Trade

Jill M. Mares *(resident in San Diego)*	**(619) 235-5171** **Mobile: (619) 857-3385**
Howard M. Paull *(resident in Orange County)*	**(949) 437-0522** **Mobile: (949) 306-6506**

Human Capital

Paul Wen	**(213) 977-3099** **Mobile: (213) 610-1801**

LOUISVILLE, KENTUCKY — GMT -5

Ernst & Young LLP	**(502) 585-1400**
Suite 2100	**Fax: (502) 584-4221**
400 West Market Street	
Louisville, KY 40202	

International Tax

◆ Dave Hochwalt *(resident in Cincinnati)*	**(513) 612-1476** **Mobile: (513) 312-7948**

State and Local Taxes

Brent Barker	**(502) 585-6482** **Mobile: (502) 551-8861**

METROPARK, NEW JERSEY — GMT -5

Ernst & Young LLP
99 Wood Avenue South
P.O. Box 751
Iselin, NJ 08830-0471
(732) 516-4200
Fax: (732) 516-4412

International Tax

◆ Jan Carnevale	**(732) 516-4284** **Mobile: (732) 586-3230**
Victor J. DeMarco	**(732) 516-3698** **Mobile: (201) 892-2614**
Claude E. Fusco Jr.	**(732) 516-4421** **Mobile: (908) 794-6297**
Diane E. MacGillis	**(732) 516-4250**
Anthony J. Sportelli	**(732) 516-3641** **Mobile: (973) 985-3334**
Timothy W. Vannatta	**(732) 516-4387**

Transfer Pricing

Paul Z. Chmiel	**(732) 516-4482**

Human Capital

Barbara Schmidt-Kemp	**(732) 516-4665** **Mobile: (732) 586-3217** **Fax: (732) 516-4415** **E-mail: barbara.schmidt-kemp@ey.com**
Joseph Zborovancik	**(732) 516-3626** **Mobile: (732) 371-0531** **Fax: (732) 516-4415**

State and Local Taxes

William H. Korman	**(732) 516-4288**
Brian J. Scanlon	**(732) 516-4490**

MIAMI, FLORIDA — GMT -5

Ernst & Young LLP
200 South Biscayne Blvd.
Suite 3900
Miami, FL 33131
(305) 358-4111
Fax: (305) 415-1411

International Tax

John Fiorito	**(305) 415-1510** **Mobile: (954) 253-7282**
Bob Heller	**(305) 415-1312** **Mobile: (954) 224-0013**
Patricia M. Iribarren	**(305) 415-1324** **Mobile: (305) 297-5700**
Scott Montopoli	**(305) 415-1481** **Mobile: (305) 213-7592**
Normarie Segurola	**(305) 415-1416** **Mobile: (305) 761-4144**
Scott Vermaas	**(305) 415-1622** **Mobile: (954) 695-0816**
◆ Jack Zenga	**(305) 415-1467** **Mobile: (954) 224-4531**

Latin American Business Group

Paulo Espindula	**(305) 415-1311** **Mobile: (305) 799-2872**

Ana Gross	**(305) 415-1397** **Mobile: (305) 495-3771**
Terri Grosselin	**(305) 415-1344** **Mobile: (305) 495-1608**
Ricardo Vargas	**(305) 415-1418** **Mobile: (305) 812-0841**

Transfer Pricing

Patricia Burleson	**(305) 415-1442**
Jorge Castellon	**(305) 415-1391** **Mobile: (305) 798-5618**
Larry Eyinla	**(305) 415-1372** **Mobile: (954) 224-3620**

MILWAUKEE, WISCONSIN — GMT -6

Ernst & Young LLP
875 East Wisconsin Avenue
Milwaukee, WI 53202-6612

(414) 273-5900
Fax: (414) 223-7200

International Tax Services – Core

◆ Peter A. Amster	**(414) 223-7226** **Mobile: (414) 550-3228**
Brad L. Bertler	**(414) 223-7264** **Mobile: (414) 303-1846**
Sean Rutter	**(414) 223-7189** **Mobile: (414) 520-3956**

MINNEAPOLIS, MINNESOTA — GMT -6

Ernst & Young LLP
220 South Sixth Street
Suite 1400
Minneapolis, MN 55402

(612) 343-1000
Fax: (612) 371-6822 (International Tax)
(612) 338-2757 (Human Capital)
(612) 371-6800 (Transfer Pricing)

International Tax

Timothy R. Ball	**(612) 371-6736** **Mobile: (612) 845-4591**
◆ Gregory J. Buteyn	**(612) 371-8374** **Mobile: (612) 325-5795**
Amy McDonald	**(612) 371-6349** **Mobile: (612) 799-7328**
Casey J. Schoen	**(612) 371-6896**
Marna Van Winkle	**(612) 371-6770** **Mobile: (612) 802-4267**

Transfer Pricing

Peter Griffin	**(612) 371-6932** **Mobile: (949) 275-5447**
Maison Miscavage	**(612) 371-6991**

Human Capital

Keith Longman	**(612) 371-8367** **Mobile: (612) 804-6087**

NASHVILLE, TENNESSEE — GMT -6

Ernst & Young LLP
SunTrust Financial Center
Suite 1100
424 Church Street
Nashville, TN 37219-3302

(615) 252-2000
Fax: (615) 242-9128

International Tax

Jeffrey Greenstein *(resident in Atlanta)*	**(404) 817-5606**

Transfer Pricing

Emily M. Trader	**(615) 252-2017** **Mobile: (931) 215-0088**

ORANGE COUNTY, CALIFORNIA — GMT -8

Ernst & Young LLP
18111 Von Karman
Suite 1000
Irvine, CA 92612-1007

(949) 794-2300
Fax: (949) 437-0591

International Tax

◆ Mike Bertolino *(resident in San Diego)*	**(619) 235-5024** **Mobile: (619) 992-7864**
Ken Harvey *(resident in San Diego)*	**(619) 235-5073** **Mobile: (858) 248-0494**
Julieann Orr	**(949) 437-0246** **Mobile: (949) 637-3765**
Manish G. Patel *(resident in Los Angeles)*	**(213) 977-3911** **Mobile: (310) 403-4359**
Michael Shangraw	**(949) 437-0440** **Mobile: (949) 637-2526**
Joseph Silvoso II	**(949) 437-0437** **Mobile: (949) 400-3108** **E-mail: joseph.silvosoII@ey.com**
Alex Waniek	**(949) 437-0663** **Mobile: (949) 338-6479**

Transfer Pricing

Marc Alms	**(949) 437-0232** **Mobile: (714) 717-4138**
Mark Bronson	**(949) 437-0667** **Mobile: (949) 280-7159**
◆ Mike A. Denning	**(949) 437-0260** **Mobile: (949) 370-1765**
Cara McKerracher	**(949) 437-0366** **Mobile: (949) 300-1069**
John Nagy	**(949) 437-0386** **Mobile: (949) 244-7932**

Customs and International Trade

Jill M. Mares *(resident in San Diego)*	**(619) 235-5171** **Mobile: (619) 857-3385**
Howard M. Paull	**(949) 437-0522** **Mobile: (949) 306-6506**

PHILADELPHIA, PENNSYLVANIA — GMT -5

Ernst & Young LLP
Two Commerce Square
2001 Market Street, Suite 4000
Philadelphia, PA 19103-7096

(215) 448-5000
Fax: (215) 448-4069
(215) 841-2643
(International Tax)

International Tax

Andrew Bernard	**(215) 448-5749** **Mobile: (215) 313-2417**
John J. Brady	**(215) 448-5377** **Mobile: (215) 479-2006**
◆ Howard Karel, *Leader in Mid-Atlantic Area*	**(215) 448-5180** **Mobile: (610) 613-6255**
Timothy Nugent	**(215) 448-4032** **Mobile: (609) 744-2985**
Raymond Wynman	**(215) 448-5250** **Mobile: (215) 816-6211**

International Financial Services/Capital Markets

Jeffrey M. Delle Fave	**(215) 448-5478** **Mobile: (609) 238-8549**

Human Capital

◆ Joseph A. Coll	**(215) 448-5062** **Mobile: (215) 206-7564**
Mary Lou Stockton	**(215) 448-5122** **Mobile: (215) 260-5122**

Insurance

Michael G. Shields	**(215) 448-5291** **Mobile: (215) 603-1669**

State and Local Taxes

Mary H. Angelbeck	**(215) 448-5307** **Mobile: (484) 432-8255**
Robert Westgate	**(215) 448-5599** **Mobile: (610) 513-1100**

PITTSBURGH, PENNSYLVANIA — GMT -5

Ernst & Young LLP
One PPG Place
Suite 2100
Pittsburgh, PA 15222

(412) 644-7800
Fax: (412) 644-0477

International Tax

James E. Malcolm	**(412) 644-0559**
Scott M. Zahorchak	**(412) 644-0604**

PORTLAND, OREGON — GMT -8

Ernst & Young LLP
One S.W. Columbia Street
Suite 1050
Portland, OR 97258

(503) 414-7900
Fax: (503) 414-7990

International Tax

Lonnie Brist	**(503) 414-7932** **San Jose: (408) 947-5692** **Mobile: (408) 421-2275**
Michael Ferguson	**(503) 414-7931** **Mobile: (206) 910-1541**

RALEIGH, NORTH CAROLINA — GMT -5

Ernst & Young LLP
Mail Address:
P.O. Box 40789
Raleigh, NC 27629-0789

(919) 981-2800
Fax: (919) 981-2996 (Tax)
(919) 981-2999 (Audit)

Street Address:
3200 Beechleaf Court
Suite 700
Raleigh, NC 27604-1063

International Tax

Christina Able	**(919) 981-3038** **Mobile: (919) 673-7349**

ST. LOUIS, MISSOURI — GMT -6

Ernst & Young LLP
The Plaza in Clayton
Suite 1300
190 Carondelet Plaza
Clayton, MO 63105

(314) 290-1000
Fax: (314) 290-1882

International Tax

◆ Timothy Ball	**(314) 290-1963**
William Kaiser	**(314) 290-1228**
Peter Palsen	**(314) 290-1200**

Transfer Pricing

Sean Trahan	**(314) 290-1022**

SAN DIEGO, CALIFORNIA GMT -8

Ernst & Young LLP **(619) 235-5000**
501 West Broadway **Fax: (619) 235-5151**
Suite 1100
San Diego, CA 92101

International Tax

◆ Mike Bertolino	**(619) 235-5024** **Mobile: (619) 992-7864**
Coryn Cottom	**(619) 235-5190** **Mobile: (619) 847-3417**
Ken Harvey	**(619) 235-5073** **Mobile: (858) 248-0494**
Jeffrey Kieckhafer	**(619) 235-5124** **Mobile: (619) 884-5124**
Julieann Orr *(resident in Orange County)*	**(949) 437-0246** **Mobile: (949) 637-3765**
Bryant Turner *(resident in Los Angeles)*	**(213) 977-7775** **Mobile: (310) 927-8864**
Jane Watkins	**(619) 235-5080** **Mobile: (858) 205-3639**
Cynthia Yu *(resident in Los Angeles)*	**(213) 977-3321** **Mobile: (626) 399-8951**

Transfer Pricing

Cara McKerracher *(resident in Orange County)*	**(949) 437-0366** **Mobile: (949) 300-1069**

Customs and International Trade

Jill M. Mares	**(619) 235-5171** **Mobile: (619) 857-3385**

SAN FRANCISCO, CALIFORNIA GMT -8

Ernst & Young LLP **(415) 951-3000**
555 California Street **Fax: (415) 951-3195**
Suite 1700
San Francisco, CA 94104-9616

International Tax

Stuart Ison	**(415) 955-4104** **Seattle: (206) 654-7523** **Mobile: (206) 200-7070**
Walter Kolligs	**(415) 951-3138** **Mobile: (415) 518-9344**
◆ John S. MacArthur	**(415) 951-1508** **Mobile: (917) 257-5148** **Fax: (415) 989-4704**
Rita McLean	**(415) 951-3153** **Mobile: (415) 412-8273**
Elizabeth Min *(resident in Walnut Creek)*	**(925) 977-2912**
John F. Nicolai *(resident in Hong Kong)*	**[852] 2629-3831** **Mobile: (415) 810-1621** **Fax: [852] 2157-6891** **San Francisco Voice Mail: (415) 951-3106** **San Francisco Fax: (415) 989-4704** **E-mail: john.nicolai@hk.ey.com**
Amy Ritchie	**(415) 951-1257** **Mobile: (415) 350-6618**
Yichen Shepard *(resident in Walnut Creek)*	**(925) 977-2916** **Mobile: (925) 980-2088**

Transfer Pricing

Craig Hook	**(415) 951-1267**
Kathrine Kimball	**(415) 951-1544** **Mobile: (415) 810-4099** **Fax: (415) 989-4704**

◆ John Wills *(resident in San Jose)*	**(408) 947-5681** **Mobile: (408) 313-8546**

Human Capital

Jim Cox	**(415) 951-3109**
Tom Mello	**(415) 951-3037**
Suzanne Morrow *(resident in Walnut Creek)*	**(925) 256-2626**
Glenn Pape	**(415) 951-3002**

SAN JOSE, CALIFORNIA — GMT -8

Ernst & Young LLP
303 Almaden Boulevard
San Jose, CA 95110

(408) 947-5500
Fax: (408) 947-5713 (International Tax)
(408) 947-4983 (Human Capital)

International Tax

William Abel	**(408) 947-5564** **Mobile: (408) 828-4863**
Michael Aleskovsky	**(408) 947-6614** **Mobile: (408) 230-1489**
Sue Baker	**(408) 947-4963** **Mobile: (408) 568-5553**
Olga Bortova	**(408) 947-4904** **Mobile: (408) 667-2148**
Phillip Bullock	**(408) 947-5675** **Mobile: (408) 396-7520**
Beth Carr	**(408) 947-5426** **Mobile: (650) 248-6556**
Cecilia Chui	**(408) 947-6588**
Suzanne Cummings	**(408) 947-6861** **Mobile: (650) 868-8361**
Christian De la Madrid	**(408) 947-5695** **Mobile: (650) 996-2141**
Teddi DeRouen	**(408) 947-4902** **Mobile: (408) 410-8916**
Madelene Gani	**(408) 947-6876** **Mobile: (510) 847-8923**
David Gill	**(408) 947- 6724** **Mobile: (408) 476-7353**
Bob Giusti	**(408) 947-5571** **Mobile: (408) 832-5049**
Brian Joyce	**(408) 947-5627** **Mobile: (408) 472-1391**
Oleg Katkov	**(408) 947-5428** **Mobile: (408) 829-0793**
Alexander Levchenko	**(408) 947-6740** **Mobile: (408) 386-0842**
◆ John S. MacArthur	**(408) 947-5566** **Mobile: (917) 257-5148**
Rick Manning *(resident in Salt Lake City)*	**(801) 350-3461** **Mobile: (801) 319-2915**
Sadler Nelson	**(408) 947-6523** **Mobile: (408) 234-7748**
Fred Round	**(408) 947-5581** **Mobile: (408) 857-2780**
Wright H. Schickli	**(408) 947-6778** **Mobile: (650) 776-3297**
Dilshod Sharapov	**(408) 947-6630**
Fred Stewart	**(408) 947-4974** **Mobile: (650) 823-3001**
Todd Uyehara	**(408) 947-6870** **Mobile: (408) 859-7110**
Beth L. Williams	**(408) 947-6716** **Mobile: (650) 773-0568**

Foreign Desk

Howard Lambert, *European VAT*	**(408) 947-6717**

State and Local Taxes

Craig Williams *(resident in Walnut Creek)*	**(925) 930-2741** **Fax: (925) 256-2686**

Transfer Pricing

Lonnie Brist	**(408) 947-5692** **Portland: (503) 414-7932** **Mobile: (408) 421-2275**
Nick Ronan	**(408) 947-4964** **Mobile: (650) 906-3869**
Kelly Russell	**(408) 947-5441** **Mobile: (650) 248-5359**
Simon Webber	**(408) 947-6662** **Mobile: (408) 655-7787**
◆ John Wills	**(408) 947-5681** **Mobile: (408) 313-8546**

Human Capital

James Caltagirone	**(408) 947-6896** **Mobile: (408) 234-7525**
Thomas Chan	**(408) 947-6892**
Ivy Cheung	**(408) 947-6889**
Jennifer Commissaris	**(408) 947-6887**
Stephen Daas	**(408) 947-6749**
Firdausi Desai	**(408) 947-6886**
Kim Engstrom	**(408) 947-6885**
Mimi Fung	**(408) 947-6883**
◆ Claudia Howe	**(408) 947-6872**
Rahat Marfatia	**(408) 947-6859**
Kerry Martin *(resident in Salt Lake City)*	**(801) 350-3306**
Wes Okumura	**(408) 947-5403** **Mobile: (408) 307-8198**
Tracy Optiz	**(408) 947-6838**
Suchitra Patri	**(408) 947-6808**
Rajiv Shenoy	**(408) 947-5767**
Carol-Ann Simon	**(408) 947-6695**
Brian Steuber	**(408) 947-6689** **Mobile: (650) 224-4227**

SEATTLE, WASHINGTON — GMT -8

Ernst & Young LLP
999 Third Avenue, Suite 3500
Seattle, WA 98104
(206) 621-1800
Fax: (206) 654-7799

International Tax

Michael Ferguson	**(206) 654-7493** **Mobile: (206) 910-1541**
Phil C. Grad	**(206) 654-7456** **Mobile: (206) 909-4180**
◆ Stuart Ison	**(206) 654-7523** **San Francisco: (415) 955-4104** **Mobile: (206) 200-7070**
Shane Johnson	**(206) 654-6376** **Mobile: (206) 714-1355**
Christopher Spaniac	**(206) 654-7611** **Mobile: (425) 941-0820**

Human Capital

Genevieve Deich	**(206) 654-7499**
James Dolan	**(206) 654-7496**
Sue Robison	**(206) 654-6398**
Charlie Tong	**(206) 654-7128**
Sandy Wight	**(206) 654-7498**

STAMFORD, CONNECTICUT — GMT -5

Ernst & Young LLP
1111 Summer Street
Stamford, CT 06905

(203) 674-3000
Fax: (203) 674-3001
(203) 674-3312 (International Tax)

International Tax

Atikah Arifin	(203) 674-3029 Mobile: (203) 219-5018
◆ Paul J. Biehl	(203) 674-3387 Mobile: (203) 856-4935
James Wall	(203) 674-3369 Mobile: (203) 246-9335 E-mail: james.wall02@ey.com

Global Withholding Tax Reporter

Danielle C. Clark	(203) 674-3693 Mobile: (914) 414-3233
Mara S. Lamanna	(203) 674-3624
Elaine Sullivan-Marino	(203) 674-3608

State and Local Taxes

Robert G. Lyons	(203) 674-3306
Stanley A. Solomon	(203) 674-3174

TOLEDO, OHIO — GMT -5

Ernst & Young LLP
One SeaGate
Suite 1200
Toledo, OH 43604

(419) 244-8000
Fax: (419) 241-1128 (Tax)

International Tax

James E. Adams	(419) 321-5557 Mobile: (419) 345-1886 E-mail: jim.adams@ey.com

Global Tax Analysis Group (GTAG)

Christopher T. Schilling	(419) 321-5486 Mobile: (419) 302-7506

Human Capital

David E. Bowland	(419) 321-5523 Mobile: (419) 265-7534 E-mail: dave.bowland@ey.com

WASHINGTON, D.C. — GMT -5

(A)
Ernst & Young LLP
National Office
1225 Connecticut Avenue NW
Washington, DC 20036

(202) 327-6000
Fax: (202) 327-6200 (General)
(202) 327-6721 (International Tax)

(B)
Ernst & Young LLP
Washington Practice Office
8484 Westpark Drive
McLean, VA 22102

(703) 747-1000
Fax: (703) 747-0100
(703) 747-0128 (International Tax)

(C)
McKee Nelson LLP
(An independent law firm allied with Ernst & Young LLP)
1919 M Street NW, Suite 800
Washington, DC 20036

(202) 775-1880
Fax: (202) 775-8586

(D)
Washington Council Ernst & Young
1150 17th Street, NW
Suite 600
Washington, DC 20036
(202) 293-7474
Fax: (202) 293-8811

International Tax

◆ Marjorie A. Rollinson, *Washington, D.C. ITS National Leader (A)*	**(202) 327-5757** **Mobile: (703) 408-2385** **E-mail: margie.rollinson@ey.com**
David M. Benson *(A)*	**(202) 327-5788**
Howard A. Berger *(A)*	**(202) 327-8797**
Dawn Duncan *(A)*	**(202) 327-7268**
Laura Y. Fiske *(A)*	**(202) 327-7867**
Ana Guzman *(A)*	**(202) 327-6603**
Mark D. Harris *(A)*	**(202) 327-8958** **E-mail: mark.harris1@ey.com**
Mark Hazelton *(A)*	**(202) 327-7594**
Lilo A. Hester *(A)*	**(202) 327-5764**
Vickie Kraay *(A)*	**(202) 327-5905**
William Martin *(B)*	**(703) 747-1682** **Mobile: (214) 912-0430**
Michael F. Mundaca *(A)*	**(202) 327-5691** **Mobile: (202) 413-6193**
Jose Murillo *(A)*	**(202) 327-6425**
Marissa Nguyen *(A)*	**(202) 327-8353**
Margaret O'Connor *(A)*	**(202) 327-6229**
Alberic (Al) Paul *(B)*	**(703) 747-1887** **Mobile: (703) 395-7825**
Lisa Wadlin *(B)*	**(703) 747-1540** **Mobile: (703) 862-3048**
Kenneth Wood *(A)*	**(202) 327-8018**

Transfer Pricing

◆ Bob Ackerman *(A)*	**(202) 327-5944**
David J. Canale *(A)*	**(202) 327-7653**
Paul Chmiel *(resident in Metropark)*	**(732) 516-4482**
Chris J. Faiferlick *(A)*	**(202) 327-8071**
Karen S. Kirwan *(A)*	**(202) 327-8731**
Donna McComber *(B)*	**(703) 747-0627**
Kathryn O'Brien *(A)*	**(202) 327-8028**
Mary K. Thomas *(A)*	**(202) 327-7736** **E-mail: mary.thomas6@ey.com**
Colleen M. Warner, *Mid-Atlantic Practice (resident in Chicago)*	**(312) 879-3633** **Mobile: (312) 622-1303**

International Capital Markets

Matthew Blum *(resident in Boston)*	**(617) 859-6040** **Mobile: (617) 642-7955** **E-mail: matt.blum@ey.com**
Douglas Chestnut *(A)*	**(202) 327-5780**
◆ David A. Golden *(A)*	**(202) 327-6526**
Elizabeth G. Hale *(A)*	**(202) 327-8070** **E-mail: liz.hale@ey.com**
Richard Larkins *(A)*	**(202) 327-7808**
◆ Marc Levy *(A)*	**(202) 327-8079**
Paul E. Palmer *(A)*	**(202) 327-5951**
Timothy Wichman *(A)*	**(202) 327-7234**

Global Tax Analysis Group (GTAG)

Ariel E. Lewkowicz *(A)*	**(202) 327-8803**
Paul A. Smith *(A)*	**(202) 327-6891**
Alycia Spitzmueller *(A)*	**(202) 327-8310**

Customs and International Trade

Daniel J. Cannistra *(A)*	**(202) 327-8337**
Nicholas P. Nebolsine *(A)*	**(202) 327-5617**
Robert J. Schadt *(A)*	**(202) 327-7743**

International Treaties, Estates and Private Wealth

Paula Charpentier *(A)*	**(202) 327-6525**
Joseph Henderson *(A)*	**(202) 327-8865**

International Tax – Education

Carol Shaffer *(A)*	**(202) 327-5738**

International Tax – Knowledge and Technology

John Turro *(A)*	**(202) 327-8019**

Insurance

Jeffrey M. Delle Fave *(resident in Philadelphia)*	**(215) 448-5478** **Mobile: (609) 238-8549**
★ Terry A. Jacobs *(A)*	**(202) 327-8705**
Kevin M. Owens *(A)*	**(202) 327-8828**

Transaction Advisory Services (TAS)

Lynlee C. Baker-Garbett *(A)*	**(202) 327-8086**
Michael P. Baldasaro *(resident in New York)*	**(212) 773-0874**
John Broadbent *(A)*	**(202) 327-8014**
Nelson F. Crouch *(A)*	**(202) 327-7421**
Andrew J. Dubroff *(A)*	**(202) 327-8730**
Kevin A. Duvall *(resident in Houston)*	**(713) 750-8366**
Karen M. Erickson *(resident in Chicago)*	**(312) 879-2393**
Steven M. Flanagan *(A)*	**(202) 327-8034**
David C. Garlock *(A)*	**(202) 327-8733**
Lawrence M. Garrett *(A)*	**(202) 327-5987**
Brian B. Gibney *(A)*	**(202) 327-8877**
Karen G. Gilbreath *(A)*	**(202) 327-7704**
Kim O. Golightly *(A)*	**(202) 327-8726**
Robert P. Hanson *(A)*	**(202) 327-5696**
Robert J. (Jerry) Mason *(A)*	**(202) 327-8394**
Lee D. Muchnikoff *(A)*	**(202) 327-8304**
Christopher J. Nelson *(A)*	**(202) 327-6631**
Brian A. Peabody *(A)*	**(202) 327-6440**
Torsdon D. Poon *(A)*	**(202) 327-8005**
Kirsten L. Simpson *(A)*	**(202) 327-6643**
Gary R. Vogel *(A)*	**(202) 327-6392**
Rose L. Williams *(A)*	**(202) 327-7577**
◆ Mark L. Yecies *(A)*	**(202) 327-8700**

Legislative Services

David M. Benson *(A)*	**(202) 327-5788**
LaBrenda Garrett-Nelson *(D)*	**(202) 467-4312** **E-mail: labrenda.garrettnelson@ey.com**
Michael F. Mundaca *(A)*	**(202) 327-5691**

McKee Nelson LLP (An independent law firm allied with Ernst & Young LLP)

John Magee *(C)*	**(202) 775-8671**
William F. Nelson *(C)*	**(202) 775-8582**

A. At a Glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35 (a)

Withholding Tax (%) (b)	
Dividends	30 (c)
Interest	30 (c)(d)
Royalties from Patents, Know-how, etc.	30 (c)
Branch Remittance Tax	30 (e)
Net Operating Losses (Years)	
Carryback	2 (f)
Carryforward	20 (f)

(a) In addition, many states levy income or capital-based taxes. An alternative minimum tax is imposed (see Section B).
(b) Rates may be reduced by treaty.
(c) Applicable to payments to nonresidents.
(d) Interest on certain "portfolio debt" obligations issued after 18 July 1984 and noneffectively connected bank deposit interest are exempt from withholding tax.
(e) This is the branch profits tax (see Section D).
(f) Special rules apply to certain types of losses and entities. For details, see Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. U.S. corporations are subject to federal taxes on their worldwide income, including income of foreign branches (whether or not the profits are repatriated). In general, a U.S. corporation is not taxed by the United States on the earnings of a foreign subsidiary until the subsidiary distributes dividends or is sold or liquidated. Numerous exceptions to this deferral concept may apply, resulting in current U.S. taxation of some or all of the foreign subsidiary's earnings.

Branches of foreign corporations generally are taxable on income that is effectively connected with a U.S. trade or business. However, if the foreign corporation is resident in a country having an income tax treaty with the United States, business profits are taxable by the United States only to the extent the income is attributable to a permanent establishment in the United States.

Rates of Corporate Tax. The following rates apply for 2004. A corporation's taxable income exceeding $75,000 but not exceeding $10 million is taxed at 34%. Corporations with taxable income between $335,000 and $1 million are effectively taxed at 34% on all taxable income (including the first $75,000). Corporations with taxable income of less than $335,000 receive partial benefit from the graduated rates of 15% and 25% that apply to the first $75,000 of taxable income. A corporation's taxable income exceeding $15 million but not exceeding $18,333,333 is subject to an additional tax of 3%. Corporations with taxable income in excess of $18,333,333 are effectively subject to tax at a rate of 35% on all taxable income. These rates apply both to U.S. corporations and to the income of foreign corporations that is effectively connected with a U.S. trade or business.

Alternative Minimum Tax. The alternative minimum tax (AMT) is designed to prevent corporations with substantial economic income from using preferential deductions, exclusions and credits to substantially reduce or eliminate their tax liability. To achieve this goal, the AMT is structured as a separate tax system with its own allowable deductions and credit limitations. The tax is imposed at a flat rate of 20% on alternative minimum taxable income (AMTI). It is an "alternative" tax because corporations are required to pay the higher of the regular tax or AMT. To the extent the AMT exceeds regular tax, a minimum tax credit is generated and carried forward to offset the taxpayer's regular tax to the extent it exceeds the AMT in future years.

In general, AMTI is computed by making adjustments to regular taxable income and then adding back certain nondeductible tax preference items. The required adjustments are intended to convert preferential deductions allowed for regular tax (for example, accelerated depreciation) into less favorable alternative deductions that are allowable under the parallel AMT system. In addition, an adjustment based on adjusted current earnings can increase or decrease AMTI. Net operating losses and foreign tax credits may reduce AMT by up to 90%, compared to a potential reduction of 100% for regular tax purposes.

An AMT exemption applies to small business corporations that meet certain income requirements.

Capital Gains and Losses. Capital gains are taxed at a maximum rate of 35%. In general, capital losses may offset only capital gains, not ordinary income. A corporation's excess capital loss may be carried back three years and forward five years to offset capital gains in such other years.

Administration. The annual tax return is due by the 15th day of the third month after the close of the company's fiscal year. A corporation is entitled, upon request, to an automatic six-month extension to file its return. In general, 100% of a corporation's tax liability must be paid through quarterly estimated tax installments during the year in which the income is earned. The estimated tax payments are due on the 15th day of the fourth, sixth, ninth and twelfth months of the company's fiscal year.

Foreign Tax Relief. A tax credit is allowed for foreign income taxes paid, or deemed paid, by U.S. corporations, but it is limited to the U.S. tax on the foreign-source portion of a company's worldwide taxable income. Separate limitations must be calculated based on various categories of income, including the following: passive income; high withholding tax interest income; and dividend income from each foreign corporation in which the company holds a 10% or greater interest and all U.S. shareholders hold a total interest of less than 50%. In addition, foreign tax credits, together with net operating loss deductions, may only reduce up to 90% of the AMT.

C. Determination of Taxable Income

General. Income for tax purposes is generally computed according to generally accepted accounting principles, as adjusted for certain statutory tax provisions. Consequently, taxable income frequently does not equal income for financial reporting purposes.

In general, a deduction is permitted for ordinary and necessary trade or business expenses. However, expenditures that create an asset having a useful life longer than one year may need to be capitalized and recovered ratably.

Depreciation. A depreciation deduction is available for most property (except land) used in a trade or business or held for the production of income, such as rental property. Tangible depreciable property that is used in the United States (whether new or used) and placed in service after 1980 and before 1987 is generally depreciated on an accelerated basis (ACRS). Tangible depreciable property that is used in the United States and placed in service after 1986 is generally depreciated under a modified ACRS basis. In general, under the modified ACRS system, assets are grouped into six classes of personal property and into two classes of real property. Each class is assigned a recovery period and a depreciation method. The following are the depreciation methods and recovery periods for certain assets.

Asset	Depreciation Method	Recovery Period (Years)
Commercial and industrial buildings	Straight-line	39 (a)
Office equipment	Double-declining balance or straight-line	7 or 12
Motor vehicles and computer equipment	Double-declining balance or straight-line	5 or 12
Plant and machinery	Double-declining balance or straight-line	7 or 12 (b)

(a) 31.5 years if placed in service before 13 May 1993.
(b) These are generally the recovery periods.

Alternatively, a taxpayer may elect to use the straight-line method of depreciation over specified longer recovery periods or the methods prescribed for AMT purposes, which would avoid a depreciation adjustment for AMT.

The cost of intangible assets developed by a taxpayer may be amortized over the determinable useful life of an asset. Certain intangible assets, including goodwill, going concern value, patents and copyrights, may generally be amortized over 15 years if they are acquired as part of a business after 10 August 1993. A taxpayer may elect to apply this provision to all property acquired after 25 July 1991.

Tax depreciation is generally subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. The amounts recaptured are subject to tax as ordinary income.

Net Operating Losses. If allowable deductions of a U.S. corporation or branch of a foreign corporation exceed its gross income, the excess is called a net operating loss (NOL). In general, NOLs may be carried back 2 years and forward 20 years to offset taxable income in those years. A specified liability loss (product liability loss) may be carried back 10 years. Commercial banks may carry back bad debt losses 10 years and carry forward such losses 5 years. A real estate investment trust (REIT) may not carry back an NOL to a tax year in which the entity operated as a REIT. Farming business losses may be carried back five years. Limitations apply in utilizing NOLs of acquired operations.

Inventories. Inventory is generally valued for tax purposes at either cost or the lower of cost or market value. In determining the cost of goods sold, the two most common inventory flow assumptions used are last-in, first-out (LIFO) and first-in, first-out (FIFO). The method chosen must be applied consistently. Uniform capitalization rules require the inclusion in inventory costs of many expenses previously deductible as period costs.

Dividends. In general, dividends received from other U.S. corporations qualify for a 70% dividends-received deduction, subject to certain limitations. The dividends-received deduction is generally increased to 80% of the dividend if the recipient corporation owns at least 20% of the distributing corporation. Dividend payments between members of an affiliated group of U.S. corporations qualify for a 100% dividends-received deduction. In general, an affiliated group consists of a U.S. parent corporation and all other U.S. corporations in which the parent owns, directly or indirectly through one or more chains, at least 80% of the total voting power and value of all classes of shares (excluding nonvoting preferred shares).

Consolidated Returns. An affiliated group of U.S. corporations (as described in *Dividends* above) may elect to determine its taxable income and tax liability on a consolidated basis. The consolidated return provisions generally allow electing corporations to report aggregate group income and deductions in accordance with the requirements for financial consolidations. Consequently, the net operating losses of some members of the group can be used to offset the taxable income of other members of the group, and transactions between group members, such as intercompany sales and dividends, are generally deferred or eliminated until there is a transaction outside the group. Under certain circumstances, losses incurred on the sale of consolidated subsidiaries are disallowed.

Foreign Subsidiaries. Under certain circumstances, undistributed income of a foreign subsidiary controlled by U.S. shareholders is taxed to the U.S. shareholders on a current basis, as if the foreign subsidiary distributed a dividend on the last day of its taxable year. This may result if the foreign subsidiary invests its earnings in "U.S. property" (including loans to U.S. shareholders) or earns certain types of income (referred to as "Subpart F" income), including certain passive income and "tainted" business income.

Two other regimes restrict the deferral of tax on offshore income. The foreign personal holding company (FPHC) rules apply to foreign corporations with predominantly passive income that are closely held by U.S. individual shareholders. The passive foreign investment company (PFIC) rules apply to foreign corporations with a high percentage of passive income or passive assets. The PFIC rules do not include a minimum threshold of ownership by U.S. shareholders.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Branch profits tax, on branch profits (reduced by reinvested profits and increased by withdrawals of previously reinvested earnings); the rate may be reduced by treaty	30
Branch interest tax, on interest expense paid by a branch (unless the interest would be exempt from withholding tax if paid by a U.S. corporation); the rate may be reduced by treaty	30
Personal holding company (PHC) tax, applies to a U.S. or foreign corporation not meeting the definition of a foreign personal holding company (FPHC) that satisfies a passive-income test; in addition to regular tax or AMT; imposed on undistributed income	39.6
Accumulated earnings tax, penalty tax levied on a corporation (excluding an FPHC or a PHC) accumulating profits to avoid shareholder-level personal income tax; assessed on accumulated taxable income exceeding $250,000 ($150,000 for certain personal services corporations)	39.6
State and local income taxes, imposed by most states and some local governments	0 to 13
State and local sales taxes, imposed by many states and some local governments	Various
Payroll taxes	
Federal unemployment insurance (FUTA), imposed on first $7,000 of wages	6.2
Workmen's compensation insurance; provisions vary according to state laws; rates vary depending on nature of employees' activities	Various
Social security contributions (including 1.45% Medicare tax), imposed on	
Wages up to $87,900 (for 2004); paid by	
Employer	7.65
Employee	7.65
Wages in excess of $87,900 (for 2004; Medicare tax); paid by	
Employer	1.45
Employee	1.45

E. Miscellaneous Matters

Foreign-Exchange Controls. The United States currently has no foreign-exchange control restrictions.

Debt-to-Equity Rules. The United States has thin-capitalization principles under which the Internal Revenue Service (IRS) may attempt to limit the deduction for interest expense if a U.S. corporation's debt-to-equity ratio is too high. If a U.S. corporation is thinly capitalized, funds loaned to it by a related party may be recharacterized by the IRS as equity. As a result, the corporation's deduction for interest expense may be disallowed, and principal and interest payments may be considered distributions to the related party and be subject to withholding tax.

The United States has no fixed rules for determining if a thin-capitalization situation exists. A debt-to-equity ratio of 3:1 or less is usually acceptable to the tax authorities, provided the taxpayer can adequately service its debt without the help of related parties.

However, a deduction is disallowed for certain "disqualified" interest paid on loans made or guaranteed by related foreign parties that are not subject to U.S. tax on the interest received. This disallowed interest may be carried forward to future years and allowed as a deduction. No interest deduction is disallowed under this provision if the payer corporation's debt-to-equity ratio does not exceed 1.5:1. If the debt-to-equity ratio exceeds this amount, the deduction of "excess interest expense" is deferred. "Excess interest expense" is defined as the excess of interest expense over interest income, minus 50% of the adjusted taxable income of the corporation plus any "excess limitation carryforward."

Transfer Pricing. In general, the IRS may recompute the tax liability of related parties if, in its discretion, it is necessary to prevent the evasion of taxes or to clearly reflect income. Specific regulations require that related taxpayers (including U.S. and foreign affiliates) deal among themselves on an arm's length basis. Under the best-method rule included in the transfer-pricing regulations, the best transfer-pricing method is determined based on the facts and circumstances. Transfer-pricing methods that may be acceptable, depending on the circumstances, include uncontrolled price, resale price and profit-split. It is possible to reach transfer-pricing agreements in advance with the IRS.

If the IRS adjusts a taxpayer's tax liability, tax treaties between the U.S. and other countries usually provide procedures for allocation of adjustments between related parties in the two countries to avoid double tax.

Related-Party Loans. Under U.S. Treasury regulations, interest expense accrued on a loan from a related foreign lender must be actually paid before the U.S. borrower can deduct the interest expense.

F. Treaty Withholding Tax Rates

The following are U.S. withholding tax rates for dividend, interest and royalty payments from the United States to residents of various treaty countries.

	Dividends %	Interest %	Patent and Know-how Royalties %
Australia (o)	15/5/0 (w)	10/0 (x)	5
Austria	15/5 (a)	0	0
Barbados (u)	15/5 (a)	5	5
Belgium	15/5 (a)	15	0
Canada	15/5 (a)	10	0
China	10	10	10
Cyprus	15/5 (a)	10	0
Czech Republic	15/5 (a)	0	10
Denmark	15/5 (a)	0	0
Egypt	15/5 (a)	15	15
Estonia	15/5 (a)	10	10/5 (j)

	Dividends %	Interest %	Patent and Know-how Royalties %
Finland	15/5 (a)	0	5
France	15/5 (a)	0	5
Germany	15/5 (a)	0	0
Greece	30	30/0 (b)	0
Hungary	15/5 (a)	0	0
Iceland	15/5 (a)	0	0
India	25/15 (a)	15	15/10 (g)
Indonesia	15/10 (a)	10	10
Ireland	15/5 (a)	0	0
Israel	25/12.5 (a)	17.5/10 (e)	15/10 (f)
Italy (c)	15/5 (a)	15	10
Jamaica	15/10 (a)	12.5	10
Japan (v)	15/10 (a)	10	10
Kazakhstan	15/5 (a)	10	10
Korea	15/10 (a)	12	15
Latvia	15/5 (a)	10	10/5 (j)
Lithuania	15/5 (a)	10	10/5 (j)
Luxembourg	15/5 (a)	0	0
Mexico (s)	10/5/0 (y)	15/10/4.9 (d)	10
Morocco	15/10 (a)	15	10
Netherlands	15/5 (a)	0	0
New Zealand	15	10	10
Norway	15	0 (i)	0
Pakistan	30/15 (a)	30	0
Philippines	25/20 (a)	15	15
Poland	15/5 (a)	0	10
Portugal	15/10 (a)	10	10
Romania	10	10	15
Russian Federation	10/5 (a)	0	0
Slovak Republic	15/5 (a)	0	10
Slovenia	15/5 (a)	5	5
South Africa	15/5 (a)	0	0
Spain	15/10 (a)	10	10
Sweden	15/5 (a)	0	0
Switzerland	15/5 (a)	0	0
Thailand (t)	15/10 (a)	15/10 (m)	15/8/5
Trinidad and Tobago	30	30	15
Tunisia	20/14 (a)	15	15
Turkey	20/15 (a)	15/10 (m)	10/5 (n)
Ukraine	15/5 (a)	0	10
USSR (l)	30	0	0
United Kingdom (p)	15/5/0 (q)	0 (r)	0
Venezuela	15/5 (a)	10/4.9 (k)	10/5 (n)
Nontreaty countries	30	30 (h)	30

Various exceptions or conditions may apply, depending upon the terms of the particular treaty.

(a) The withholding rate is reduced to 5% (10% in the case of Indonesia, Jamaica, Japan, Korea, Morocco, Portugal, Spain and Thailand; 12.5% in the case of Israel; 14% in the case of Tunisia; 15% in the case of India, Pakistan and Turkey; and 20% in the case of the Philippines) if, among other conditions, the recipient is a corporation owning a specified percentage of the voting power of the distributing corporation.

(b) The exemption does not apply if the recipient controls directly or indirectly more than 50% of the voting power in the paying corporation.

(c) On 25 August 1999, the United States signed a new tax treaty with Italy. Under the new treaty, the withholding tax rate will be 5% for dividends paid to owners of 25% of the voting shares of the payer. For other dividends, the withholding tax rate will be 15%. The withholding tax rate on interest will be 10%. The withholding tax rate on royalties for computer software and industrial equipment will be 5%. For other royalties, the withholding tax rate will be 8%. The treaty will generally take effect on 1 January of the year following the date of the exchange of instruments of ratification. For withholding taxes, it will take effect on the first day of the second month following the exchange of instruments. The U.S. Senate gave its advice and consent on 5 November 1999, and President Clinton signed the U.S. instruments of ratification on 28 December 1999. However, the exchange of instruments of ratification has not yet occurred, and the treaty has not entered into force.

(d) The 4.9% rate applies to interest paid on loans (except back-to-back loans) made by banks and insurance companies and to interest paid on publicly traded securities. The 10% rate applies to interest paid by banks and to interest paid by sellers to finance purchases of machinery and equipment. The 15% rate applies to other interest.

(e) The 10% rate applies to interest on bank loans. The 17.5% rate applies to other interest.

(f) The 10% rate applies to copyright and film royalties.

(g) The 10% rate applies to certain types of royalties.

(h) Interest on certain "portfolio debt" obligations issued after 18 July 1984 and noneffectively connected bank deposit interest are exempt from withholding tax.

(i) The general withholding rate for interest may be increased to 10% if both Norway and the United States tax interest paid to nonresidents under their domestic tax laws. Norway reportedly does not impose tax on interest paid to nonresidents and, consequently, a 0% rate applies to U.S.-source interest under the treaty. The treaty also provides that a 0% rate applies to certain types of interest, such as interest paid on bank loans.

(j) The 5% rate applies to royalties paid for the use of commercial, industrial or scientific equipment.

(k) The 4.9% rate applies to interest paid on loans made by financial institutions and insurance companies. The 10% rate applies to other interest.

(l) The U.S. Department of Treasury has announced that the income tax treaty between the United States and the USSR, which was signed on 20 June 1973, continues to apply to the former republics of the USSR, including Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan, until the United States enters into tax treaties with these countries. The United States has entered into tax treaties with Estonia, Kazakhstan, Latvia, Lithuania, the Russian Federation and Ukraine. The withholding rates under these treaties are listed in the above table.

(m) The 10% rate applies to interest on loans granted by financial institutions. The 15% rate applies to other interest.

(n) The 5% rate applies to payments for the right to use industrial, commercial or scientific equipment. The 10% rate generally applies to other royalties.

(o) A protocol to amend the existing 1982 treaty between the United States and Australia was signed on 27 September 2001 and entered into force on 12 May 2003. The protocol revised the withholding tax rates for dividends, interest and royalties. The revised withholding tax rates are reflected in the above table. For withholding taxes on dividends, interest and royalties, the provisions of the new protocol are effective for amounts derived on or after 1 July 2003. For other U.S. taxes, the new protocol is effective for tax years beginning on or after 1 January 2004. For other Australian taxes, the protocol applies to income, profits, or gains derived in income years beginning on or after 1 July 2004.

(p) On 24 June 2001, the United States and the United Kingdom signed a new income tax treaty. On 19 July 2002, the United States and the United Kingdom signed a protocol amending the proposed treaty. On 31 March 2003, the U.S. and U.K governments exchanged instruments of ratification to the new treaty and protocol, which entered into force on that same date. The protocol introduced changes to the dividend withholding tax rates (for details regarding the new rates, see footnote [q]), but the withholding tax rates for interest and royalties generally remain at 0% (but see footnote [r] regarding interest). Article 29 of the new treaty provides various effective dates for the provisions of the treaty. For both U.S. and U.K. withholding taxes, the provisions are effective for amounts paid or credited on or after 1 May 2003. For all other U.S. income taxes (including the excise tax on insurance premiums and the branch profits tax) the treaty is effective for tax years beginning on or after

1 January 2004. For U.K. corporate taxes, the treaty is effective for financial years beginning on or after 1 April 2003. For all other U.K. income taxes and capital gains taxes (other than withholding taxes) the new treaty is effective for years of assessment beginning on or after 6 April 2003. For U.K. petroleum revenue tax, the treaty is effective for chargeable periods beginning on or after 1 January 2004. Residents entitled to claim benefits under the prior U.S.-U.K. income tax treaty that would have been entitled to greater benefits under such treaty may elect to apply the prior treaty in its entirety for an additional 12-month period from the date the new treaty would have otherwise been effective.

(q) The 0% rate applies if the dividends are paid by U.S. companies to U.K. companies that owned 80% or more of the voting shares of the payer of the dividends for a 12-month period preceding the declaration of the dividends and if either of the following additional conditions is met: the 80% test was met before 1 October 1998; or the recipient is a qualified resident under certain prongs of the limitation-on-benefits provision in the treaty. Dividends paid by a U.S. corporation to a U.K. parent that is owned by certain types of companies (for example, by a publicly traded German or other European Union [EU] company) may qualify for the 0% rate, subject to an anticonduit rule. The 0% rate also applies to U.S.-source dividend payments made to U.K. pension schemes. The 5% rate applies if the beneficial owner of the dividends is a company owning 10% or more of the payer. For other dividends, the 15% rate applies.

(r) Withholding tax may be imposed at the full domestic rate on interest paid in certain circumstances.

(s) A protocol to the U.S.-Mexico income tax treaty was signed on 26 November 2002, and entered into force on 3 July 2003. The protocol revised the dividend withholding tax rates, but it did not change the withholding tax rates for interest and royalties. The revised dividend withholding tax rates are reflected in the above table. The provisions in the protocol relating to dividend withholding tax are effective for dividends paid or credited on or after 1 September 2003. All other provisions of the protocol are effective for tax years beginning on or after 1 January 2004.

(t) On 18 December 2001, the U.S. Treasury announced that the U.S.-Thailand income tax treaty would not terminate because Thailand and the U.S. had exchanged diplomatic notes providing for the implementation of the treaty's exchange-of-information provisions. The treaty would have automatically terminated on 1 January 2004 if the exchange-of-information issue had not been resolved.

(u) Tax treaty negotiators from Barbados and the United States met the week of 20 October 2003 in Washington, D.C. to continue discussions to revise the existing tax treaty between the countries. The aim of these discussions is to ensure that the treaty operates in the manner intended, providing relief from double taxation for cross-border trade and investment between the two countries.

(v) On 10 June 2003, John Snow, the Secretary of the Treasury, announced that the United States and Japan have entered into an "agreement in principle" regarding the text of a new income tax treaty. After the proposed treaty is signed, it will be subject to U.S. and Japanese ratification procedures. The text of the new treaty will be released after it is signed. It is uncertain when the new treaty will be signed and when it will take effect.

(w) The 0% rate applies to dividends paid by an 80%-owned U.S. corporation to its parent company. The 5% rate applies to dividends paid to a company that directly owns at least 10% of the voting power of the payer. The 15% rate applies to other dividends.

(x) The 10% rate applies to all interest payments with the following exceptions: interest derived by the government of a contracting state; and interest derived by a financial institution unrelated to and dealing wholly independently with the payer.

(y) The 0% rate applies to the following dividends: dividends paid to certain recipients who own at least 80% of the voting shares of the payer of the dividends; and dividends paid to certain pension plans. The 5% rate applies if the conditions for the 0% rate are not met and if the recipient owns at least 10% of the payer of the dividends. The 10% rate applies if the 10% ownership threshold is not met. The protocol to the treaty (see footnote [s]) also amends Article 11A (Branch Tax) of the treaty to provide an exemption from the 5% "dividend equivalent amount" tax if certain conditions are met (the conditions are similar to those that apply with respect to the 0% withholding tax rate on dividends).

In addition to the signed but unratified treaties listed in the table above, the United States has signed tax treaties awaiting Senate approval and exchange of instruments of ratification with Argentina and Sri Lanka. On 20 September 2002, the United States and Sri Lanka signed a new protocol replacing an earlier protocol signed on 20 September 1991. The new protocol and the treaty with Sri Lanka, which was signed in 1985, will be sent to the U.S Senate for its advice and consent to ratification. Also, on 20 September 2001, a protocol to the Sri Lanka treaty covering bank secrecy issues was signed. On 3 May 2001, the United States initialed a tax treaty with Bangladesh.

The United States terminated its treaties with Aruba and the Netherlands Antilles, effective 1 January 1988. A modification of the U.S. termination notice provided that Article VIII of the treaties, which exempted from U.S. tax interest paid by U.S. persons to corporations and residents of Aruba and the Netherlands Antilles, remained in force. As a result, the United States had "mini tax treaties" with these countries. In 1995, the United States and the Netherlands Antilles agreed to limit application of their mini tax treaty. Under this agreement (protocol), which is effective from 30 December 1996, the mini tax treaty applies only to interest paid with respect to debt instruments issued on or before 18 July 1994 ("grandfathered Eurobonds interest"). The United States has indicated that it will renegotiate the mini tax treaty if requested by the Netherlands Antilles. The Netherlands Antilles has filed through the appropriate diplomatic channels a formal petition requesting renegotiation of the treaty. The United States terminated its mini tax treaty with Aruba, effective 1 January 1997.

U.S. VIRGIN ISLANDS

Please direct all inquiries regarding the U.S. Virgin Islands to the following persons in the Puerto Rico office: Blanca Alvarez (office telephone: [1] (787) 772-7061; mobile telephone: [1] (787) 306-2930; e-mail: blanca.alvarez@ey.com); Jorge M. Cañellas (office telephone: [1] (787) 772-7064; mobile telephone: [1] (787) 397-0911; e-mail: jorge.canellas@ey.com); or Teresita Fuentes (office telephone: [1] (787) 772-7066; mobile telephone: [1] (787) 671-6468; e-mail: teresita.fuentes@ey.com). The fax number is [1] (787) 753-0813.

A. At a Glance

Corporate Income Tax Rate (%)	38.5 (a)
Capital Gains Tax Rate (%)	38.5 (a)
Branch Tax Rate (%)	38.5 (a)
Withholding Tax (%) (b)	
Dividends	11
Interest	11
Royalties from Patents, Know-how, etc.	11
Branch Remittance Tax	11 (c)
Net Operating Losses (Years) (d)	
Carryback	2
Carryforward	20

(a) Maximum rate. Includes a nondeductible 10% surcharge.
(b) The statutory rate for each withholding tax is 10%. The U.S. Virgin Islands Bureau of Internal Revenue has taken the position that the 10% surcharge also applies to each withholding tax, and consequently the withholding rate is 11%.
(c) This is the branch profits tax, imposed on the earnings of a foreign corporation attributable to its branch, reduced by earnings reinvested in the branch and increased by reinvested earnings withdrawn (see Section B).
(d) These periods apply to losses incurred in tax years beginning after 5 August 1997. A three-year carryback period is available in certain circumstances.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. The system of corporate income taxation in force in the U.S. Virgin Islands is generally a mirror image of the U.S. Internal Revenue Code (I.R.C). The applicable law is the I.R.C. with "U.S. Virgin Islands" substituted for all references to the "United States." Significant differences between U.S. and U.S. Virgin Islands taxation are discussed below.

U.S. Virgin Islands corporations are subject to income tax on their worldwide income. A foreign corporation, which is a corporation organized outside the U.S. Virgin Islands, is subject to income tax only on its income from U.S. Virgin Islands sources and on its income that is effectively connected with the conduct of a trade or business in the U.S. Virgin Islands.

Rates of Corporate Income Tax. Corporations are taxed at the rates specified in the I.R.C., except that the U.S. Virgin Islands imposes an additional 10% surcharge on the tax liability of all domestic and foreign corporations. This increases the maximum effective income tax rate for 2003 to 38.5%.

U.S. Virgin Islands corporations may benefit from the tax exemptions and reductions indicated below.

Economic Development Program. Qualifying corporations are exempt from income tax on up to 90% of their income. In addition, they are exempt from real property, gross receipts and certain excise taxes. Other reductions in various taxes may apply.

Foreign Sales Corporations. Qualifying foreign sales corporations (FSCs) are exempt from the payment of income tax and other taxes, such as gross receipts tax, excise tax and custom duties. However, they must pay an annual franchise tax (see Section D). The World Trade Organization (WTO) ruled that the FSC regime violates international trade rules on subsidies. As a result, on 15 November 2000, the U.S. government enacted the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (the ETI Act). This act replaced the FSC measures with extraterritorial income exclusion measures, effective for transactions entered into after 30 September 2000. Consequently, corporations may not elect to be FSCs after 30 September 2000. On 22 June 2001, a WTO panel issued an interim report in which it held that the regime established by the act is a prohibited export subsidy under two WTO trade agreements. On 23 July 2001, the WTO panel issued its final version of the report, which affirmed the findings set forth in the interim report.

On 14 January 2002, in response to an appeal by the United States of the WTO panel's decision, the WTO appellate body affirmed the finding of the panel that the ETI Act violates U.S. obligations under WTO trade agreements. To comply with the WTO findings, bills containing measures that would repeal the ETI regime without any transitional relief were introduced. The bills would also repeal the transitional rules that were enacted in 2000 as part of the replacement of the FSC regime with the ETI regime. The Ways and Means Committee of the U.S. House of Representatives is still considering these bills.

Exempt Companies. Qualifying corporations that are foreign-owned and do not carry on a trade or business in the United States or in the U.S. Virgin Islands may elect a 20-year exemption from substantially all U.S. Virgin Islands taxes.

Alternative Minimum Tax. The alternative minimum tax rules in the U.S. Virgin Islands are the same as those in the United States.

Branch Profits Tax and Branch Interest Tax. The branch profits tax (BPT) and branch interest tax (BIT) rules in the U.S. Virgin Islands are similar to those in the United States, except that the BPT and BIT rates are 11% (including the 10% surcharge) instead of 30%. Under certain circumstances, these taxes may not apply to U.S. corporations doing business in the U.S. Virgin Islands.

Capital Gains and Losses. The provisions applicable to capital gains and losses in the U.S. Virgin Islands are the same as those in the United States.

Administration. The annual income tax return is due by the fifteenth day of the third month after the close of the company's fiscal year. On request, a corporation receives an automatic six-month extension to file its return. In general, 100% of a corporation's tax liability must be paid through estimated tax installments during the year in which the income is earned.

Domestic and foreign corporations file their returns with the Bureau of Internal Revenue (BIR).

Foreign Tax Relief. The provisions related to foreign tax credits are similar to those in the United States.

Foreign Investment in Real Property Tax Act. The Foreign Investment in Real Property Tax Act (FIRPTA) applies to corporations owning real property interests in the U.S. Virgin Islands. Under this act, a foreign corporation (including a U.S. corporation) pays tax attributable to its gain from the sale of U.S. Virgin Islands property to the U.S. Virgin Islands treasury.

C. Determination of Trading Income

General. The rules for determining trading income are the same as those in the United States.

Groups of Companies. A U.S. Virgin Islands corporation may not file a consolidated income tax return with a related U.S. tax entity. However, a group of U.S. Virgin Islands corporations may file a consolidated return with the BIR if they meet the requirements set by the I.R.C. provisions for consolidated returns.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Gross receipts tax, on total business receipts	4%
Excise tax, on imported goods, merchandise and commodities for sale or for processing in the U.S. Virgin Islands unless exempt by law; tax is computed on invoice value plus a 5% mark-up	2% to 35%
Real property tax, on 60% of the actual value of the property as determined by the tax assessor; rate reduced on a primary residence	1.25%
Franchise tax, imposed annually on capital stock of domestic and foreign corporations qualified to do business in the U.S. Virgin Islands; minimum tax is $150 (special rules apply to U.S. FSCs; see below)	0.15%
Franchise tax, payable annually by U.S. FSCs, on non-U.S. Virgin Islands trading gross receipts; up to 50% of tax liability may be offset by wages paid to U.S. Virgin Islands residents	
Small corporations	$400 to $900
Regular corporations	$1,000 to $25,000
Stamp tax, on transfer of real or personal property located in U.S. Virgin Islands	2%
Payroll taxes	
Federal unemployment insurance (FUTA), imposed on first $7,000 of wages	6.2%
U.S. Virgin Islands unemployment insurance (creditable against FUTA)	5.4%
Workmen's compensation insurance, varies depending on classification of employee's activities	Various
Social security contributions; subject to the same limitations as in the United States; imposed on	
Wages up to $87,900 (for 2004); paid by	
Employer	7.65%
Employee	7.65%
Wages in excess of $87,900 (for 2004); paid by	
Employer	1.45%
Employee	1.45%
Insurance premium tax, on gross premiums received by insurers for insurance policies covering risks in the U.S. Virgin Islands; certain exceptions apply	5%

E. Miscellaneous Matters

Foreign-Exchange Controls. The U.S. Virgin Islands has not enacted any specific foreign-exchange controls, but U.S. laws concerning cash transaction reporting and other financial matters are applicable.

Debt-to-Equity Rules. The U.S. Virgin Islands debt-to-equity rules are the same as those in the United States.

F. Treaty Withholding Tax Rates

The U.S. Virgin Islands does not have tax treaties with foreign governments.

URUGUAY

(Country Code 598)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@uy.ey.com

MONTEVIDEO **GMT -3**

Cr. R. Villarmarzo y Asoc. **(2) 902-3147**
Avda. 18 de Julio 984 **Fax: (2) 902-1331**
4th and 5th Floors
Palacio Brasil
P.O. Box 1303
11100 Montevideo
Uruguay

Corporate Tax

★ Luis Montone	**(2) 902-3147**
Fernando Reggio	**(2) 902-3147**
Martha Roca	**(2) 902-3147**
Ricardo Villarmarzo	**(2) 902-3147**

A. At a Glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	30 (a)(b)
Interest	0
Royalties	30 (a)(b)
Equipment Rent	30 (a)(b)
Technical Assistance Payments and Service Fees	30 (a)(b)
Branch Remittance Tax	30 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) Applicable to nonresidents. Nonresident corporations are corporations not incorporated in Uruguay.
(b) See Section B.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Corporations are taxed on Uruguay-source income, defined as income derived from activities performed, property situated or economic rights used in Uruguay. Any profits, including capital gains, are taxable.

Rate of Corporate Tax. The corporate tax rate is 30%.

Capital Gains. Capital gains are included in ordinary income and taxed at the regular corporate rate.

Administration. Corporations are required to make monthly advance payments. These payments are calculated by applying to monthly gross income a fraction with a numerator equal to income tax for the prior tax year and a denominator equal to the corporation's gross income for that year. For the months of the current year prior to filing the income tax return, however, the income tax and gross income used are from the corresponding months of the prior year. Filing of tax returns and payment of the balance must be made by the fourth month after the end of the accounting period, which is the company's tax year-end.

Dividends and Branch Remittances. Dividends paid to residents are tax-exempt. Dividends and branch remittances are subject to a withholding tax of 30% if they are included in taxable income in the country of the beneficiary and if such country allows a tax credit for the tax withheld in Uruguay.

Withholding Tax on Certain Payments to Nonresidents. In general, a 30% withholding tax is imposed on the following payments to nonresidents: technical assistance payments; service fees; equipment rent; and royalties. Technical assistance payments and service fees are exempt from tax if they are taxed in the country of the beneficiary and if the beneficiary does not receive a tax credit for the tax withheld in Uruguay.

C. Determination of Trading Income

General. Tax is applied on taxable profit, which is accounting profit earned in the accounting period after tax adjustments. There is an inflation adjustment. All Uruguay-source income is taxable. Expenses are deductible to the extent incurred in producing taxable income.

Inventories. Stock is valued according to cost of purchases or production costs. Last-in, first-out (LIFO), first-in, first-out (FIFO), average cost and market price are acceptable methods. The corporation can choose which method to use, but may not change the method without prior authorization.

Provisions. Only deductions for expenses already incurred are allowed. Provisions for bad debts and severance pay are not allowed. Bad debts may be written off if the debtor goes bankrupt or if 18 months have elapsed since the obligation to pay the debt became due.

Depreciation. A depreciation deduction may be taken on tangible assets based on their useful lives using the straight-line method. The following are some of the applicable rates.

Asset	Rate (%)
Commercial and industrial buildings	2/3 (a)
Motor vehicles	10
Office equipment	10 (b)
Machinery and equipment	10 (b)

(a) The 2% rate applies to buildings in urban areas; the 3% rate applies to buildings in rural areas.
(b) This is the usual rate. The rate for a particular asset depends on its estimated useful life.

For some assets, the units-of-production method may be used. Goodwill may not be depreciated.

Relief for Losses. The general rule is that losses may be carried forward for three years and deducted from income without limit. No carryback is possible.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), on the sale of products and most services and on imported goods	
Standard rate	23
Rate on basic foodstuffs and pharmaceuticals	14
Social security finance contribution (*contribucion al finaciamiento de la seguridad social*, or COFIS), on sales to companies or the government of products subject to VAT or excise tax	3
Net worth tax, on corporate net worth, computed using values used for tax purposes; up to 50% of this tax may be credited against corporate income tax	
Banks and credit card corporations	2.8
Others	1.5
Social security contributions, on salaries and wages; imposed on	
Salaries and wages up to US$1,000; paid by	
Employer	
Standard rate	18.625
Enterprises engaged in qualified industrial activities	6.125
Employee	18.125 to 36.125
Salaries and wages exceeding US$1,000; paid by	
Employer	6.125
Employee	3.125 to 21.125

E. Miscellaneous Matters

Foreign-Exchange Controls. Uruguay does not impose foreign-exchange controls. No restrictions are imposed on inbound or outbound investments. The transfer of profits and dividends, loan principal and interest, royalties and fees is unlimited. Nonresidents may repatriate capital, together with accrued capital gains and retained earnings, subject to applicable withholding taxes and company law considerations (for example, the requirement that companies transfer a portion of their annual income to a reserve).

Import and export operations are transacted at a free rate determined by the market.

Debt-to-Equity Rules. No specific debt-to-equity rules apply in Uruguay.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %
Germany	15	0	15 (a)
Hungary	15	0	15
Nontreaty countries	30 (b)	0	30 (b)

(a) For technical assistance payments, the rate is 10%.
(b) See Section B.

UZBEKISTAN

(Country Code 998)

Uzbekistan does not observe daylight savings time.

TASHKENT **GMT +5**

Ernst & Young Uzbekistan
Inconel Business Center, 3rd Floor
75 Pushkin Street
Tashkent 700000
Uzbekistan

(71) 120-6482
Fax: (71) 120-6483

Corporate Tax

Feruz Fidaev
(71) 120-6482
Mobile: (90) 189-3602
E-mail: feruz.fidaev@uz.ey.com

★ Petr V. Medvedev
(resident in Almaty)
[7] (3272) 585-960
Mobile: [7] (333) 222-3377
E-mail: petr.v.medvedev@kz.ey.com

This chapter reflects the tax law as of 1 November 2003.

A. At a Glance

Corporate Profits Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (a)
Permanent Establishment Tax Rate (%)	20 (a)
Branch Profits Tax Rate (Additional Tax) (%)	10 (b)
Withholding Tax (%) (c)	
Dividends	15 (d)
Interest	15 (d)
Royalties from Patents, Know-how, etc.	20 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	0

(a) This is the general corporate profits tax rate.
(b) This tax is imposed on the taxable profits transferred abroad by permanent establishments after payment of the profits tax.
(c) The withholding taxes are considered to be final taxes.
(d) The withholding tax is imposed on payments to Uzbek companies and individuals and to foreign companies without a permanent establishment in Uzbekistan.
(e) The withholding tax is imposed on payments to foreign companies without a permanent establishment in Uzbekistan.

B. Taxes on Corporate Income and Gains

Corporate Profits Tax. Most enterprises in Uzbekistan, including Uzbek companies with foreign participation, are subject to the general profits tax regime. Small businesses and retail and wholesale trading companies are subject to different regimes. Foreign companies that are deemed by the tax authorities to have a permanent establishment (PE) in Uzbekistan are taxable on profits derived from business activities of the PE in Uzbekistan. The definition of a PE in Uzbek legislation is somewhat similar to the definition of a PE in the model treaty of the Organization for Economic Cooperation and Development (OECD), with certain exceptions. However, the legislation regarding the taxation and treatment of PEs in Uzbekistan is undeveloped.

Banks and insurance companies are subject to income tax instead of profits tax. The major difference between the two taxes is that salary expenses are not deductible for income tax purposes.

Rates of Corporate Tax. The regular corporate profits tax rate is 20%. This rate also applies to Uzbek enterprises with foreign participation and to PEs of foreign companies.

PEs are also subject to a 10% tax on the repatriation of their profits after deduction of the corporate profits tax.

Foreign legal entities without a PE in Uzbekistan are subject to withholding tax on income derived from their activities in Uzbekistan. The following are the withholding tax rates.

Nature of Payment	Rate (%)
Dividends and interest	15
International communication and freight fees	6
Insurance premiums	10
Royalties, rent, management fees and fees for other services performed in Uzbekistan but not connected with an Uzbek PE	20

Capital Gains. Capital gains are included in taxable profits and are subject to tax at the regular corporate tax rate. Capital losses are deductible only if they are incurred on fixed assets used in production for at least three years.

Administration. The tax year is the calendar year.

Tax declarations must be filed quarterly by the 25th day of the month following the reporting quarter and annually by 15 February of the year following the tax year. Companies must file financial statements together with the tax declarations. Companies with foreign participation must file the annual declaration by 25 March.

The final tax liability must be paid within five days after the deadline for filing the tax declarations. Quarterly estimates of the tax payable must be made by the fifth day of the first month of the quarter. Tax installment payments based on the estimates are required to be made by the 15th day of each month. Companies generating profits of less than 200 minimum monthly wages per reporting quarter (approximately US$1,115) are subject to profits tax based on actual quarterly profits and are not required to pay installments of profits tax.

On written request, excess payments of tax must be refunded within a 30-day period or be offset against future tax liability. In practice, it is difficult to obtain refunds of overpayments of tax.

Dividends. Dividends, including those paid to domestic enterprises, are subject to a withholding tax at a rate of 15%. Dividends received by a legal entity and reinvested into the charter fund of the payer of the dividends are exempt from tax.

Foreign Tax Relief. Under the double tax treaties of Uzbekistan, a foreign tax credit is available for foreign tax paid on income earned abroad. The amount of the tax credited may not exceed the amount of tax that would have been accrued on this income at the rates in effect in Uzbekistan.

C. Determination of Trading Income

General. Taxable profits are equal to the annual net profits disclosed in the company's Uzbek financial statements, as adjusted by the tax law. Financial statements must be prepared on an accrual basis and be supported by documentation. The following are the most significant items that are not deductible for tax purposes:
- Advertising, entertainment and business travel expenses, insurance and long distance telephone charges in excess of (low) statutory limits;
- Interest on nonbank and long-term bank loans;
- Losses resulting from misappropriations of funds or assets;
- Car allowances;
- Mobile phone expenses;
- Charitable donations;
- Environmental and social infrastructure maintenance expenses; and
- Penalties.

Special Deductions. Taxable profits may be reduced by the following special deductions:
- Amounts reinvested for specified purposes such as reconstruction, expansion and development of production, and the installation of new facilities (less current depreciation), up to 30% of taxable profits;
- Charitable donations of up to 1% of taxable profits and contributions to soccer clubs of up to 5% of taxable profits; and
- 30% of qualifying environmental expenditure.

Provisions. Banks may deduct loan loss provisions within the limits established by the Central Bank of the Republic of Uzbekistan.

Tax Depreciation. The following are the applicable straight-line depreciation rates in Uzbekistan.

Assets	Rate (%)
Buildings and structures	5
Trains, ships, airplanes, heat and electrical generating equipment, engines, pipelines and communication equipment	8
Furniture, production equipment, buses, trucks, trailers	15
Cars, computers and office equipment	20
All other assets	10

Intangible assets are amortized for tax purposes over the useful life of an asset, the life of the company or five years, whichever is less.

Relief for Losses. Enterprises may not carry forward or carry back tax losses to offset annual taxable profits.

Groups of Companies. The tax law does not allow the offsetting of profits and losses among members of a tax group.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax (VAT), on the supply of all goods and services, including imports, unless they are zero-rated or exempt	20%
Excise tax; imposed on an extensive number of specified goods produced in Uzbekistan or imported into Uzbekistan; goods subject to tax include oil and gas products, alcohol, tobacco, confectionery products, electronics, furniture and cars	Various
Ecology tax; imposed on "cost of production" and "period expenses" (these are all costs and expenses, except for mandatory payments and taxes)	1%
Property tax; imposed on the annual average depreciated value of fixed and intangible assets; land is exempt	3%
Infrastructure development tax; imposed on net (after-tax) profits	8%
Subsurface use tax; imposed on the extraction of natural resources; tax imposed on the sales price of extracted natural resources and on waste derived from the extraction or processing of natural resources	
Sales	0.3% to 24%
Waste	0.9% to 7.2%
Road Use Fund contribution; imposed on sales turnover, excluding VAT, and on purchases of motor vehicles	
General rate on turnover	1.5%
Turnover from transportation activities	2.5%
Purchases of cars	6%
Purchases of other vehicles	20%
Water use tax; rates per cubic meter	
Surface water	UZS 3.269 (approximately US$0.003)
Underground water	UZS 4.205 (approximately US$0.004)
Land tax; imposed at a fixed rate per hectare, which varies depending on the location, quality and purpose of the land plot; rate in Zone 7 of Tashkent	UZS 4,450,399 (approximately US$4,596)
Social fund contributions; foreign citizens are exempt	
Pension Fund; paid by	
Employers	
On sales, excluding VAT	0.7%
On the payroll of its local employees	35%
Employees (withheld from salaries of local employees)	2.5%
Trade Union Fund; payable by employers on the payroll of its local employees	0.7%
Employment Fund; payable by employers on the payroll of its local employees	1.5%

E. Foreign-Exchange Controls

The currency in Uzbekistan is the Uzbek soum (UZS).

Uzbekistan imposes various foreign-exchange controls, including the following:

- Restrictions on purchases of foreign currencies, which are subject to the availability of foreign currencies in authorized banks;
- Mandatory sales of 50% of foreign-currency revenues of companies to their servicing banks;
- Mandatory exchange rates set weekly by the Central Bank of the Republic of Uzbekistan for accounting, reporting, tax and customs duty calculations;
- Strict control over payments in foreign currencies to parties outside Uzbekistan; and
- Limitations on the circulation of foreign currencies in Uzbekistan, and limitations on the domestic foreign currencies markets.

Uzbek resident individuals may freely export only up to the equivalent of US$2,500 of foreign currency. Nonresident individuals may export any cash legally imported and supported by a customs declaration. These limits may be increased by amounts withdrawn from foreign-currency accounts in Uzbekistan if proper documentation is provided.

F. Treaty Withholding Tax Rates

The following table lists the withholding rates under Uzbekistan's tax treaties.

Payee resident in	Dividends %	Interest %	Royalties %
Austria	15 (a)	10	5
Azerbaijan	10	10	10
Belarus	15	10	15
Belgium	15 (b)	10	5
Canada	15 (b)	10	10 (c)
China	10	10	10
Czech Republic	10	5	10
Finland	15 (b)	5	10 (d)
Georgia	15 (e)	10	10
Germany	15 (e)	5	5 (f)
Greece	8	10	8
India	15	15	15
Indonesia	10	10	10
Israel	10	10	10 (c)
Japan (g)	15	10	10 (h)
Kazakhstan	10	10	10
Korea (South)	15 (e)	5	5 (i)
Kyrgyzstan	5	5	15
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg	15 (e)	10	5
Malaysia	10	10	10
Moldova	15 (a)	10	15
Netherlands	15 (e)	10	10
Pakistan	10	10	15
Poland	15 (j)	10	10
Romania	10	10	10
Russian Federation	10	10	0

Payee resident in	Dividends %	Interest %	Royalties %
Thailand	10	15 (k)	15
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	10	10	10
United Kingdom	10 (b)	5	5
Vietnam	15	10	15
Nontreaty countries	15	15	20

(a) The rate is 5% if the beneficial owner of the dividends is a company that holds directly at least 10% of the payer of the dividends.
(b) The rate is 5% if the recipient holds at least 10% of the voting shares of the payer.
(c) A 5% rate applies to royalties paid for certain cultural works as well as for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experience (know-how).
(d) The 10% rate applies to royalties paid for trademarks or certain cultural works. A 0% rate applies to royalties for the use of, or the right to use, computer software, patents, designs or models, or plans. A 5% rate applies to royalties paid for the use of, or the right to use, secret formulas or processes, or for information concerning industrial, commercial or scientific experience (know-how).
(e) The rate is 5% if the recipient holds at least 25% of the voting shares of the payer.
(f) A 3% rate applies to royalties paid for the use of, or the right to use, copyrights of scientific works, patents, trademarks, designs or models, plans, or secret formulas or processes, as well as for the disclosure of industrial, commercial, or scientific knowledge.
(g) These are the withholding tax rates under the USSR-Japan treaty, which is honored by Uzbekistan.
(h) A 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including motion picture films.
(i) The rate is 2% for the use of, or the right to use, industrial, commercial, or scientific equipment.
(j) The rate is 5% if the recipient holds at least 20% of the voting shares of the payer.
(k) The rate is 10% for interest received by financial institutions, including insurance companies.

VENEZUELA

(Country Code 58)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ve.ey.com

For purposes of the e-mail addresses, accent marks are ignored. The e-mail addresses varying from the standard format are listed below the respective persons' names.

CARACAS **GMT -4**

Mendoza, Delgado, Labrador & Asociados
Avenida Francisco de Miranda
Centro Lido, Torre A, Piso 13
El Rosal
Caracas 1060
Venezuela

(212) 953-5222
Fax: (212) 954-0069

National Director of Tax

★ Fernando Fernández — **(212) 953-5222 x244**
Mobile: (414) 307-1233

International Tax

★ Luis Eduardo Ocando B.	**(212) 953-5222 x231** **Mobile: (412) 304-4272** **U.S. Mobile: [1] (917) 664-2313** **E-mail: luis.ocando@ve.ey.com**
Michael (Suk Joon) Yoon	**(212) 953-5222 x349** **Houston: [1] (713) 750-5946** **Mobile: (412) 997-7870** **E-mail: michael.yoon@ey.com**

Transfer Pricing

★ Luis Eduardo Ocando B.	**(212) 953-5222 x231** **Mobile: (412) 304-4272** **U.S. Mobile: [1] (917) 664-2313** **E-mail: luis.ocando@ve.ey.com**
Katherine Pinzón	**(212) 953-5222 x185** **Mobile: (416) 613-1428**

Human Capital

★ Fernando Fernández	**(212) 953-5222 x244** **Mobile: (414) 307-1233**
Roger Bracho	**(212) 953-5222 x230** **Mobile: (416) 629-4208**

Tax Consulting

★ Fernando Fernández	**(212) 953-5222 x244** **Mobile: (414) 307-1233**
Juan Carlos Navarro	**(212) 953-5222 x328** **Mobile: (414) 239-0468** **E-mail: juan.navarro@ve.ey.com**
José Antonio Velázquez	**(212) 953-5222 x159** **Mobile: (412) 627-7320** **E-mail: jose.a.velazquez@ve.ey.com**
Carlos Paredes	**(212) 953-5222 x219**

Local Compliance

Fernando Fernández	**(212) 953-5222 x244** **Mobile: (414) 307-1233**
★ Juan Carlos Navarro	**(212) 953-5222 x328** **Mobile: (414) 239-0468** **E-mail: juan.navarro@ve.ey.com**
Elena Raffensperger	**(212) 953-5222 x132** **Mobile: (416) 635-6858**

Legal Services

★ Fernando Fernández	**(212) 953-5222 x244** **Mobile: (414) 307-1233**
José Andrés Romero	**(212) 953-5222 x342** **Mobile: (416) 607-9276** **E-mail: jose.romero@ve.ey.com**

Tax Litigation

★ Fernando Fernández	**(212) 953-5222 x244** **Mobile: (414) 307-1233**
Alaska Moscato	**(212) 953-5222 x172** **Mobile: (416) 638-0412**
Nel Espina	**(212) 953-5222 x155** **Mobile: (416) 639-1262**

PUERTO LA CRUZ — GMT -4

Mendoza, Delgado, Labrador & Asociados **Centro Comercial Plaza Mayor** **Edificio 6, Oficina 6-B-245** **Nivel 2** **Puerto La Cruz, Estado Anzoátegui** **Venezuela**	**(281) 281-0080, 281-5660** **Fax: (281) 281-3256**

Corporate Tax

★ Fernando Fernández *(resident in Caracas)*	**(212) 953-5222 x244** **Mobile: (414) 307-1233**

VALENCIA **GMT -4**

Mendoza, Delgado, Labrador & Asociados Av. Bolivar Norte Sector El Recreo Torre Stratos, Piso 4 Valencia, Edo. Carabobo Venezuela	**(241) 823-7959, 823-5807, (241) 823-4807 Fax: (241) 824-1798**

Corporate Tax

★ Juan Carlos Navarro *(resident in Caracas)*	**(212) 953-5222 x328** **Mobile: (414) 239-0468** **E-mail: juan.navarro@ve.ey.com**

A. At a Glance

Corporate Income Tax Rate (%)	34 (a)
Capital Gains Tax Rate (%)	34 (a)
Branch Tax Rate (%)	34 (a)
Withholding Tax (%)	
Dividends	34/50/60 (b)
Interest	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	
Individuals	34 (e)
Corporations	34 (f)
Royalties	
Paid to Residents	2 (g)
Paid to Nonresidents (h)	
Individuals	34 (i)
Corporations	34 (j)
Professional Fees	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	34 (k)
Rent of Immovable Property	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	
Individuals	34
Corporations	34 (l)
Rent of Movable Goods	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	
Individuals	34
Corporations	5

Technical Assistance	
Paid to Residents	2
Paid to Nonresidents (m)	
Individuals	34 (n)
Corporations	34 (o)
Technological Services	
Paid to Residents	2
Paid to Nonresidents (p)	
Individuals	34 (q)
Corporations	34 (r)
Sales of Shares (s)	
Sales by Residents	
Individuals	3 (c)
Corporations	5 (d)
Sales by Nonresidents	
Individuals	34
Corporations	5
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

(a) This is the maximum progressive rate, which applies to income exceeding 3,000 tax units. Effective from 5 February 2003, the value of a tax unit is Bs. 19,400. For further details, see Section B. Petroleum companies and income from petroleum-related activities are taxed at a rate of 50%. Mining royalties and transfers of such royalties are subject to tax at a rate of 60%.
(b) For details, see Section B.
(c) The withholding tax applies to payments over Bs. 1,616,668. The tax is imposed on the payment minus Bs. 48,500.
(d) This withholding tax applies to payments over Bs. 25,000.
(e) The withholding tax is imposed on 90% of the gross payment. Consequently, the effective withholding tax rate is 30.6% (90% x 34%).
(f) In general, the withholding tax rate is determined under Tariff No. 2 (see Section B), which provides for a maximum tax rate of 34%. It is applied to 95% of the gross payment. Interest paid to foreign financial institutions that are not domiciled in Venezuela is subject to withholding tax at a flat rate of 4.95%.
(g) Residents generally include royalties in ordinary income.
(h) Royalties paid to nonresidents are taxed on a deemed profit element, which is 90% of gross receipts.
(i) Because royalties paid to nonresidents are taxed on a deemed profit element (see footnote (h) above), the effective withholding tax rate is 30.6% (90% x 34%).
(j) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%. Because royalties paid to nonresidents are taxed on a deemed profit element (see footnote (h) above), the maximum effective withholding tax rate is 30.6% (90% x 34%).
(k) Professional fees paid to nonresidents are taxed on a deemed profit element, which is 90% of gross receipts. Consequently, the effective withholding tax rate is 30.6% (90% x 34%).
(l) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%.
(m) Payments to nonresidents for technical assistance are taxed on a deemed profit element, which is 30% of gross receipts.
(n) Because payments to nonresidents for technical assistance are taxed on a deemed profit element (see footnote (m) above), the effective withholding tax rate is 10.2% (30% x 34%).
(o) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%. Because payments to nonresidents for technical assistance are taxed on a deemed profit element (see footnote (m) above), the maximum effective withholding tax rate is 10.2% (30% x 34%).
(p) Payments to nonresidents for technological services are generally taxed on a deemed profit element, which is 50% of gross receipts.
(q) Because payments to nonresidents for technological services are taxed on a deemed profit element (see footnote (p) above), the effective withholding tax rate is 17% (50% x 34%).

(r) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%. Because payments to nonresidents for technological services are taxed on a deemed profit element (see footnote (o) above), the maximum effective withholding tax rate is 17% (50% x 34%).

(s) This tax applies to transfers of shares of corporations domiciled in Venezuela that are not traded on national stock exchanges. The withholding tax rates are applied to the sale price.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Companies domiciled in Venezuela are subject to tax on their worldwide income. Companies organized in Venezuela are deemed to be domiciled in Venezuela. In addition, Venezuelan permanent establishments of foreign companies are also considered to be domiciled in Venezuela. However, only income related to a permanent establishment is taxable in Venezuela.

Rates of Corporate Income Tax. Domestic corporations and branches of foreign corporations are subject to the corporate income tax rates of Tariff No. 2, which are progressive and are expressed in tax units. Effective from 5 February 2003, the value of a tax unit is Bs. 19,400.The Venezuelan Budget Law may change the value of the tax unit each year. The following are the corporate income tax rates provided in Tariff No. 2.

Taxable Income		
Exceeding Tax Units	Not Exceeding Tax Units	Rate %
0	2,000	15
2,000	3,000	22
3,000	–	34

Net income derived from the exploitation of mines and related activities is also taxed under Tariff No. 2. Petroleum companies and income from petroleum-related activities, such as transportation and exploitation, are taxed at a rate of 50%. Mining royalties and transfers of such royalties are subject to tax at a rate of 60%. Companies performing activities in accordance with association agreements with the government concerning heavy crude oil and natural gas that is located offshore or on the mainland are subject to tax at a rate of 34%.

Interest paid to foreign financial institutions that are not domiciled in Venezuela is subject to a 4.95% withholding tax.

Capital Gains. Capital gains are not taxed separately, but are taxable as included in regular income. When computing gains from the sales of shares, the tax basis of stock received in a stock dividend is its nominal value. The tax basis is zero when the stock dividend results from a revaluation of assets.

Administration. A company must file a tax return by the last day of the third month following the end of its fiscal year.

A company must make estimated tax payments during its fiscal year. A final tax payment is due on the last day of the third month after the end of a company's fiscal year.

Dividends. Dividends paid by Venezuelan companies and profits remitted by permanent establishments of foreign companies to their home countries are taxable to the extent that "income before taxes" exceeds "net taxable income." For this purpose, "income before taxes" is financial income before the tax reconciliation and "net taxable income" is the resulting income subject to tax after the tax reconciliation. However, the tax does not apply to remittances paid by permanent establishments of foreign companies if the permanent establishment can prove that the excess amount is reinvested in Venezuela for at least five years.

The tax is withheld at source. The applicable rate depends on the business of the payer of the dividends. For dividends paid by mining and hydrocarbon companies subject to the 50% or 60% rates of corporate income tax (see *Rates of Corporate Income Tax* above), the dividend tax rate is the corporate tax rate applicable to the company. For dividends paid by other companies, the dividend tax rate is 34%.

Foreign Tax Relief. A credit is granted for income taxes paid on foreign-source income, up to the amount of Venezuelan tax payable on such income.

C. Determination of Trading Income

General. Corporate tax is based on the taxable accounting profits calculated in accordance with generally accepted accounting principles, subject to certain adjustments for nontaxable income and nondeductible expenses defined by law.

To compute taxable income, deductions are subtracted from gross income. In general, most expenses, including cost of production, are deductible, provided they are normal and necessary to produce income.

Under reconciliation rules, baskets of Venezuelan and foreign-source income are created. The reconciliation rules include detailed measures for the allocation of allowances and deductions to the two baskets.

Inventories. Inventories may be valued using any method in accordance with generally accepted accounting principles. The method chosen must be applied consistently. Because of tax indexation (see *Tax Indexation* below), inventory is effectively valued using the last-in, first-out (LIFO) method, adjusted for inflation.

Tax Indexation. Companies must apply an annual inflation adjustment. A company carries out this adjustment by adjusting its nonmonetary assets, some of its nonmonetary liabilities and its equity to reflect the change in the consumer price index from the preceding year. These adjustments affect the calculation of depreciation and cost of goods sold. The net effect of these adjustments is recorded in an inflation adjustment account and is added to taxable income or allowed as a deduction.

Effective for tax years beginning after 22 October 1999, the tax indexation rules apply only to the reconciliation of Venezuelan-source income. Consequently, it appears that foreign-source nonmonetary assets and liabilities are no longer subject to tax indexation.

Provisions. Provisions for inventory obsolescence and accounts receivable are not deductible; amounts are deductible only when inventories or accounts receivable are written off.

Depreciation. In general, acceptable depreciation methods are the straight-line and the units-of-production methods. The declining-balance method and accelerated depreciation are not accepted. Venezuelan law does not specify depreciation rates. If the estimated useful life of an asset is reasonable, the depreciation is accepted. Estimated useful lives ranging from 3 to 10 years are commonly used.

Decree 1028, dated 17 January 1996, provides special depreciation rules for companies that carry out activities in the form of strategic joint ventures under the Hydrocarbons Law and are taxed at a rate of 50% under the Venezuelan Income Tax Law.

Under the decree, certain assets must be depreciated using the straight-line method, and the useful life for such assets must be more than five years. Direct exploration expenses that are capitalized must be amortized using the depletion method.

Direct expenses incurred in wells that are determined to be dry during the exploration stage may be amortized over a period of not less than three years, using either the depletion method or the straight-line method. Direct exploration expenses are amortized under the depletion method, using as a reference the aggregate of proven reserves to be extracted in the developed area.

Investment Tax Credit. An investment tax credit (ITC) is available for the cost of new fixed assets acquired during the year that generate taxable income. For the period of 1 August 1999 through 31 July 2004, the credit is generally 10% of the cost and is granted for investments related to various activities, including the following:
- Processing;
- Manufacturing;
- Construction;
- Electricity;
- Telecommunication; and
- Science and technology.

The ITCs described below are available for investments during the period of 28 December 2002 through 28 December 2006.

Investments in agriculture and fishing qualify for an ITC of 80%.

Environmental investments qualify for an additional ITC of 10%.

Investments in hotel construction and tourism facilities qualify for an ITC of 75%.

Relief for Tax Losses. Operating losses may be carried forward for three years. No carryback is permitted.

Losses in the foreign-source basket (see *General* above) may not offset Venezuelan-source income. Such foreign-source losses may be carried forward three years to offset foreign-source income.

Losses attributable to tax indexation may be carried forward one year, effective for tax years beginning after 22 October 1999.

D. Other Significant Taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax (VAT), imposed on goods and services, including imports; the National Executive may exonerate from tax for up to five years acquisitions of goods and services; the law provides an indexation system for input VAT during the preoperational period for enterprises engaged in certain industrial activities; input VAT generated during the preoperational phase of industrial projects intended primarily for export is refunded	16
Business assets tax	1
Municipal tax; business activity tax, usually based on gross receipts or sales; rate varies depending on the industrial or commercial activity	0.5 to 10
Social security contributions, on monthly salary of each employee, up to five minimum salaries; paid by	
Employer	9/10/11
Employee	4
National Institute of Cooperative Education; contributions required if employer has five or more employees; paid by	
Employer, on total employee remuneration	2
Employee, on profit share received, if any, from employer at year-end	0.5
Housing policy contributions, on the monthly normal salary (under the Labor Law, the normal salary consists of all remuneration regularly received by an employee) of each employee; paid by	
Employer	2
Employee	1
Unemployment and training contributions, on the monthly salary of each employee, up to five minimum salaries; paid by	
Employer	2
Employee	0.5

E. Miscellaneous Matters

Foreign-Exchange Controls. Effective from 5 February 2003, a new foreign-exchange control system was introduced. Under this system, the purchase and sale of currency in Venezuela is centralized in the Central Bank of Venezuela. This limits foreign currency trade in Venezuela.

Debt-to-Equity Rules. No thin-capitalization rules apply in Venezuela.

Transfer Pricing. Under transfer-pricing rules, cross-border income and expense allocations in transactions with related parties are subject to review and special filings. The rules contain a list of related parties and provide a list of acceptable transfer-pricing methods.

Controlled Foreign Corporations. Under controlled foreign corporation (CFC) rules, income derived by a CFC (as defined) in a lower tax jurisdiction is taxable to its Venezuelan shareholders. The tax authorities have issued a list of lower tax jurisdictions.

F. Treaty Withholding Tax Rates

	Dividends %	Interest (b) %	Royalties %
Barbados	5/10 (v)	5/15	10
Belgium	5/15 (j)	10	5
Czech Republic	5/10 (k)	10	12 (g)
Denmark	5/15 (j)	5	5/10 (x)
France	5/15 (p)	5	5
Germany	5/15 (k)	5	5
Indonesia	10/15 (w)	10	20 (g)
Italy	10	10	10 (a)
Mexico (aa)	5	4.95/10/15 (y)	10
Netherlands	0/10 (u)	5	5/7/10 (d)
Norway	5/10 (l)	5/15 (z)	9/12 (e)
Portugal	10	10	10/12 (e)
Sweden	5/10	10	7/10 (o)
Switzerland	0/10 (m)	5	5
Trinidad and Tobago	5/10 (q)	15	10
United Kingdom	0/10 (n)	5	5/7 (c)
United States	5/15 (r)	0/4.95/10 (s)	0/5/10 (t)
Nontreaty countries	34/50/60 (i)	34 (f)	34 (f)

(a) The rate is 7% for royalties relating to literary, artistic or scientific works, or to films.
(b) Under Venezuelan domestic law, a reduced withholding tax rate of 4.95% applies to interest paid to financial institutions not domiciled in Venezuela.
(c) The 5% rate applies to royalties for patents, trademarks and know-how; the 7% rate applies to royalties for copyrights and for artistic and scientific works.
(d) The 5% rate applies to payments for technical assistance. The 7% rate applies to payments for brand names or commercial names. The 10% rate applies to royalties for copyrights of literary, artistic or scientific works.
(e) The lower rate applies to payments for technical assistance. The 12% rate applies to royalties.
(f) See Section A.
(g) The rate is 10% for royalties relating to copyrights of literary, artistic or scientific works.
(h) This is the general rate. Certain special rules apply.
(i) For details, see Section B.
(j) The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
(k) The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 15% of the capital of the payer of the dividends. The higher rate applies to other dividends.
(l) The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
(m) The 0% rate applies if the beneficial owner of the dividends is a company that directly controls at least 25% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
(n) The 0% rate applies if the beneficial owner of the dividends is a company that directly or indirectly controls at least 10% of the voting rights of the payer of the dividends. The 10% rate applies to other dividends.
(o) The 10% rate applies to royalties related to literary, artistic or scientific works, or films. The 7% rate applies to other royalties.

(p) The 5% rate applies if the beneficial owner of the dividends is an individual or company that owns at least 10% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
(q) The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
(r) These rates apply to dividends paid from Venezuela. The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the voting stock of the payer of the dividends. The 15% rate applies to other dividends.
(s) The 0% rate applies to interest paid to the Eximbank, Federal Reserve Bank, Private Investment Corporation, Foreign Trade Bank, Central Bank of Venezuela and Venezuelan Investment Fund. The 4.95% rate applies to interest paid to financial institutions or insurance companies. The 10% rate applies to other interest payments.
(t) The 0% rate applies to royalties paid for technical services, scientific, geological or technical studies, engineering works, consulting or supervision services, if the recipient does not have a permanent establishment. The 5% rate applies to royalties paid for industrial, commercial or scientific equipment. The 10% rate applies to royalties paid for the following: patents, designs or models; plans or secret formulas or processes; industrial, commercial or scientific know-how; trademarks; and copyrights with respect to literature, art or science; and motion pictures, and movies and tapes for radio or television broadcast.
(u) The 0% rate applies if the recipient of the dividends owns at least 25% of the shares of the payer. The 10% rate applies to other dividends.
(v) The 5% rate applies if the beneficial owner of the dividends is an individual or company that owns at least 5% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
(w) The 10% rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
(x) The 5% rate applies to technical assistance fees. The 10% rate applies to royalties paid for literary, artistic or scientific works or films.
(y) The 4.95% rate applies to interest paid to banks or insurance companies. The 10% rate applies if the beneficial owner of the interest is not one of the entities mentioned in the preceding sentence and if either of the following additional conditions is satisfied: the interest is paid by banks; or the interest is paid on bonds or other credit securities that are traded regularly and substantially on a recognized securities market. The 15% rate applies to other interest payments.
(z) The 5% rate applies to interest paid to banks. The 15% rate applies to other interest payments.
(aa) The treaty with Mexico is not yet in force.

Venezuela's other tax treaties cover only air and maritime transportation.

VIETNAM

(Country Code 84)

HANOI **GMT +7**

Ernst & Young
15th Floor
Daeha Business Centre
360 Kim Ma
Hanoi
Vietnam

(4) 831-5100
Fax: (4) 831-5090

Corporate Tax

Thanh Nguyen
(4) 831-5100
Mobile: (90) 391-2598
E-mail: thanh.nguyen@vn.ey.com

Thanh Trung Nguyen
(4) 831-5100
Mobile: (91) 249-4578
E-mail: thanh.trung.nguyen@vn.ey.com

HO CHI MINH CITY **GMT +7**

Ernst & Young
8th Floor
Saigon Riverside Office Center
2A-4A Ton Duc Thang
District 1
Ho Chi Minh City
Vietnam

(8) 824-5252
Fax: (8) 824-5250

Corporate Tax

★ Thanh Nguyen

(8) 824-5252
Mobile: (90) 391-2598
E-mail: thanh.nguyen@vn.ey.com

Because of the rapidly changing economic and political situation in Vietnam, readers should obtain updated information before engaging in transactions.

A. At a Glance

Enterprise Income Tax Rate (%)	28 (a)
Capital Gains Tax Rate (%)	25/28 (b)
Branch Tax Rate (%)	28
Withholding Tax (%)	
Dividends	0
Interest	10
Royalties	10
Payments to Foreign Contractors	– (c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (d)

(a) Petroleum and mining companies are subject to tax at a rate of 28% or 50%. Such companies may also be subject to a natural resource royalty tax. For details, see Section B.
(b) Gains derived from sales of fixed assets are treated as taxable profits and are subject to tax at the normal corporate income tax rate. Gains derived from sales of shares in foreign-invested enterprises are subject to tax at a rate of 25%.
(c) For details, see Section B.
(d) See Section C.

B. Taxes on Corporate Income and Gains

Enterprise Income Tax. For the purposes of corporate taxation, enterprises are classified as companies with foreign-owned capital, branches of foreign companies, foreign contractors or domestic companies. Companies with foreign-owned capital are entities that have been issued a license by the Ministry of Planning and Investment (MPI) or by a body authorized by the MPI to issue licenses, which allows them to operate in one of the following forms:

- Joint venture (JV);
- Wholly foreign-owned enterprise;
- Business cooperation contract (BCC); and
- Build-operate-transfer (BOT), build-transfer (BT) or build-transfer-operate (BTO) arrangements, which may operate as JVs or wholly foreign-owned enterprises.

Effective from 1 May 2003, enterprises with foreign-owned capital operating in Vietnam under the Law on Foreign Investment may convert to shareholding companies with foreign-owned capital, subject to certain conditions. Enterprises converting to shareholding companies continue to be eligible for tax incentives that are available to foreign-invested enterprises.

Branches of foreign companies may engage in business activities in Vietnam if they are legally licensed to operate in Vietnam in accordance with Vietnam laws.

Foreign contractors are companies and individuals doing business in Vietnam, but not through a license granted by the MPI or by one of the other bodies authorized by the MPI to issue licenses.

Domestic companies may be state-owned or privately owned.

Rates of Corporate Tax

Companies with Foreign-Owned Capital. Effective from 1 January 2004, JVs, wholly foreign-owned enterprises and foreign parties to BCCs are subject to income tax at the standard rate of 28%.

The preferential tax rates of 10%, 15% or 20%, which are discussed below, may be available to eligible foreign investment projects in industries or locations that are encouraged by the government.

The 10% rate may apply to enterprises engaged in the following activities:
- Activities included in the list of projects in which investment is especially encouraged;
- Investment in regions with especially difficult socioeconomic conditions included in the list of regions in which investment is encouraged;
- Infrastructure development of industrial zones, export-processing zones or high-technology zones, and export processing;
- Medical examination and treatment, education and training or scientific research; or
- Projects that satisfy two of the criteria set out below for the 15% rate.

The 15% rate may apply to enterprises engaged in the following activities:
- Activities included in the list of projects in which investment is encouraged;
- Investment in regions with difficult socioeconomic conditions;
- Service activities in export-processing zones;
- Operations in an industrial zone if more than 50% of their products is exported; or
- Projects that involve the assignment of assets to the Vietnamese government without any compensation after the project's completion.

The 20% tax rate applies to the following:
- Industrial zone enterprises engaged in the service sector; and
- Production projects other than projects for which another tax rate specifically applies.

Under the Petroleum Law, a 50% rate applies to projects that involve the survey, exploitation and refining of oil and gas or the exploitation of precious and rare natural resources. "Encouraged projects" qualify for a 28% rate. An additional natural resource royalty tax is imposed on the projects subject to the Petroleum Law at rates ranging from 1% to 40% (4% to 25% for crude oil). However, for JVs, no resource royalty tax is payable if the natural resources are supplied as capital by the Vietnamese party.

Branches of Foreign Companies. Branches of foreign companies are subject to income tax at a rate of 28%.

Foreign Contractors. Foreign contractors are subject to the Enterprise Income Tax (EIT) Law and the Value-Added Tax (VAT) Law (see Section D) under a special tax regime. Under this regime, EIT and VAT are withheld at various deemed rates from the gross turnover of foreign contractors not using the Vietnamese Accounting System (VAS). Foreign contractors using the VAS must register as VAT taxpayers and pay EIT based on their net income.

Domestic Companies. Domestic companies are subject to tax at a rate of 28% under the EIT Law.

Tax Incentives. Projects meeting certain criteria may qualify for tax incentives, which vary according to the normal income tax rate applicable to the project. These incentives consist of a tax holiday for a specified number of years beginning in the "first year of taxable profit," followed by a 50% tax reduction for a specified number of years. For purposes of the tax incentives, the "first year of taxable profit" is the first year an enterprise derives a profit before offsetting losses from prior years. The following are the applicable time periods for the tax holidays and the tax reductions.

Normal Income Tax Rate %	Length of Tax Holiday Years	Length of Tax Reduction Years
10	4*	4
15	2	3
20	1	2

* Projects eligible for the 10% income tax rate may qualify for a tax holiday of eight years if they are located in an area in which foreign investment is encouraged or if they are "large-scale projects having a significant economic impact."

New enterprises in industries, areas, and locations that are encouraged by the government may qualify for an exemption from EIT for a period of up to four years beginning with the first profitable year and a subsequent 50% reduction of EIT for a period of up to nine years.

Enterprises investing in new production lines, business expansion, technology renewal, improvement of the environment or production capacity increases qualify for an exemption from EIT for a period of up to four years beginning with the first profitable year and a subsequent 50% reduction of EIT for a period of up to seven years.

Enterprises subject to income tax at a rate of 28% generally do not qualify for tax incentives.

Depending on the nature of the project, beginning with the year in which they first earn a profit, BOT projects may be exempt from income tax for four years and may benefit from a 50% income tax reduction for the following four years. BOT projects may also qualify for an eight-year tax holiday if they meet the additional conditions mentioned in the footnote to the table above.

Capital Gains. Capital gains derived from sales of fixed assets are treated as taxable income.

Gains derived from sales of shares in foreign-invested enterprises are subject to tax at a rate of 25%.

Administration. Enterprises with foreign investment normally use the calendar year as their tax year unless the Ministry of Finance (MOF) has approved a different tax year.

Enterprises must file a provisional income tax return by the 25th day of the tax year. Quarterly tax notices based on the provisional income tax return are sent to enterprises. Enterprises must file a final income tax return within two months after the end of the tax year. The final tax assessment is based on this return.

Income tax payments with respect to quarterly tax notices are payable as stated in the notices. Enterprises must make a final tax payment within 10 days after the due date for filing the final income tax return.

A fraudulent return or a return filed with the intent to avoid tax is subject to a penalty of up to five times the amount involved. Late payments of tax are subject to a fine of 0.1% of the unpaid amount for each day that the payment is delayed.

Dividends. The remittance tax is abolished, effective from 1 January 2004. As a result, dividends and branch remittances are no longer subject to withholding tax.

Withholding Taxes on Interest and Royalties. A 10% withholding tax is imposed on interest paid under loan contracts signed on or after 1 January 1999.

A final withholding tax at a rate of 10% is imposed on royalties paid to Vietnamese and foreign legal entities with respect to technology transfers and licensing.

Foreign Tax Relief. Vietnam has signed tax treaties with several countries that provide relief from double taxation (see Section F).

C. Determination of Taxable Income

General. The taxable income of an enterprise with foreign-owned capital is the income shown in the financial statements, subject to certain adjustments. Taxable income includes income derived by branch operations from business and other activities.

Companies with foreign-owned capital may deduct expenses related to the operation of the company, provided the expenses are in accordance with guidelines issued by the MOF. Under these guidelines, the following expenses may be deducted if they are supported by appropriate evidence:
- Depreciation in accordance with the guidelines of the MOF (see *Tax Depreciation* below);
- Raw materials, fuel, energy, goods and tools used in production, trading or the performance of services;
- Salaries, which must be supported by labor contracts or labor collective bargaining agreements;
- Scientific and technology research expenses and other expenses relating to innovation and the improvement of technology;
- Maintenance, packaging and transportation;
- Social and health insurance fund contributions, and payments to women under the laws governing such funds;
- Management company expenses approved by the MPI or a delegated authority;

- Taxes, levies and other charges in the nature of taxes, excluding income tax and remittance tax (see Section B);
- Insurance policies with Vietnamese insurance companies or other insurance companies licensed in Vietnam that insure business risks and assets;
- Printing and publishing expenses, warehouse, office and laboratory maintenance expenses, employee safety expenses, environmental protection expenses, recruitment and training expenses, security expenses, and fire prevention and fighting expenses;
- Meeting expenses of the management board;
- House and land rentals;
- Rent paid under leases of assets including machinery and equipment;
- Repairs of fixed assets and payments of royalties;
- Provisions for price reductions in inventory, doubtful debts and reduction in value of shares held by the enterprise;
- Termination payments;
- Costs of outsourced services, including legal services, design, establishment and protection of trademarks, and other services;
- Business travel expenses, uniform expenses and donations and sponsorships paid to the Communist Party, labor unions and certain other associations prescribed by the government;
- Interest on loans, including loans from sources other than banks and financial institutions, not exceeding 120% of the amount calculated based on the lending rate published by commercial banks at the time of the loan agreement; and
- Marketing, advertising and promotion expenses, as well as other expenses not specified above, not exceeding 10% of permitted expenses.

Inventories. Inventory valuation should be consistent with the accounting principles and standards selected by the company and approved by the MOF. No specific guidelines have been established by the tax authorities.

Tax Depreciation. Depreciation of fixed assets is normally computed using the straight-line method. The MOF has issued guidelines setting forth the minimum and maximum years for depreciation of various assets, but companies may apply to the MOF for permission to use different time periods. The following are the minimum and maximum years of depreciation for certain categories of assets.

Asset	Years
Intangible assets	5 to 40
Commercial and industrial buildings	5 to 50
Plant and machinery	5 to 15
Transportation vehicles	6 to 20
Office equipment	3 to 10

Depreciation at rates exceeding those allowed by the MOF is not deductible for tax purposes.

Relief for Losses. An enterprise with foreign-owned capital (including a party to a BCC), a domestic enterprise and a branch of a foreign company may carry forward losses incurred in their operations to the following five years if these losses are shown in an annual tax return that has been finalized with the tax office.

Carrybacks of losses are not allowed.

Groups of Companies. Companies with foreign-owned capital may adopt consolidated filing for units and dependent establishments operating in different areas of Vietnam. In calculating tax due, these enterprises must apply the relevant tax rate applicable to each operating unit or establishment. Otherwise, consolidated returns are not allowed.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate
Value-added tax, on all goods and services consumed in Vietnam, including imports of goods and services, other than exempt items	
General rate	10%
Exports of goods and services	0%
Water, agricultural goods, medical goods and teaching aids	5%
Gold, silver, lotteries, shipping agencies and brokerage services	20%
Special consumption tax, on the taxable value of imported or domestically produced cigarettes, beer, spirits, motor vehicles, fuel; air conditioners and various services including casinos, horse and motor racing, golf courses and various places of entertainment; for domestically produced goods, taxable value equals the manufacturer's selling price, divided by one plus the tax rate; for imported goods, taxable value equals the Cost, Insurance and Freight (CIF) value plus import duty	15% to 100%
Social and health insurance contributions, on salaries (generally applicable to Vietnamese employees only); paid by	
Employer	
Social insurance	15%
Health insurance	2%
Employee	
Social insurance	5%
Health insurance	1%
Freight tax, on income derived by ships from the transport of goods from a Vietnamese port to a foreign port or to another Vietnamese port	3%
Land rent, imposed annually on the use of land; rates vary by location and are applied to amount of square meters	
Hanoi and Ho Chi Minh City	US$1 to US$12
Other urban locations	US$0.18 to US$9.60
Rural locations	US$0.01 to US$1.08

E. Miscellaneous Matters

Foreign-Exchange Controls. Enterprises with foreign-owned capital must open accounts denominated in a foreign currency or the Vietnamese dong (VND) at a bank located in Vietnam and approved by the State Bank of Vietnam (SBV). All foreign-exchange transactions, such as payments or overseas remittances, must be in accordance with policies set by the SBV.

Enterprises with foreign-owned capital and foreign parties to BCCs (see Section B) may purchase foreign exchange from a commercial bank to meet the requirements of current transactions or other permitted transactions, subject to the bank having available foreign exchange.

The government may guarantee foreign currency to especially important investment projects or assure the availability of foreign currency to investors in infrastructure facilities and other important projects.

Transfer Pricing. The Vietnamese tax authorities may use the following methods to adjust transfer prices:
- Market price comparison;
- Determination of purchase price on the basis of selling price; and
- Cost of production to determine taxable profits.

F. Treaty Withholding Tax Rates

The withholding rates under Vietnam's double tax treaties are listed in the following table.

	Dividends %	Interest %	Royalties %
Australia	10	10	10
Belarus	15	10	15
Belgium	5/10/15 (a)	10	15
Bulgaria	15	10	15
Canada	5/10/15 (a)	10	7.5/10
China	10	10	10
Czech Republic	10	10	10
Denmark	5/10/15 (a)	10	5/15
Finland	5/10/15 (a)	10	10
France	7/10/15 (a)	– (b)	10
Germany	5/10/15 (a)	10	7.5/10
Hungary	10	10	10
Iceland	10/15 (a)	10	10
India	10	10	10
Indonesia	15	15	15
Italy	5/10/15 (a)	10	7.5/10
Japan	10	10	10
Laos	10	10	10
Luxembourg	5/10/15 (a)	10	10
Malaysia	10	10	10
Netherlands	5/10/15 (a)	10	5/10/15
Norway	5/10/15 (a)	10	10
Poland	10/15 (a)	10	10/15

	Dividends %	Interest %	Royalties %
Romania	15	10	15
Russian Federation	10/15 (a)	10	15
Singapore	5/7/12.5 (a)	10	5/15
South Korea	10	10	5/15
Sweden	5/10/15 (a)	10	5/15
Switzerland	7/10/15 (a)	10	10
Taiwan	15	10	15
Thailand	15	10/15	15
Ukraine	10	10	10
United Kingdom	7/10/15 (a)	10	10
Uzbekistan	15	10	15
Nontreaty countries	0	10	10

(a) The rates vary depending on the percentage of the payer's capital that is owned by the recipient of the dividends.
(b) The treaty with France does not cover the taxation of interest.

Vietnam has recently ratified double tax treaties with North Korea and the Philippines. Vietnam has signed double tax treaties with Algeria, Mauritius, Mongolia and Myanmar, but these treaties have not yet been ratified.

YEMEN

(Country Code 967)

SANA'A **GMT +3**

Mohamed Taha Hamood & Co.
Mail Address:
P.O. Box 19503
Sana'a
Yemen

(1) 503-930, 503-931
Fax: (1) 503-934, 415-339
E-mail: mth.co@y.net.ye

Street Address:
Sarah Tower
Fourth Floor
In Front of Technical College
Haddah Street
Sana'a
Yemen

Corporate Tax

Khosrow Dabir Alai *(resident in Bahrain)* — **[973] 535-455**, **E-mail: khosrow.dabir-alai@bh.ey.com**

Mohamed Taha Hamood — **(1) 415-339**, **Mobile: (71) 100-433**

A. At a Glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax* (%)	
Dividends	10
Interest	10
Royalties	10
Branch Remittance Tax	0

Net Operating Losses (Years)	
Carryback	0
Carryforward	4

* Applicable to nonresidents.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. In general, resident companies pay tax on their worldwide income derived from all of their activities. Nonresident companies are taxed on their income earned in Yemen. A resident company is a legal entity that is established in accordance with the Yemeni laws or other laws and that has a place of business, management or supervision in Yemen. A nonresident company is a company that does not fulfill the requirements for a resident company.

Rates of Corporate Tax. Resident and nonresident companies are subject to tax at a rate of 35%.

Investment Incentives. Investment Law No. 22 of 1991 (the Investment Law) offers various investment incentives to foreign investors. Significant incentives available under the Investment Law are summarized below.

General. The Investment Law, together with the Executive Regulations for the law, detail the investors' rights and duties and the administrative measures necessary for licensing.

The law provides simplified administrative measures to reduce bureaucratic problems for investors. In addition, the Investment Law accords special treatment to investors regarding the following: obtaining a permit for an investment project; opening a bank account; importing and exporting for the purposes of the project; hiring expatriate employees; and establishing companies.

Tax Incentives. The Investment Law offers a profit-tax exemption for periods ranging from 7 to 16 years. The basic period for the exemption is generally seven years. However, the law also allows the cabinet to determine national priority projects, which may be granted a basic exemption period of up to 10 years. The basic exemption period may be increased in accordance with the following measures in the law:

- The exemption period is increased by two years if the project is established in Investment Zone (B), which includes all areas of Yemen outside the major cities of Sana'a, Aden, Taiz, Hodeidah and Mukalla;
- The exemption period is increased by two years if the project is owned by a public company in which the percentage of public ownership is at least 25% of the paid-up capital; and
- The exemption period is increased by two years if the local component of the fixed assets exceeds 25%.

Losses incurred during the exempt period may be carried forward for three years beginning from the expiration date of the exemption.

The Investment Law also offers exemptions from the following taxes:

- Tax on dividends distributed by the projects;
- Real estate tax;

- Taxes with respect to permits for utilizing technology for a period of five years;
- Customs fees for animal, agricultural and fish production inputs;
- Import duties on all fixed assets imported for investment projects in Yemen; and
- Profit tax on 50% of the interest received for loans used to finance investment projects in Yemen.

Incentives for Exporting Companies. The Investment Law offers investment projects that produce for export the following tax incentives:

- Exemption from all export fees and taxes;
- Exemption from profits tax on 50% of the profits derived from exports after the expiration of the profit tax exemption period;
- Reimbursement of all customs duties and taxes paid on imported inputs included in the exported production; and
- Exemption from the production tax on the exported part of production.

The Investment Law also includes measures that provide special protection to investment projects against imports.

Other. The Investment Law offers various nontax incentives. These include a prohibition against the imposition of financial and nonfinancial burdens on investment projects that exceed those burdens imposed on projects operating outside the scope of the law.

Capital Gains. Capital gains are included in taxable income and taxed at the regular corporate rates.

Dividends. A 10% withholding tax is imposed on dividends paid to nonresidents. Dividends received by resident companies from other resident companies and from nonresident companies are subject to tax.

Administration. Companies must file tax returns and pay the corporate tax due within four months after the end of the accounting period.

Late filings of tax returns are subject to a penalty of 2% of the tax payable for each month of delay.

Foreign Tax Relief. Relief from double taxation is available under a multilateral agreement with the members of the Arab Economic Council (see Section F). The domestic tax law does not provide unilateral relief for foreign taxes paid.

C. Determination of Trading Income

General. In general, the tax assessment is based on audited financial statements, subject to certain adjustments. If audited financial statements are not available, the tax authorities arbitrarily assess tax. The tax authorities prefer the financial statements method and discourage arbitrary assessments.

Inventories. Inventories are valued at the lower of cost or market value. The last-in, first-out (LIFO) method may not be used to determine cost.

Provisions. Only provisions for specific debts are deductible.

Tax Depreciation. Depreciation is calculated using the straight-line method. Depreciation rates are set by the Council of Ministers and vary according to the class of the assets. The following are some of the currently applicable rates.

Asset	Rate (%)
Buildings	2
Machinery and equipment	10
Vehicles	20
Furniture and fixtures	10
Office equipment	12.5

Relief for Losses. Tax losses may be carried forward for four years. No carryback is allowed.

Groups of Companies. No provisions exist for the consolidation of income or common assessment for a group of companies. Each company, including a wholly owned subsidiary, is assessed separately.

D. Zakat

Zakat is an annual religious levy imposed on resident companies. It is imposed at a rate of 2.5% on capital employed, as adjusted by the net results of operations for the year. Under Law No. 2 of 1999, for the purpose of *zakat*, capital employed does not include fixed assets, long-term investments and deferred costs.

E. Foreign-Exchange Controls

Transactions with nonresidents are no longer subject to foreign-exchange control by the Central Bank of Yemen.

F. Tax Treaties

Yemen is a signatory to a multilateral agreement to avoid double taxation with the members of the Arab Economic Council. The other members of the council are Egypt, Iraq and Jordan.

ZAMBIA

(Country Code 260)

LUSAKA **GMT +2**

Ernst & Young
Mail Address:
P.O. Box 32385
Lusaka
Zambia

(1) 238-858, 237-785, 237-786
Fax: (1) 227-022
E-mail: eyoung@coppernet.zm

Street Address:
1st Floor, Development House
Corner Cha Cha Cha Road/
Katondo Street
Lusaka
Zambia

Corporate Tax
Cosmas K. Mwananshiku
(1) 220-042
Mobile: (1) 9676-3476
E-mail: cosmas.k.mwananshiku@zm.ey.com

A. At a Glance

Corporate Income Tax Rate (%)	15 to 45 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	15 to 45 (a)
Withholding Tax (%) (b)	
Dividends	15 (c)
Interest (d)	
Payments to Companies	15
Payments to Individuals	25
Royalties	15 (d)
Management Fees	15 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (f)

(a) For details, see Section B.
(b) These withholding taxes apply to payments to resident and nonresident companies and individuals.
(c) For resident and nonresident companies and individuals, this is a final tax. Zambian-incorporated companies may offset the withholding tax imposed on dividends received from other Zambian-incorporated companies against withholding tax payable on their own distributions of dividends.
(d) For individuals and nonresident companies, this is a final tax. Resident companies may credit the withholding tax against their income tax.
(e) This is a final withholding tax applicable to nonresident companies and individuals. Resident companies and individuals include management fees in their taxable income and do not suffer withholding tax on these fees.
(f) See Section C.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Resident and nonresident companies are subject to tax on their income derived from Zambian sources. Resident companies are also subject to tax on profits derived from a business carried on partly inside, and partly outside, Zambia. A company is considered resident in Zambia if it is incorporated in Zambia or if the central management and control of the company's business or affairs are exercised in Zambia.

Tax Rates. The following are the corporate tax rates.

Source	Rate (%)
Farming	15
Export of nontraditional products	15
Manufacturing	35
Banking	
Profits up to K 250 million	35
Profits exceeding K 250 million	45
Copper and cobalt mining	25
Royalties	35*
Trading and other sources	35

* A 15% final withholding tax is imposed on royalties paid to nonresidents.

Companies listed on the Lusaka Stock Exchange are subject to income tax at a rate of 30% unless they qualify for the 15% rate listed above.

Capital Gains. Capital gains are not subject to tax in Zambia, but depreciation recaptured for tax purposes (see *Tax Depreciation* below) is taxable at the regular corporate tax rates. In addition, a property transfer tax is imposed (see Section D).

Administration. The Zambia Revenue Authority administers the Income Tax Act. The tax year runs from 1 April to 31 March. Annual tax returns must be filed by 30 September of the following tax year.

Companies must make four advance payments of tax, which are due on 14 July, 14 October, 14 January and 14 April. The installments are based on an estimate of the tax due for the year. The balance of tax due must be paid by the due date for filing the annual tax return.

A company may apply to the Commissioner-General to use an accounting year other than the standard tax year. However, the due dates described above for filing returns and advance payments of tax also apply to companies with an accounting year-end other than 31 March.

Dividends. A 15% withholding tax is imposed on dividends paid. For resident and nonresident companies and individuals, this is a final tax.

Zambian-incorporated companies may offset the withholding tax imposed on dividends received from other Zambian-incorporated companies against withholding tax payable on their own distributions of dividends.

Dividends received from foreign companies are not subject to tax.

No special rules apply to dividends received from subsidiaries.

Foreign Tax Relief. A foreign tax credit is available to resident companies for foreign taxes paid on foreign income subject to Zambian tax. The amount of the tax credit is the lower of the Zambian tax payable on the foreign income and the foreign tax paid on the same income.

C. Determination of Trading Income

General. Taxable income is the net profit reported in the companies' financial statements, adjusted by certain tax law provisions.

Expenses are deductible to the extent they are incurred wholly and exclusively for the purposes of the business.

Companies engaged in fishing or farming for two consecutive tax years may elect to calculate taxable income or loss for the two tax years by averaging the taxable income earned or loss incurred in each of the two tax years. This election must be filed with the Commissioner-General before the end of the tax year following the second consecutive tax year. The election is not allowed in certain circumstances.

Inventories. Inventories are valued at the lower of cost or net realizable value.

Provisions. Specific identifiable provisions are allowed for tax purposes, but general provisions are not allowed.

Tax Depreciation. Industrial buildings qualify for an initial allowance of 10%. The initial allowance is not deductible from the cost of the assets. Annual wear-and-tear allowances, which are calculated using the straight-line method, are available for the following assets.

Asset	Rate (%)
Industrial buildings	
Low-cost housing (buildings used to provide housing for the purposes of a business with a cost per unit of up to K 2 million [US$1,000])	10
Others	5
Commercial buildings	2
Implements and plant and machinery used in farming, tourism and manufacturing	50
Other implements and plant and machinery, and commercial vehicles	25
Other vehicles	20

The amount of depreciation claimed on an asset may be recaptured when the asset is sold. In general, the amount recaptured is the excess of the sales price over the tax value, but it is limited to the amount of depreciation claimed.

Relief for Losses. Tax losses may be carried forward five years to offset income from the same source. In general, losses may not be carried back.

Groups of Companies. There are no provisions for filing consolidated returns.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods and services, other than an exempt supply, made in Zambia and on taxable imports; exports are zero-rated	17.5
Provident Fund (social security system) contributions on monthly wages; maximum contribution of K 51,843 per month for both employers and employees	
Employer	5
Employee	5
Property transfer tax, on transfers of shares of companies incorporated in Zambia, and land, buildings and structures located in Zambia	2.5
Royalty, on the extraction, production and selling of ore	0.6

E. Foreign-Exchange Controls

The Zambian currency is the kwacha (K). The exchange rate of the kwacha against foreign currencies fluctuates.

Zambia does not impose foreign-exchange controls.

F. Treaty Withholding Tax Rates

	Dividends %	Interest %	Royalties %	Management Fees %
Canada	15	15	15	0
Denmark	15	10	15	15
Finland	5/15	15	5/15	0
France	15	10	15	0
Germany	5/15	10	10	0
India	5	10	10	0
Italy	5/15	10	10	0
Japan	0	10	10	0
Kenya	15	15	15	15
Netherlands	5	10	10	0
Norway	15	10	10	15
South Africa	15	15	15	15
Sweden	5/15	10	10	15
Switzerland	15	0	0	0
Tanzania	15	15	15	15
Uganda	15	15	15	15
United Kingdom	5/15	10	10	0
Nontreaty countries	15	15/25*	15	15

* The 15% rate applies to payments to companies; the 25% rate applies to payments to individuals.

ZIMBABWE

(Country Code 263)

The e-mail addresses for the persons listed below are in the following standard format:

firstname.surname@ey.co.zw

HARARE **GMT +2**

Ernst & Young
Mail Address:
P.O. Box 62 or 702
Harare
Zimbabwe

(4) 750-906
Fax: (4) 773-842, 750-707
E-mail: admin@ey.co.zw (General)

Street Address:
Angwa City
Kwame Nkrumah Avenue/Angwa Street
Harare
Zimbabwe

Corporate Tax

★ Nigel Forsgate	**(4) 750-979**
★ Kelvin Harvey	**(4) 750-906**
Max Mangoro	**(4) 750-979**
Connie Mutunhu	**(4) 750-979**

Indirect Taxes

Gladys Makachiwa	**(4) 750-906**
Max Mangoro	**(4) 750-979**

Human Capital

Alfons Heylen	**(4) 750-979**

A. At a Glance

Corporate Income Tax Rate (%)	30 (a)(b)
Capital Gains Tax Rate (%)	20 (c)
Capital Gains Withholding Tax Rate (%)	10 (d)
Branch Tax Rate (%)	30 (a)(b)
Withholding Tax (%)	
Dividends	15/20 (e)
Interest	
Paid by Banks, Other Financial Institutions and Building Societies	20 (f)
On Treasury Bills	20 (g)
Other Interest	10 (h)
Royalties	20 (h)
Remittances	20 (i)
Fees	20 (j)
Branch Remittance Tax	0 (k)
Net Operating Losses (Years)	
Carryback	0
Carryforward	6 (l)

(a) Special tax rates apply to certain enterprises. For details, see Section B.
(b) An AIDS levy of 3% is imposed on income tax payable (excluding tax on income subject to special rates).
(c) Tax is imposed on capital gains on sales of immovable property and securities issued by private companies. Capital gains on securities listed on the Zimbabwe Stock Exchange are exempt.
(d) A capital gains withholding tax at a rate of 10% is imposed on the proceeds from sales of immovable property. This tax is withheld from the proceeds from sale of immovable property and is offset against any capital gains tax assessed on the transaction.
(e) The 15% rate applies to dividends paid by companies listed on the Zimbabwe Stock Exchange to resident individuals. The 20% rate applies to other dividends paid to resident individuals and to dividends paid to nonresidents.
(f) This is a final withholding tax imposed on residents. Interest paid by post office savings banks and interest on building society Class C (tax-free) shares are exempt from tax.
(g) This is final tax imposed on the yield from treasury bills purchased by residents. The tax is imposed at the time of purchase.
(h) This withholding tax applies to nonresidents. The payments are also subject to income tax unless a tax treaty provides that the withholding tax is a final tax.
(i) This is a final tax imposed on remittances transferred from Zimbabwe by nonresidents for technical, managerial, administrative or consulting expenditures incurred outside Zimbabwe in connection with a trade carried on in Zimbabwe.
(j) This tax is imposed on payments by residents to nonresidents of technical, managerial, administrative, consulting or directors' fees.
(k) Remittances of head office expenditures are subject to a 20% withholding tax. See footnote (i).
(l) Mining losses are ring fenced to specific locations and may be carried forward indefinitely.

B. Taxes on Corporate Income and Gains

Corporate Income Tax. Income tax is levied on all amounts (other than capital) received or accrued from a Zimbabwean source, less expenditures not of a capital nature incurred in the production of income or for business purposes. Certain specific types of income are exempt.

Foreign interest and dividends accruing to residents of Zimbabwe are deemed to be from a source within Zimbabwe. A resident corporation is one that is incorporated in Zimbabwe.

Rates of Corporate Tax. Resident and nonresident companies are subject to income tax at a rate of 30%. Resident companies are also subject to income tax at the rate of 20% on gross foreign dividends.

An AIDS levy of 3% is imposed on income tax payable (excluding tax on income subject to special rates).

Special Tax Rates. Special tax rates apply to the following enterprises.

Type of Enterprise	**Rate (%)**
Approved new manufacturing operations in designated growth point areas (first five years)	10
New projects begun in growth point areas on or after 1 April 1991 for the construction of roads, bridges, sanitation facilities or water-distribution facilities (first five years)	15
Licensed investors operating in export-processing zones	
First five years	0
Thereafter	15
Mining operations	25
Build-own-operate-transfer (BOOT) and build-operate-transfer (BOT) projects	
Years 1 through 5	0
Years 6 through 10	15
Years 11 through 15	20
Year 16 and thereafter	30*
Industrial park developers	
First five years	0
Thereafter	15
Tourist facilities with 60% or more of their receipts in foreign currency	20
Tourist development zone operations	
First five years	0
Thereafter	15
Manufacturing enterprises exporting 50% or more of their production	20

* The 3% Aids levy is also payable.

Interest received by residents from Zimbabwean financial institutions and building societies is subject to a final withholding tax at a rate of 20%. A final tax at a rate of 20% is imposed on the yield of treasury bills purchased by residents. This tax is payable at the time of purchase of the bills. No deduction for expenses and losses is permitted with respect to interest subject to the final taxes described above. Other interest received by residents is taxable at the regular corporate income tax rate and may be offset by expenses and losses.

Tax Exemptions. Export-processing zones have been designated for the major business centers and border areas of Zimbabwe. Operations of licensed investors in these zones are exempt from the following taxes:

- Income tax on profits for five years (a 15% tax is imposed in subsequent years);
- Capital gains tax;
- Nonresident and resident shareholders taxes on dividends;
- Nonresident taxes on interest, remittances, fees and royalties;
- Customs duty; and
- Sales tax on goods and services (refundable).

Foreign entities that provide finance for development in Zimbabwe are exempt from income tax and capital gains tax.

Capital Gains. Capital gains derived from sales of immovable property and securities issued by private companies are taxed at a rate of 20%. Capital gains on securities listed on the Zimbabwe Stock Exchange are exempt. Gains are determined by deducting cost plus an annual allowance of 50% of cost from the selling price. Capital allowances recaptured for income tax purposes (see Section C) are excluded from gains.

A 10% withholding tax is imposed on the gross proceeds derived from sales of immovable property. This tax is offset against any capital gains tax assessed on the transaction. Withholding tax on sales of shares has been suspended until further notice.

Administration. Zimbabwe's tax year ends on 31 December. Tax returns must be filed within 30 days of the date a return form is issued (usually in March). The Revenue Authority prefers that companies use accounting years ending September, October, November or December of a given tax year. Companies are required to make three provisional tax payments on 28 February, 30 June and 30 November of the year following the tax year. The first payment must equal 50% of the estimated tax payable. The other two payments must each be equal to 25% of the estimated tax payable.

Zimbabwe does not have an advance payment system. Penalties can be imposed for late or incorrect returns, and late payments are subject to interest at an annual rate of 35%.

Withholding taxes that are not considered final taxes are credited to the income tax imposed on the income from which the tax has been withheld.

Dividends. Dividends received by a resident corporation from another resident corporation are exempt from withholding tax and income tax. A 15% withholding tax is imposed on dividends paid by companies listed on the Zimbabwe Stock Exchange to resident individuals. A 20% withholding tax is imposed on other dividends paid to resident individuals and on dividends paid to nonresidents. Dividends received from foreign companies are subject to tax at a rate of 20%.

Foreign Tax Relief. If relief is not provided by a treaty, a unilateral tax credit is given for foreign withholding tax. The tax credit may not exceed the Zimbabwean income tax imposed on the income.

C. Determination of Trading Income

General. Income tax is levied on all income from a source in Zimbabwe or deemed to be in Zimbabwe. Post office savings bank interest and income from certain building society investments are exempt from tax. Interest received from financial institutions and building societies is exempt from income tax if withholding tax is imposed on such interest. The yield on treasury bills purchased by residents and on instruments of residents discounted by registered financial institutions is subject to a final tax at a rate of 20%, which is payable on the purchase of the bills or instruments.

Expenses incurred for business purposes are generally deductible. The following expenses are not deductible:

- Expenses incurred in the production of exempt income or income not derived or deemed to be derived from Zimbabwe;
- Rent or repairs for premises not occupied for purposes of trade;
- Payments in restraint of trade;
- Entertainment expenses; and
- Payments under leases of passenger motor vehicles (as defined) in excess of Z$1,000,000.

For mining operations, the following expenses are not deductible:

- Interest relating to excess debt in a company with a debt-to-equity ratio that exceeds 3 to 1; and
- General administration expenses charged by a foreign head office or parent that exceed 0.75% of expenditure incurred during the preproduction phase or 1% of gross mining income during the production phase.

Donations of up to Z$10,000,000 per year for the construction, maintenance or operation of hospitals run by the state, local authorities or religious organizations and donations of up to Z$20,000,000 per year to approved research institutions are deductible.

A double tax deduction is allowed for specified export market development expenditure and amounts contributed to approved scientific and educational bodies for industrial research or scientific experimental work.

Inventories. The only acceptable inventory valuation methods for tax purposes are cost, using the first-in, first-out (FIFO) method, and market value.

Provisions. In general, only specific provisions are deductible for tax purposes.

Tax Depreciation. Depreciation charged in the financial statements is not deductible; instead, a 50% special initial allowance is granted on the cost of certain assets. A wear-and-tear allowance of 25% of cost is granted in the following two years. The special initial allowance is granted on the cost of construction or additions to fixed assets other than land and certain buildings and also on the purchase price of movable property. If the special initial allowance is not elected, a wear-and-tear allowance at varying rates is granted on these assets. The following are the rates and the computational methods of this wear-and-tear allowance for certain assets.

Asset	Method	Rate (%)
Commercial buildings	Straight-line	2.5
Industrial buildings*	Straight-line	5
Office equipment	Declining-balance	10
Motor vehicles	Declining-balance	20
Plant and machinery	Declining-balance	10

* Toll roads and toll bridges declared to be such under the Toll Roads Act are included in this category.

The maximum depreciable cost for passenger motor vehicles (as defined) acquired on or after 1 January 2003 is Z$1,000,000.

All capital allowances are subject to recapture on the disposal of assets on which such allowances have been claimed. Any amounts recaptured are subject to tax at the regular corporate tax rate. The full sale price of mining assets on which capital allowances have been granted is subject to tax at the regular corporate tax rate.

Relief for Losses. Mining losses are ring fenced to specific locations and may be carried forward indefinitely. Other losses may be carried forward for six years. Losses may not be carried back.

Groups of Companies. Zimbabwean law does not contain measures for filing consolidated returns or for relieving losses within a group.

Transfers of assets in a merger or group reconstruction between companies under common control may be made at the tax value for both income tax and capital gains tax purposes. On the subsequent disposal of such assets outside the group, the gain or loss to the seller is computed with reference to the cost to the first transferor within the group.

D. Other Significant Taxes

The table below summarizes other significant taxes.

Nature of Tax	Rate (%)
Sales tax, on sales of specified goods and services	
Specified luxury goods and various types of office equipment	25
Passenger motor vehicles	15
Commercial vehicles	10
Supply of electricity	5
Sales to registered operators and certain specified items, including basic foodstuffs	0
Other goods and services, including the provision of accommodation at hotels or boardinghouses	15
(Legislation to replace sales tax with value-added tax is expected to be implemented on 1 February 2004 when the rates will be set.)	
Tobacco levy, on the sales price of all tobacco sold on an auction floor; payable by tobacco farmers and purchasers; the levy is deductible in computing taxable income	1.5
Banking institution levy; imposed on profits shown in financial statements; a credit is granted for loans to small or medium-sized enterprises	5

E. Miscellaneous Matters

Foreign-Exchange Controls. The government still imposes broad controls over certain foreign-exchange transactions. Strict controls are still imposed on transactions by individuals. Nonresident individuals with total blocked funds of up to Z$5,000 may remit them through normal banking channels. Specific applications to the Reserve Bank of Zimbabwe through commercial banks are required for all remittances of this nature.

Foreign investment of up to 35% in primary issues of shares and bonds is permitted if it is funded by inward transfers of foreign exchange. Purchases by foreign investors in the secondary market are not permitted, but disposals on that market are allowed.

Foreign borrowings require the approval of the Reserve Bank of Zimbabwe. The approvals are granted based on the merits of the borrowings in accordance with guidelines set by the External Loans Coordinating Committee. The guidelines provide that foreign borrowings may be approved only if they are used to fund productive, export-oriented ventures that have the potential to generate sufficient foreign currency for loan principal and interest repayments without recourse to the foreign-currency market. Under the guidelines, foreign loans may not be obtained to purchase shares, existing companies or real estate, or to fund private consumption, personal loans and retail inventories.

With the approval of the authorities, 100% of after-tax normal trading profits may be remitted to nonresident shareholders within one year of the accrual of the profits.

Dividends and capital gains derived from investments on the Zimbabwe Stock Exchange are fully remittable. Companies and individuals may apply to open foreign-currency accounts (FCAs) with offshore funds or funds derived from export earnings. Expenditure from FCAs is subject to Reserve Bank of Zimbabwe approval. The bank prioritizes such approvals based on the extent to which the foreign-currency expenditure directly affects the payer's ability to export goods and services. Unused balances of export earnings are required to be converted to local currency at the official rate after 90 days. Resident individuals who have FCAs may use funds (other than from export earnings) in the accounts to invest on the stock exchange, in money market funds or in unlisted companies that meet certain criteria. All capital gains, dividends and interest derived from such investments may be reinvested in the FCAs.

The system of direct allocation of foreign-currency requirements has been eliminated, and a foreign-currency market has been created. All payments for imports and other offshore payments, such as dividends and fees, must now be funded through an FCA or the foreign-currency market. All payments require Reserve Bank of Zimbabwe approval, which is applied for through a local commercial bank.

Debt-to-Equity Rules. Debt-to-equity rules apply to mining operations only (see Section C).

F. Treaty Withholding Tax Rates

The rates shown in the table reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a) %	Interest %	Royalties %	Fees %
Bulgaria	10	10	10	10
Canada	10	10	10	10
France	10	10	10	10
Germany	10	10	7.5	7.5
Malaysia	10	10	10	10

	Dividends (a) %	Interest %	Royalties %	Fees %
Mauritius	10	10	15	20 (b)
Netherlands	10	10	10	10
Norway	15	10	10	10
Poland	10	10	10	20 (b)
South Africa	20	10	20	20
Sweden	15	10	10	10
United Kingdom	5	10	10	10
Nontreaty countries	20	10	20	20

(a) The reduced treaty rates apply only if the recipient is a company that controls at least 25% of the voting power of the payer company.

(b) Fees are not covered by these treaties, and consequently the domestic withholding rate of 20% applies to payments of fees from Zimbabwe to Mauritius and Poland.

FOREIGN CURRENCIES AND EXCHANGE RATES

The following list sets forth the names, symbols and approximate U.S. dollar exchange rates as of 26 December 2003 for the currencies of countries discussed in this book.

Country	Currency	Symbol	Foreign-Currency Units per US$1
Albania	Lek	Lek	106.90
Angola	Kwanza	Kz	78.8330
Argentina	Peso	$	2.9525
Aruba	Aruban Florin	Afl	1.79
Australia	Dollar	A$	1.3495
Austria	Euro	€	0.8046
Azerbaijan	Manat	MAN	4,932.00
Bahamas	Dollar	B$	1.00
Bahrain	Dinar	BD	0.377
Bangladesh	Taka	Tk.	58.50
Barbados	Dollar	BDS$	1.99
Belgium	Euro	€	0.8046
Bermuda	Dollar	$	1.00
Bolivia	Boliviano	Bs	7.8010 (a)
Botswana	Pula	P	4.5229
Brazil	Real	R$	2.9011
British Virgin Islands	U.S. Dollar	US$	1.00
Brunei	Dollar	B$	1.7053
Bulgaria	Leva	BGN	1.5731
Cameroon	Franc CFA	FCFA	529.10
Canada	Dollar	C$	1.3068
Cayman Islands	Dollar	$	0.82
Chile	Peso	$	595.5926
China	Renminbi Yuan	RMB	8.2781
Colombia	Peso	Col$	2,792.00 (b)
Congo	Franc CFA	FCFA	529.10
Costa Rica	Colon	¢	418.67
Côte d'Ivoire	Franc CFA	FCFA	529.10
Croatia	Kuna	HRK	6.1521
Cyprus	Pound	£	0.4712
Czech Republic	Koruna	CZK	26.2261
Denmark	Krone	DKK	5.9809
Dominican Republic	Peso	RD$	33.70
Ecuador	U.S. Dollar	US$	1.00
Egypt	Pound	LE	6.1599
El Salvador	Colon	SVC	8.752 (c)
Equatorial Guinea	Franc CFA	FCFA	529.10
Estonia	Kroon	EEK	12.5883

Country	**Currency**	**Symbol**	**Foreign-Currency Units per US$1**
Ethiopia	Birr	Birr	8.55 (b)
European Monetary Union	Euro	□	0.8046
Fiji	Dollar	F$	1.7392
Finland	Euro	□	0.8046
France	Euro	□	0.8046
Gabon	Franc CFA	FCFA	529.10
Georgia	Lari	GEL	N.A. (d)
Germany	Euro	□	0.8046
Ghana	Cedi	¢	8,650.00
Gibraltar	Pound	£	0.6269
Greece	Euro	□	0.8046
Guam	U.S. Dollar	US$	1.00
Guatemala	Quetzal	Q	8.02
Guernsey	Pound	£	0.5648
Guinea	Guinea Franc	FG	2,005.00
Guyana	Dollar	G$	179.00
Honduras	Lempira	L	17.74
Hong Kong	Dollar	HK$	7.764
Hungary	Forint	HUF	209.205
Iceland	Krona	ISK	72.20
India	Rupee	Rs.	45.4545 (e)
Indonesia	Rupiah	Rp	8,496.00
Iran	Rial	IRR	8,303.00 (b)
Ireland	Euro	□	0.8046
Isle of Man	Pound	£	0.5648
Israel	New Shekel	NIS	4.3687
Italy	Euro	□	0.8046
Jamaica	Dollar	J$	59.90 (b)
Japan	Yen	¥	107.5153
Jersey	Pound	£	0.5648
Jordan	Dinar	JD	0.7090
Kazakhstan	Tenge	Tenge	143.66
Kenya	Shilling	KSH	75.75
Korea	Won	W	1,200.00
Kuwait	Dinar	KD	0.2947
Latvia	Lats	LS	0.537
Lebanon	Pound	LL	1,514.00
Lesotho	Maloti	M	6.726
Liechtenstein	Swiss Franc	CHF	1.2542
Lithuania	Litas	LTL	2.7774
Luxembourg	Euro	□	0.8046
Macau	Pataca	MOP	7.9743
Macedonia	Denar	MKD	49.52
Malaysia	Ringgit	RM	3.80 (f)
Maldives	Rufiyaa	Mrf	12.80
Malta	Lira	Lm	0.3466
Mauritania	Ouguiya	MRO	257.00

Country	Currency	Symbol	Foreign-Currency Units per US$1
Mauritius	Rupee	Rs.	26.35
Mexico	Peso	Mex$	11.2461
Moldova	Leu	MDL	12.90
Monaco	Euro	□	0.8046
Montenegro	Euro	□	0.8046
Morocco	Dirham	DH	8.8752
Mozambique	Metical	MT	23,210.00
Myanmar	Kyat	K	6.42
Namibia	Dollar	N$	6.6818
Nepal	Rupee	NPR	73.00
Netherlands	Euro	□	0.8046
Netherlands Antilles	Guilder	NAf.	1.78
New Zealand	Dollar	NZ$	1.5444
Nicaragua	Cordoba	C$	15.43
Nigeria	Naira	₦	138.85 (e)
Northern Mariana Islands	U.S. Dollar	US$	1.00
Norway	Krone	NOK	6.7935
Oman	Rial	RO	0.385
Pakistan	Rupee	Rs.	57.4713
Palestine	None	—	—
Panama	Balboa	B/.	1.00
Paraguay	Guarani	G	5,975.00 (c)
Peru	New Sol	S/.	3.4686 (c)
Philippines	Peso	P	55.5247
Poland	Zloty	PLN	3.7375 (b)
Portugal	Euro	□	0.8046
Puerto Rico	U.S. Dollar	US$	1.00
Qatar	Riyal	QR	3.6391
Réunion	Euro	□	0.8046
Romania	Leu	Leu	32,595.00
Russian Federation	Ruble	SUR	29.3513 (e)(g)
Rwanda	Franc	Frw	556.55
Saudi Arabia	Riyal	SR	3.7509
Senegal	Franc CFA	FCFA	529.10
Serbia	Dinar	CSD	54.8801
Seychelles	Rupee	SR	5.18
Singapore	Dollar	S$	1.7062
Slovak Republic	Koruna	SKK	33.1126
Slovenia	Tolar	SIT	190.52
South Africa	Rand	R	6.6890 (h)
Spain	Euro	□	0.8046
Sri Lanka	Rupee	Rs.	95.95
Sudan	Dinar	SD	260.45 (h)
Suriname	Guilder	Sf.	2,515.00

Country	Currency	Symbol	Foreign-Currency Units per US$1
Swaziland	Lilangeni	E	6.7260
Sweden	Krona	SEK	7.3314
Switzerland	Franc	CHF	1.2542
Taiwan	Dollar	NT$	34.0020 (b)
Tanzania	Shilling	TSHS	1,060.00
Thailand	Baht	Baht	39.5726
Trinidad and Tobago	Dollar	TT$	6.15
Tunisia	Dinar	TD	1.2253
Turkey	Lira	TL	1,408,451 (i)
Uganda	Shilling	U Sh	1,888.00
Ukraine	Hryvnia	UAH	5.415
United Arab Emirates	Dirham	UD	3.673
United Kingdom	Pound	£	0.5648
United States	Dollar	$	—
U.S. Virgin Islands	U.S. Dollar	US$	1.00
Uruguay	New Peso	N$	29.2398 (e)
Uzbekistan	Soum	UZS	N.A. (d)
Venezuela	Bolivar	Bs.	1,597.00 (c)
Vietnam	Dong	VND	15,658.00 (b)
Yemen	Riyal	YR	178.01 (j)
Zambia	Kwacha	K	4,250.00
Zimbabwe	Dollar	Z$	825.00

(a) Financial rate.
(b) Official rate.
(c) Free market rate.
(d) Not available.
(e) Market rate.
(f) Government rate.
(g) Russian Central Bank rate.
(h) Commercial rate.
(i) Floating rate as of 22 February 2001.
(j) Parallel rate.

Source of exchange rates: Reuters, as printed in the *Wall Street Journal*. Unless otherwise noted, the indicative rates used in the table are middle rates of interbank bid and asked quotes.

INDEX OF INTERNATIONAL TAX CONTACTS

A

B

D

N

O

P

Q

R

S

Y

Z

ERNST & YOUNG www.ey.com

EYGM No. OO0374