MINISTRY OF STATE
FOR SCIENCE AND TECHNOLOGY

A COMPARATIVE SURVEY OF TAX INCENTIVES FOR R & D AND INNOVATION IN 28 COUNTRIES

ANNEX - DETAILED REPORTS FOR EACH COUNTRY

NOVEMBER 30, 1986

Price Waterhouse

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FOREWORD

This annex forms part of the study undertaken by Price Waterhouse for the Ministry of State for Science and Technology to compare tax incentives for R & D in 28 countries. It reproduces, essentially as prepared by the Price Waterhouse offices in the 28 countries, an up-dating of the 1984 OECD survey reports on the subject or a similarly arranged document. They include as background information, in addition to the details of the R & D tax incentives, a brief outline of each country's tax system.

As is the case with the 1984 OECD reports, the detailed information in this separate binding reflects the disparity of culture and language among the countries canvassed. The data was discussed with the foreign offices of Price Waterhouse where there appeared the possibility of significantly misleading. Otherwise, the reports were reproduced as transmitted: it was considered preferable to accept occasionally faulty language than to run the risk of misinterpreting in attempting to make it more literary.

The reader interested in a more formal and standardized picture of the corporate tax systems should refer to the 1986 edition of Price Waterhouse's "Corporate Taxes - A Worldwide Summary" which forms part of each 3-volume set of the study.

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AUSTRALIA

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Effective from July 1, 1987, personal and company tax will be integrated. The company income tax rate will be set at 49 % of taxable income, and compensatory tax of $49 will be payable by resident companies for every $51 distributed as a dividend. This tax will be available as a credit against the company's income tax liability. The dividend grossed up by the associated compensatory tax will be taxable to an individual shareholder at his marginal tax rate subject to a credit for the compensatory tax. The individual top marginal tax rate will be 49 %, from July 1, 1987. The compensatory tax may be applied as a credit against income tax payable by the individual in the same year, including the tax applicable to other income, but is not refundable in cash and may not be carried over as a credit in other taxation years. This dividend tax credit will not be extended to non-resident shareholders.

1.2 Tax rate structure

(a) The income tax rate for public and private companies is to be 49 % from July 1, 1987.

(b) Interest withholding tax is levied at 10 %. Effective from July 1, 1987, dividend withholding tax of 30 % (reducing to 15 % under double tax agreements) is to be abolished.

From July 1, 1987, the undistributed profits tax of 50 % on excess retentions by private companies and the branch profits tax of 5 % on the taxable income of non-resident companies are to be abolished.

1.3 Treatment of interest receipts and payments

Interest derived is treated as income, interest expenses incurred are deductible.

1.4 Treatment of dividend receipts and payments

(a) Effective from July 1, 1987, dividends are taxable in the manner noted at 1.1. A company receiving dividends subjected to compensatory tax can offset the imputation credit against compensatory tax due on its own dividend payments. A resident company receiving dividends from non-resident companies must include them in taxable income, but will be allowed a foreign tax credit for withholding tax, and also for underlying tax on the income from which the dividend was paid only if it owns certain minimum direct and indirect voting percentages in the dividend-paying company. Foreign tax credits are also subject to certain limitations in relation to Australian tax payable on foreign-source income.

(b) Dividend payments (other than dividends on certain short-term redeemable shares) are not tax deductible.

1.5 Treatment of income, losses and capital items

(a) An ordinary tax loss arises when allowable deductions exceed assessable income. Such losses can be carried forward for deduction from taxable income for up to seven years. They cannot be carried back. Losses from a business of primary production may be carried forward indefinitely. As an alternative to carrying losses forward, they may in certain cases be transferred between resident companies both under 100 % common direct or indirect ownership, for immediate deduction by the transferee company.

(b) Capital gains, net of current and prior year undeducted capital losses, are added in the calculation of taxable income, subject to the following rules:

- Where qualifying assets, which were acquired after September 19, 1985, are disposed of more than 12 months after their acquisition, the cost of the asset is indexed by an inflation factor for the purposes of calculating a capital gain, but not for calculating a capital loss.

  Capital gains net of capital losses are taxed at the taxpayer's marginal income tax rate, based on the rate applicable when one-fifth of the gain is added to other income in the year of realization. Capital losses in excess of current capital gains can be carried forward indefinitely as deductions only against future capital gains. Companies may transfer unused capital losses to other resident companies under 100 % common ownership, under rules similar to those applicable to ordinary losses.

- Capital gains realized within 12 months of the date of purchase are fully taxable, without the benefit of indexation and will also be excluded in most cases from the five year averaging system mentioned above.

1.6 Treatment of investment expenditures

(a) New and second hand equipment is eligible for accelerated depreciation over three or five years on a straight-line basis, subject to limits on depreciable cost of used equipment.

(b) Investment allowance of 18 % is available on plant ordered before July 1, 1985 which is installed ready for use before July 1, 1987. It is a deduction in computing taxable income in the year the plant is installed ready for use.

(c) Non-residential income-producing buildings constructed after July 19, 1982 and before August 22, 1984 are eligible for an annual capital allowance of 2.5 % (straight-line). Such buildings constructed from August 22, 1984 qualify for a 4 % allowance. From July 17, 1985 new residential income-producing buildings are also eligible for the 4 % straight-line write-off.

(d) Investment grants: investment grants or subsidies are generally treated as assessable income if they are of an income nature, or may be treated as reductions in deductible depreciable or amortizable asset costs if they are in respect of capital assets. Some grants, for example, Commonwealth Rebates for Apprentice Full-Time Training, are exempt from income tax consequences.

1.7 Treatment of inventories

Trading stock is valued at cost price, market selling value or replacement cost. Cost price can be determined by FIFO, average cost or standard cost. LIFO may <u>not</u> be used.

2. <u>Corporation Tax Treatment of Innovation Expenditure</u>

2.1 R & D expenditures

Australian companies are eligible for the following deductions from July 1, 1985 to June 30, 1991 in respect of expenditure on research and development activities:

(i) A 150 % deduction is allowable in the year of expenditure for R & D expenditure, other than on plant and equipment, including payments to approved research institutes for R & D activities on behalf of the company.

(ii) 150 % of the cost of R & D plant and equipment is deductible over three years on a straight-line basis.

(iii) Expenditure on buildings used for R & D is deductible over three years on a straight-line basis.

In most cases, this incentive is subject to a $50,000 minimum annual expenditure threshold, with lower rates of incentive applicable at between $20,000 and $50,000. Expenditures on R & D not eligible for the above incentives will be eligible for deduction on a similar basis except that the 150 % factor will not apply.

2.2 Expenditures to apply for a patent, copyright or design

Expenditures are deductible outright.

2.3 Expenditures on plant and equipment embodying new technology

No special provisions.

2.4 Marketing expenditures for introduction of new technology

No special provisions.

2.5 Contributions, donations or grants to non-profit scientific organizations

Donations of $2 or more to approved scientific research institutes are tax deductible, provided they do not create or augment an overall tax loss for the year.

A tax deduction of 150 % is available for payments by Australian companies in consideration for contracted R & D activities performed by an approved research institute on their behalf.

3. Corporate Tax Treatment of Receipts from Sale of Technology

The cost of patents, copyrights, registered designs or licences thereof are amortizable on a straight-line basis over their effective life, or in the case of copyrights over 25 years if this is shorter. Such deductions are recaptured to the extent that the sale proceeds of such property or an interest therein exceed the undeducted cost of that property.

Capital gains arising when industrial property is sold at a price in excess of original cost is taxable under the rules for capital gains described above at 1.5(b).

In the case of part disposals (for example, the granting of a licence) for a capital sum, proceeds of a capital nature are applied firstly in reduction of unamortized cost, secondly as a recapture of previous amortization and thereafter as capital gains under the capital gains rules (see 1.5(b)).

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and of Non-profit Scientific Research Organizations

The income of certain non-profit scientific research funds is exempt from tax.

There is no special tax treatment of small business. Nor are venture capital firms generally eligible for concessional treatment. However, an immediate tax deduction is available to investors for the amount of moneys subscribed as share capital to certain licensed venture capital firms, known as "Management and Investment Companies", subject to certain recapture provisions if the shares are not retained by the investor for at least four years.

Special incentives applicable to qualifying Australian films allow an investor in the original production a deduction equal to 120 % of the amount invested and also an exemption from income tax on net income and capital receipts from the film up to a ceiling of 20 % of the amount invested.

AUSTRIA

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Personal and corporation income taxes are not fully "integrated". If there is no substantial holding the gross amount of dividend must be included in taxable income. However, the lower tax rate on distributed profits decreases total tax paid by corporations. The withholding tax of 20 % is treated as payment of tax.

1.2 Tax rate structure

(a) Rates of tax are:

Undistributed profits: income up to 200,000 Sch: 30 %;
200,000 to 250,000 Sch: 30 % on the whole plus 50 % on income exceeding 200,000 Sch;
250,100 to 400,000 Sch: 40 %;
400,100 to 500,000 Sch: 40 % on the whole plus 50 % on income exceeding 400,000 Sch;
500,100 to 1,000,000 Sch: 50 %;
1,000,100 to 1,142,800 Sch: 50 % on the whole plus 40 % on income exceeding 1,000,000 Sch;
thereafter: 55 %

(b) Distributed profits: rates reduced by one-half.

(c) No relief for distributed income of non-residents including Austrian branches of foreign corporations.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are treated as ordinary income.

(b) Interest payments are deductible except when loans are used to acquire a substantial participation (25 % or more) in another company.

1.4 Treatment of dividend receipts and payments

(a) Dividends are included in taxable income. Withholding tax (see (d)) may be deducted from corporate income tax.

(b) Dividends are exempt from corporate income tax and withholding tax if the recipient company owns 25 % or more of the distributing company.

(c) Profits and losses of a controlled subsidiary (usually majority-owned) may be pooled and taxed in the hands of the controlling company. ("Organschaft" agreement.)

(d) Withholding tax of 20 % applies to profit distributions not qualifying for affiliation or Organschaft arrangements. The rate of tax on distributed profits of Austrian enterprises is halved.

1.5 Treatment of gains and losses

(a) A net operating loss is the excess of net assets at the beginning of the tax year over net assets at the end of the year. Losses may be carried forward 7 years.

(b) There is no distinction between gains on capital and non-capital assets.

(c) Taxation of capital gains may be deferred in some cases through (i) deductions from the cost of capital assets purchased in the year in which gains from the sale of capital assets arise or by setting up a tax-free reserve which must be used to purchase capital assets in the following 2 years; or (ii) the Structural Improvement Law, designed to encourage mergers and rationalization by not taxing book profits from certain mergers.

(d) Gains arising from the sale or cessation of a business are taxable only as far as they exceed 100.000 Sch; gains from the sale of a separate part of the enterprise are taxable if they exceed the appropriate ratio of 100.000 Sch.

1.6 Treatment of investment expenditures

(a) The straight-line method is usually applied. The declining balance method does not apply to accelerated depreciation or investment reserve assets (see (b) and (c)). Depreciation is mandatory including during loss-making years.

(b) Accelerated depreciation is available during the first year of acquisition, in addition to normal straight-line depreciation. The rate is 40 % on machinery and equipment, employee housing and some hotel and tourist installations. There is a special rate of 60 % on pollution and electricity generating and conservation equipment. Transport business equipment is 20 %. For immovable property which is normally excluded the rate is 25 % until end-1987.

(c) An investment deduction (or allowance) of 20 % is available on depreciable assets whereby the assets must be held by the company for at least 5 years. This allows 120 % of the purchase price to be depreciated. The eligible transport equipment rate is 10 %.

(d) A special tax-free investment reserve of 25 % of taxable profits less accelerated depreciation and the investment deduction may be set up. Within 4 years this reserve must be used to purchase assets which qualify for accelerated depreciation or for the investment deduction.

(e) An investment bonus of 8 % from the costs of capital assets (4 % for transport business equipment, 12 % for pollution control equipment) may be claimed. Claims for an investment bonus preclude the use of the investment incentive mentioned in (b), (c) and (d) above. The assets must be held for five years, otherwise the bonus is repayable.

(f) Investment grants: some government grants are not included in taxable income, but they are deducted from investment expenditures when calculating the depreciation base.

1.7 Treatment of inventories

(a) The net worth approach requires careful valuation of assets and liabilities. Acceptable methods include the lower of cost or going concern value. FIFO is accepted; LIFO is only accepted if it is actually used by the taxpayer.

(b) Fixed assets are valued at cost less depreciation, tax-deferred capital gains and the investment reserve.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current expenditures are deductible. An additional 12 to 18 % may also be allowed, bringing the total deduction to 112 and 118 % respectively.

(b) Capital expenditures: accelerated depreciation of 80 % in addition to normal depreciation is applicable to assets used in developing or improving economically valuable inventions and pollution control equipment.

(c) The investment allowance of 20 % also applies.

(d) Research equipment is excluded from asset calculations for the net worth tax.

2.2 Expenditures to apply for a patent

Deductible.

2.3 Expenditures for plant and equipment embodying new technology

No special treatment. Generous accelerated depreciation and deductions are provided (see 1.6).

2.4 Expenditures for purchase of technology

(a) Royalty payments are deductible.

(b) Patent rights and other purchased intangible assets may be depreciated.

2.5 Marketing expenditures for introduction of new technology

Deductible.

2.6 Contributions, donations or grants to non-profit scientific organizations

Payments to universities, research institutes, the Austrian Academy of Sciences and similar institutions for the purpose of scientific research are fully deductible.

3. Corporation Tax Treatment of Receipts from Sale of Technology

Treated as normal income.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms, and Non-profit Research Organizations

4.1 New and small business

Small firms are taxed at lower rates. Tax rates begin at 30 % and graduate to 55 % (see 1.2).

4.2 New ventures

There is no special treatment of venture capital investment or new technology-based firms.

4.3 Non-profit scientific organizations

Universities and research institutes not engaged in business activities are tax-exempt.

BELGIUM

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) Double taxation is partially mitigated by the tax credit system.

The tax credit granted to a shareholder resident in Belgium is equivalent to approximately half the tax levied on the profits set aside for distribution in the form of dividends (i.e. about one-third of the dividend - taxable income).

(b) Dividends distributed to the holders of shares purchased in 1982 and 1983 (new companies formed or capital increased) may be deducted from trading profits as to 8 % of the share purchase price over a five-year period (in some cases, 13 % over a ten-year period).

1.2 Tax rate structure

(a) The normal rate is 45 %, reduced to 43 % in 1987.

(b) SME whose profits do not exceed BF 3 600 000 receive more favourable treatment.

(c) Capital gains on assets frozen for more than five years are taxed at the reduced rate of 22.5 %, reduced to 21.5 % in 1987.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are treated as ordinary income.

(b) Interest paid, as long as it is at a reasonable rate, is treated in the same way as costs.

1.4 Treatment of dividend receipts and payments

(a) Dividends received

(i) Dividends received from "permanent" shareholdings:

In this case, 5 % of the dividend distributed (and encashed) receives no special treatment. This percentage is increased to 10 % for holdings that do not exceed 50 to 75 % of the capital of the firm paying the dividends.

(ii) Dividends received from "non-permanent" shareholdings:

Dividends received from non-permanent shareholdings in Belgian companies are included in taxable profits and taxed at the full rate. In order to offset to some extent the effects of double taxation on profits, a tax credit is granted on the following basis: tax credit granted equivalent to 51 % of the dividend distributed for one dividend - declared taxable income equivalent to 151 % of the dividend distributed. These amounts are 47 and 147 % respectively as of 1987.

Dividends received from non-permanent holdings in foreign companies are subject to special regulations. They are generally treated as taxable income, with a 15 % tax credit allowance.

(b) Dividends paid

Dividends paid are not deductible from taxable income. However, within certain limits and in accordance with conditions laid down by law, dividends paid on capital invested in 1982 and 1983 are deductible to the amount of 8 % per annum of that capital (in some cases, 13 %). (See 1.1(b)).

1.5 Treatment of gains and losses

(a) A loss incurred during a fiscal year generally has to be set against the income of the five following fiscal years (carry-over to subsequent years).

However, the following may be deducted from the income of subsequent years without any date limit:

- losses due to accident or unavoidable circumstances (force majeure);
- losses incurred during a firm's first five trading years;
- losses due to write-offs.

(b) Apart from a large number of exceptions - i.e. cases where they are reinvested in the required manner - capital gains are subject to corporation tax (generally at a reduced rate - see 1.2(c)).

1.6 Treatment of investment expenditures

(a) Frozen assets are written off by either the straight-line depreciation or the diminishing balance depreciation method (at a rate equal to twice that of the straight-line method, point of inflection).

The normal writing-off period is that of the life of the asset.

(b) Exceptions were made in the framework of temporary measures to encourage innovation (1976-1980):

- free depreciation;
- accelerated depreciation;
- depreciation at 110 % of the book value of the asset.

(c) These measures to stimulate innovation have been replaced by the allowance of deductions against investment. Taxable profits are exempted from tax as to 5 % of the amount invested in office furniture and equipment and as to 13 % of other investment.

1.7 Treatment of inventories

There are no special provisions concerning inventory valuation. Inventories are valued at their purchase price (or, if it is lower, at their market price). Either the FIFO (first in, first out) or LIFO (last in, first out) method or a weighted average price system is used.

Outstanding production, finished products, etc. are valued at cost price (direct costing, full cost, etc.).

The taxpayer must take care that the same valuation method is used from one tax year to the next.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Operating costs

(i) Operating and staff costs related to R & D and other running costs may be treated:

- either as operating costs, in which case expenditures are deductible during the tax year when they were incurred;

- or as investment, in which case they will be written off (over a minimum period of three years) by the straight-line depreciation method (one-third each year), or by the diminishing balance method (50 %, 25 %, 25 %).

Where R & D costs are treated as investment, taxable profits are exempted from tax as to 20 % of the value of that investment (deduction for R & D investment)(1).

(ii) Furthermore, taxable trading profits are exempted from tax as to BF 100 000 for each additional staff member working on R & D.

(b) Buildings (and land) used for R & D activities are normally written off over a 20-year period. Facilities and equipment used for R & D activities may be written off over a 3-year period. Taxable profits are exempted as to 20 % of the value of the investment concerned (deduction for R & D investment).

2.2 Expenditures to apply for a patent (2)

These expenditures are treated in the same way as R & D operating costs (see 2.1(a)).

2.3 Expenditures on plant and equipment embodying new technology (3)

No special treatment (see 1.6).

2.4 Expenditures on purchase of technology

These expenditures are treated in the same way as R & D operating costs (see 2.1(a)).

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1. The 20 % is increased to 25 % in cases where the investments are made before the end of the 10th year after foundation. Proposed legislation would increase this amount to 30 %.

2. Except commercial licences, representation rights, use of brand names, etc.

3. Other than that specified under 2.1(b).

2.5 Marketing expenditures on introduction of new technology

These expenditures are treated in the same way as R & D operating costs (see 2.1(a)). However, tax exemption for taxable profits in cases where these expenditures are being written off is limited to 13 % (i.e., normal treatment applies - see 1.6(c)).

2.6 Contributions, donations or grants to non-profit scientific organizations

Depending on the circumstances, these expenditures are treated either as grants (deductible up to 10 % of profits, maximum BF 10 000 000 annually), or as R & D operating costs (see 2.1(a)).

3. Corporation Tax Treatment of Receipts from Sale of Technology

Profits from sale or hire of patents, processes or techniques are subject to tax in the same way as any other income from sales.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Research Organizations

4.1 Innovative small businesses - newly-established firms

Newly-established enterprises employing fewer than 200 people and using advanced technology may be granted a corporation tax holiday of up to ten years at most, provided they are set up in one of the special development areas.

4.2 Venture capital

(a) Companies

Shares in an approved mutual fund, acquired between 1982 and 1985 by a taxpayer subject to personal income tax, are deductible from his total taxable income (at their purchase price).

Approved mutual funds must spend at least 60 % of their financial resources on shareholdings in Belgian companies (venture capital).

A new bill, not yet passed, would also encourage the venture capital funds, intended to stimulate start-up and high risk investments. They should maintain 40 % of their assets in Belgian companies not quoted on stock exchange. The venture capital fund would be transparent and not subject ot taxation.

(b) Non-profit scientific organizations

(i) A taxpayer subject to personal income tax who purchases shares in Belgian companies as a long-term investment (minimum: five years) is entitled to the same advantages as the taxpayer who invests in a mutual fund (see 4.2).

(ii) The dividends distributed to shareholders referred to under 1.1(b) are partially exempted from payment of personal income tax.

4.3 Non-profit scientific organizations

Scientific organization and research centres are not subject to corporation tax. This exemption applies whatever the legal status of the organization concerned, whether it is non-profit-making, a commercial undertaking or a subsidiary of a foreign firm.

BRAZIL

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Income of individuals is taxed at progessive rates. Tax returns are subdivided into schedules for the purpose of classifying different categories of income and the related deductions and allowances. See also 1.4(a).

Classes of taxpayers

Taxpayers are divided into three main groups:

- locally based corporate entities, such as corporations, limited liability companies, branches of foreign concerns, partnerships, and sole proprietorships;
- resident individuals;
- non-resident individuals and corporate entities.

Territoriality and residence

The basic principle of taxation of individuals in Brazil is that residents are taxed on their worldwide income and non-residents only on income derived from Brazilian sources.

Source in this case is considered to be the point of payment. The regulations do not deal in any detail with the definition of domicile and residence.

With regard to foreigners working in Brazil, the Law provides that holders of temporary residence visas are treated as non-residents during the first 12 months of their stay, and as such they are liable to Brazilian income tax only on income received in Brazil from Brazilian entities. This income is taxed at 25 % at source, and no tax return need be submitted.

Gross income

The income tax return is subdivided into various schedules, which serve to classify income and related deductions as to sources, as follows:

- Capital investments
- Employee services
- Professional fees
- Rentals and royalties
- Dividends and other profit distributions
- Agricultural and similar activities

In addition to the above income-related schedules, all taxpayers are required to prepare a separate listing of all personal worldwide assets and liabilities at the beginning and the end of the calendar year.

The following items may be excluded from taxable income:

- Principal payments received under insurance or endowment policies upon the death of an insured person.
- Assets acquired by gift or inheritance.
- Insurance premium refund.
- Severance payments received on dismissal.
- Accident insurance compensation.
- Family salary supplement.
- Income from indexation of certain bonds, securities and investments.

Employee services

The definition of taxable income arising from employee services is very broad, and it includes not only salary but any other earnings related to employment, such as directors' fees, bonuses, tips and other gratuities; thirteenth salary, commissions, cost of living allowances, living and housing allowances, and any other benefits.

Profit sharing and directors' bonuses are not considered to be employee services; they are included in the schedule for reporting dividends and profit distributions.

1.2 Tax rate structure

Corporate income tax rates are the following:

	%
Standard rate	35
Surcharge	
• Taxable income over 40,000 OTN per annum or 20,000 OTN semi-annually	10
• Same, but for financial institutions	15
Reduced rates	
• Agriculture activities	6
• Some utility companies	17
Electric power and telecommunications companies	6

1.3 Treatment of interest receipts and payments

Interest - interest income is taxable on the accrual basis.

1.4 Treatment of dividend receipts and payments

(a) Dividend receipts - all dividends are subject to withholding tax except when the beneficiary is a public corporation.

Withholding tax is 23 % on dividends paid by public corporations and 25 % on dividends paid by other companies.

Individual shareholders may choose to have their dividends taxed exclusively at source (at the rates stated above) in which case no further tax is due on the dividend.

Stock dividends are not subject to taxation in the hands of shareholders.

(b) Dividend payments - dividends received from other Brazilian entities and stock dividends from any source are not subject to corporate income tax, but dividends paid to entities other than public corporations, are subject to withholding tax; this tax becomes a tax credit, usable against those payable on redistribution of such dividends.

The payment of dividends in kind is not permitted by Brazilian corporation law.

1.5 Treatment of operating losses and of capital gains and losses

Capital gains

In general, capital gains of resident individuals are computed as taxable income. Notable exceptions are listed below:

(a) Capital gains from the sale of shares held in quoted companies (public corporations) are tax-free, as are those from the sale of other shares, provided they were held for more than five years.

(b) Capital gains on the sale of an individual's residence are tax-free if they are reinvested in another residence within the next calendar year.

Non-resident individuals pay 25 % tax on all Brazilian source capital gains (and any other income).

Capital losses

Operating losses can be offest against income from all sources.

Losses cannot be carried back, but they may be carried forward four years.

1.6 Treatment of investment expenditures (Depreciation, Amortization)

Depreciation

With the exception of land, depreciation of property, plant and equipment is a permitted deduction.

The regulations do not establish depreciation rates, but the annual straight-line rates can be considered as normally acceptable for single work shifts, and they may be increased by 50 % and 100 % for double and triple shifts, respectively.

The annual straight-line rates are as follows:

	%
Machinery, including equipment, installations, etc.	10
Vehicles	20
Buildings	4

The rates shown above may be increased if the taxpayer can prove that the asset concerned has a correspondingly shorter life. Land is not depreciable.

1.7 Treatment of inventories

Inventories should be valued at whichever is the lower of cost or market value. Average purchase cost is normally used. LIFO is not an acceptable valuation method for tax purposes.

Provisions for obsolescence are not allowable deductions. Related charges to taxable income are allowable only when inventories are disposed of or destroyed. A certificate must be obtained to substantiate destruction.

2. Corporate Tax Treatment of Technology Development Expenditures

2.1 R & D expenditures

Research and development costs may be carried as a deferred charge or taken to income. Deferral is the more common practice.

Property, plant and equipment acquired for investment projects approved by the Industrial Development Council (CDI) may be depreciated at three times the normal applicable rate.

At the option of the taxpayer, this expenditure may be deducted when incurred or deferred until termination of the project.

(i) Expenditures attributable to one or more further tax years.

The following expenditures are deemed to be deductible: research and creation of new products, new production, administration or sale techniques.

(ii) Expenditures incurred on embodying new technology for which payment is made to foreign enterprises and technical advisory services may be deducted at the maximum rate of 5 % of the company's net sales, and such technology must be supported by a registered contract at the Brazilian Central Bank. Note that these expenditures must be deferred.

2.2 Expenditures on applying for a patent

Amortization of goodwill deriving from accounting for investments in associated and subsidiary companies on the equity method is deferred for taxation purposes until such time as the related investment is realized.

Amortization of patents, trademarks and copyrights based on their duration is a deductible expense within approved limits.

2.3 - 2.4 Expenditures on plant and equipment embodying new technology and Expenditures for purchase of technology

Expenditures on embodying new technology in general are deductible; please note that these expenditures must be deferred. Please see 2.1(ii) for more information.

2.5 Marketing expenditures for introduction of new technology

Marketing expenditures shall be allowed whenever related to company activities. This includes all payments to the media and to advertising and publicity companies.

2.6 Contributions, donations or grants to non-profit scientific organizations

Charitable contributions - deductible up to certain limits if the recipient is a registered charity.

3. Corporation Tax Treatment of Receipts from Sale of Technology

Charges for royalties, license fees or any form of technical advisory services are not deductible for tax purposes when made by a foreign corporation to a Brazilian enterprise over which it has direct or indirect control; such charges are considered profit distributions subject to 25 % withholding tax.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Research Organizations

The concept of an incorporated joint venture as a separate legal entity (as opposed to a jointly held corporate entity) does not exist in Brazil.

A joint venture may be instituted as a capital association via the formation of any chosen form of business organization as described above.

A joint venture may also be instituted through a special partnership or through the formation of a consortium, which is neither a legal entity nor a form of capital association. A consortium is used mainly for major contracts for rendering services or for supplying equipment.

The parties to a non-incorporated joint venture or consortium are taxed individually, based on their tax status and their share of taxable income.

4.1 Small businesses

For tax purposes a small business is an individual company with annual gross sales less than or equal to 10.000 (OTN) federal treasury bonds. We take as an example, the first month of the tax year, January 1986, OTN = 80,047 = 80,047 x 800.476,60.

4.2 Non-profit scientific research organizations

These companies do not pay taxes. Management receives no dividends, all records of expenditures must be kept up-to-date, and such organizations must invest all resources in formal social development funds.

CANADA

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) Canada has a modified imputation system to mitigate double taxation. Resident individuals and trusts gross up by a factor of 50 % (33 1/3 % as of 1987) their dividend amount and receive a roughly equal tax credit. Any excess tax credit is lost. A special deduction for individual taxpayers allows the first Cdn. $1,000 of interest or grossed-up dividends tax-free and retention of the tax credit.

(b) Special rules apply to private corporations; Canadians may receive the same after-tax return on investment income directly or through a private corporation.

1.2 Tax rate structure

(a) The federal corporation income tax rate until June 30, 1987 is 46 % (36 % after provincial tax abatement described in 1.2(b)). A temporary surtax of 5 % on large corporations is levied through 1986. The surtax for 1987 is 3 %.

(b) Basic provincial tax rates are 10 to 16 %. A 10 % abatement on federal corporation income tax allows for provincial taxes. (Computations for the federal and provincial corporation tax base are essentially the same.)

(c) The manufacturing and processing profits deduction reduces the rate on qualified Canadian profits to 40 % (30 % after abatement).

(d) The small business deduction (or "small business tax credit") for Canadian-controlled private corporation reduces the rate to 25 % (15 % after provincial tax abatement); from 1981 the rate on small business manufacturing and processing profits is 20 % (10 % after provincial tax abatement). In addition, many provinces reduced their rates to anywhere from 3 to 10 %. The small business limit is Cdn. $200,000 of net active business income per year.

(e) The federal government proposes to reduce the federal income tax rate by 2 to 3 % on certain income by 1989.

(f) One half of realized capital gains are included in income.

1.3 Treatment of interest receipts and payments

Interest receipts are included in income; interest payments are deductible from income to the extent they are incurred for the purpose of earning income.

1.4 Treatment of dividend receipts and payments

See 1.1. above. Dividends received from Canadian corporations are in general not taxed twice. The dividend tax credit to the recipient recognizes corporate taxes paid. There are no deductions for dividend payments and no distinction between distributed and retained earnings.

1.5 Treatment of gains and losses

(a) Operating losses can be offset against income from all sources. Gains and losses on trading assets are considered as normal income or losses. Losses can be carried back three years and forward seven.

(b) There are no distinctions between short and long-term capital gains. One-half of realized capital gains are included in income. One-half of realized capital losses are deductible from capital gains. Net capital losses can be carried back three years or forward indefinitely against net capital gains. A lifetime "capital gain exemption" from tax is available to individuals. The lifetime limit is Cdn. $500,000.

1.6 Treatment of investment expenditures

(a) A system of capital cost allowances is used to compute depreciation for most tangible property. Separate classes and depreciation rates are established for different types of property.

(b) Annual rates for major types of assets on a declining balance basis, subject to a half-year convention for new acquisitions, are:

Class	Asset	Annual rate on undepreciated balance
3	Buildings or structures	5 %
7	Vessels (other than certified Canadian vessels)	15 %
8	Machinery, equipment, etc.	20 %
9	Aircraft	25 %
10	Automotive equipment	30 %
29	Canadian manufacturing and processing machinery and equipment	Special two-year write-off
	Certified Canadian vessels	Special three-year write-off

(c) New buildings, machinery and equipment acquired for use in Canadian manufacturing, processing, farming, fishing, logging, and resource industries, are eligible for an investment tax credit against federal income taxes. The credit is: Eastern maritime provinces and Gaspé Peninsula 20 %, other Regional Development Incentives areas 10 %, other areas 7 %. A special investment tax credit of 50 % (40 % as of 1987) applies to certain property acquired for use in low growth and high unemployment areas. Unused credits earned in a year are refundable at a rate of 20 % for large business and 40 % for small business. Unused credits may be carried back 3 years and forward 7 years. The above credits, with the exception of the credit relating to low growth and high unemployment areas, will have been phased out by January 1, 1989.

(d) Investment grants: in general, grants and investment tax credits reduce the capital cost of property for depreciation purposes. R & D grants reduce the R & D expenditures.

1.7 Treatment of inventories

Inventory may be valued at: cost, fair market value, or the lower of the two. LIFO is not allowed.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current and capital expenditures incurred in Canada for scientific research activities are deductible in the year incurred and may be carried forward indefinitely. Tax credits that are claimed in respect of the expenditures reduce the deductible amount. Foreign current expenditures are only deductible in the year incurred. Foreign capital expenditures are deductible through the capital cost allowance system as described in 1.6(b).

(b) The tax credit for current and capital R & D expenditures incurred in Canada is: Eastern maritime provinces and Gaspé Peninsula 30 %, other Regional Development incentives areas 20 %, other areas 20 %; a credit of 35 % applies to small Canadian controlled private corporations.

Unused credits may be refunded or carried over to other years (see 1.6(c) above). The tax credit relating to the first Cdn. $2,000,000 of current expenditures of a small business is fully refundable. Tax credits relating to R & D are not scheduled to be abolished.

(c) The Province of Québec also offers a tax credit of 10 % of wages paid in Québec for scientific research activities. This credit is fully refundable.

2.2 Expenditures to apply for a patent

Costs of obtaining intangible industrial property rights are deductible in the year incurred. Costs of purchasing a previously issued patent are deductible over the remaining life of the patent.

2.3 Expenditures on plant and equipment embodying new technology

No special treatment other than that described in 1.6.

2.4 Expenditures for purchase and use of technology

(a) Intangible assets (rights, franchises, licenses with a fixed life) may be depreciated under the capital cost allowance system on a straight-line basis. One-half of capital expenditures for purchase of intangible assets of indefinite duration are eligible for amortization at a 10 % declining balance rate.

(b) Royalty payments for the use of intangible property rights are deductible in the year incurred.

2.5 Marketing expenditures for introduction of new technology

Deductible.

2.6 Contributions, donations or grants to non-profit scientific organizations

Deductible for research related to the taxpayers' normal business. If the non-profit organization is not totally tax-exempt but qualified as a charity, there is a limit on deductions of 20 % of the donor's net income.

3. Corporation Tax Treatment of Receipts from Sale of Technology

(a) Royalty income is treated in the same way as ordinary income. If it is investment income of a private corporation, some taxes may be refunded (see 1.1(b)).

(b) Total disposition of technology will be treated as capital gains of the firm if it is not part of normal business, or as income if it is part of normal business.

(c) Receipts for undertaking scientific research on behalf of another firm are taxable income, and they reduce the research deduction available. See also 4.2(b) below.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms, and Non-profit Research Organizations

4.1 Small business

The small business deduction reduces the federal tax rate to 25 % (15 % after abatement) for Canadian controlled private corporations (see 1.2(d)). In the case of manufacturing and processing profits a further reduction in the rate of 5 % is allowed to reduce the rate to 20 % (10 % after abatement).

4.2 New ventures

(a) Investors in certain venture capital corporations may be eligible for provincial tax credits and grants. The provincial governments do not tax some capital gains from investment in such corporations.

(b) Special provisions for private corporations and financial intermediaries ensure once-only tax treatment of inter-corporate dividends, and these encourage the flow of finance to new and small firms.

4.3 Non-profit research organizations

Tax-exempt in general. If tax-exempt status does not apply, registered charity status may, but donations then have limited deductibility.

DENMARK

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

With effect from the beginning of 1987 new tax laws have been passed, which among other things will equalize the tax on business, whether it is run as a personal business or as a limited company.

In both cases, the taxation will be 50 % of the taxable income.

Denmark has a system to mitigate double taxation on dividends received. For persons and companies that are fully taxable to Denmark there is an allowance of 25 % of received dividends. This amount is taxable too, but it works as a kind of tax credit on dividends received.

1.2 Tax rate structure

(a) The total tax rate on corporation income is 50 %. There are no other local taxes on company income, but the revenue of the above mentioned tax is split between the state and the municipality.

(b) There is no special small business deduction in Denmark.

1.3 Treatment of interest income and expense

Interest income is included in the total income. Interest expense is deductible from taxable income. There are no restrictions on the deductibility of interest expense due to the purpose of the loan incurring the interest expense.

1.4 Treatment of dividends receipts and payments

See 1.1 above. Dividends received from a 25 % owned Danish subsidiary are not taxable income for the holding company. The same rule applies to dividends received from subsidiaries based abroad, if the foreign country has tax rules which are mainly similar to Danish rules.

Beside these rules there is a tax relief on 50 % of the company's income earned abroad.

There is a unique feature in the Danish tax system which allows joint taxation of a group of companies. One advantage derived from this system is that certain companies' tax losses are deducted the same year in other companies' income. This will maximize the value of the corporations' tax losses.

1.5 Treatment of gains and losses

(a) Operating losses can be offset against income from all sources.

Gains and losses on trading assets are considered as normal income or losses.

See 1.4 above about consolidated taxation too.

Losses can be carried forward five years. There is no carry-back rule for tax losses.

(b) Certain capital gains are not taxable if the asset has been owned longer than a certain period. For persons there is a distinction between ordinary taxable income and capital gains because there are different tax rates and calculation methods. However, companies add the two income elements together into one taxable income, which is taxed with 50 %.

1.6 Treatment of investment expenditures

(a) Depreciations on tangible assets are deducted from the taxable income. Separate depreciation rates are established for different types of property.

(b) Annual rates on a declining balance basis with an inflation indexing of the opening balance each year.

Asset	
Machinery, equipment, aircraft, automobiles	30 %
Ships	30 %

With regard to ships it should be mentioned that it is allowed to depreciate up to 30 % of the value of the shipbuilding contract before the ship is finished.

As a most recent initiative the parliament has just suggested an increase of this percentage to 45 %. Other improvements have been suggested mainly to protect the Danish shipbuilding industry.

(c) Buildings and land.

No depreciation on the value of land is allowed.

Buildings used for mercantile and industrial purposes can be depreciated with an annual 6 or 4 % depreciation on the calculated purchase cash value up to 60 or 40 % of the total value. Thereafter the rate is reduced to 2 or 1 %. The above mentioned depreciation rates depend on the type of business taking place in the buildings. There is a yearly inflation adjustment of the remaining balance.

(d) Investment grants.

In general there are no special tax credits on investment.

(e) Investment funds.

As a unique feature in the Danish legislation there is a possibility to depreciate before the asset is bought.

A deduction calculated on the basis of the total income before financial expenses is allowed if 50 % of the deduction is deposited in a bank. When the asset is bought the banked amount can be reclaimed by the company and the deduction is treated as an already taken depreciation and therefore set off against the assets' purchase price. This system allows a saving to be used for future capital investments by reducing the current taxation.

1.7 Treatment of inventories

(a) Inventory may be valued at: cost, fair market value, or the lower of the two. LIFO is allowed.

(b) It is allowed to deduct 30 % of the inventory value in the yearly income.

The deducted amount should be added to following year's income but a new 30 % depreciation is allowed on the closing value of the inventories. The net effect is a one year tax credit on 30 % of the inventory tax value.

2. <u>Corporation Tax Treatment of Innovation Expenditures</u>

2.1 Research and development expenditures

(a) Current and capital expenditures to scientific research activities are deductible in the year incurred. There is a general rule which allows negative taxable income to be carried forward for five years. In many cases a new industry will have business losses for the first couple of years, partly due to a lot of R & D expenses and partly due to the attempt to gain market share.

To prevent the loss of the tax deductions due to the above mentioned 5-year carry-forward rule, it is allowed to activate the R & D expenses and then depreciate them with 25 % each year. The machinery and buildings used in connection with R & D are not treated in any special way, but the depreciations are treated according to the rules mentioned above in section 1.

(b) Natural resources extraction costs are deducted in the year they are incurred.

If they are incurred before the beginning of the business or if the amount exceeds 30 % of the business profit before tax and financial expenses they should be activated and depreciated over five years on a straight-line basis.

2.2 Expenditures to apply for a patent

Costs of obtaining intangible industrial property rights are deductible in the year incurred. Costs of purchasing a previously issued patent are deductible over the remaining life of the patent on a straight-line basis.

2.3 Expenditures on plant and equipment embodying new technology

Same as 1.6 above.

2.4 Expenditures for purchase and use of technology

(a) Intangible assets (rights, franchises, licenses with a fixed life) may be depreciated on a straight-line basis over the duration of the asset or right. If the assets have a duration over 10 years it is allowed to depreciate the assets with 10 % each year.

(b) Royalty payments for the use of intangible property rights are deductible in the year incurred.

2.5 Marketing expenditures for introduction of new technology

All marketing expenses are deductible as long as they are connected to an existing business on existing markets though there have been cases where the deductions were denied with the argument that it was not related to the existing income because it was an attempt to open up new markets. These rules are general for all marketing expenses and there are no special rules in connection with new technology.

2.6 Contributions, donations or grants to non-profit scientific organizations

Same as 2.1 above.

3. Corporation Tax Treatment of Receipts from Sale of Technology

(a) Royalty is treated in the same way as ordinary income.

(b) Total disposition of technology will either be treated as capital gains of the company if it is not part of normal business or as income if it is part of the company's normal business.

(c) Receipts for undertaking scientific research on behalf of another company are ordinary taxable income. These receipts are in no way connected to the deduction of research expenses.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

4.1 Small businesses

There are no special rules for small businesses.

4.2 New ventures

There are no special tax rules for new ventures except the ones mentioned above in 2.1.

According to the social security laws it is possible for the persons receiving unemployment benefit to get an amount from the government to start up a new business.

4.3 Non-profit research organizations

These organizations are normally tax-exempt.

5. Other Incentives

The Danish state has tried to help the industry by establishing certain programmes to support the improvement of technology. The total amount spent by the government was approximately one billion Danish kroner.

These supporting activities consist of state financed consulting activities, favourable loans to high risk projects with interesting technological perspectives, government grants to product development and government financed laboratories supplying tests services to the industry.

FINLAND

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

The profit is taxable both in the hands of the corporation itself and when it is distributed in the form of dividends to shareholders. In order to avoid chain-taxation between companies, the dividends received by a domestic company from another domestic company are exempt from income tax. By virtue of most tax treaties this is the case also with regard to dividends received from abroad.

In central government income taxation, double taxation has been alleviated by allowing a company to deduct 40 % of its net payment of dividends from its taxable income. The rate has been temporarily increased to 60 % for the years 1981-88. An exceptional allowance of 100 % is granted to dividends paid on new, fully paid-up share capital for the year of registration of the share capital and for five subsequent years. The 100 % allowance applies only to dividends up to 20 % of the qualifying share capital.

For the shareholder double taxation has been eased by permitting deduction of 5.200 marks from their dividend and 3.800 marks from their interest income.

1.2 Tax rate structure

(a) Corporate income is taxed by the Central Government at a flat 33 % rate.

(b) The local income tax rate is locally decided as well as the Church tax rate. The average rate is about 16 % for the local income tax and 1 - 2 % for the Church rate.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are not deductible with the exception of certain activities in manufacturing which are benefitting from a partial deduction of the interest received on suppliers' credit.

(b) Interest payments are in general deductible.

1.4 Treatment of dividend receipts and payments

See 1.1 above.

1.5 Treatment of gains and losses

(a) Operating losses may be carried forward for five years.

(b) Capital gains are treated (except some exceptions) as ordinary receipts.

Capital losses may be set off against capital gains provided that the latter occurred in the same year and are incurred from the same kind of transactions as the former.

1.6 Treatment of investment expenditures

(a) The acquisition costs of all machinery and equipment used are written off according to a declining balance method. The maximum annual depreciation is 30 % .

With regard to machinery and equipment with a probable life not exceeding three years, the acquisition costs may either be included in the depreciation base or expensed in the year of acquisition.

Buildings and other constructions are also depreciated according to a declining balance method. However each building must be depreciated separately and the maximum depreciation, depending on the materials and use of the building is 5 to 20 % of the not yet written off acquisition costs.

(b) Incentives for regional or sectoral development purposes:

Valuation is based on historic costs.

Government grants must be subtracted from the base of depreciation.

Free depreciation may be authorized for ten years after the acquisition of the asset (e.g. ships).

Extraordinary deductions may be granted for the acquisition of particular assets (3 % of the cost) or for assets to be settled in preferred regions.

(c) Reserve for investment:

In 1986 an enterprise may deduct a maximum of 50 % of its net earnings after-tax, but before the deduction in the accounting period for transfer to an investment reserve.

This reserve may be used for certain investments specified in the law. If the taxpayer is not allowed or ordered to use the reserve earlier he may use it five years after the last authorization (for R & D purposes two years) or order to use it.

In the income taxation, outlays covered from the investment reserve are neither deductible directly nor as depreciation, but in certain circumstances the taxpayer may be granted an extraordinary deduction of between 3 - 10 % of the used reserve.

1.7 Treatment of inventories

Inventories may be written down to 60 % or if the taxpayer has created an operating reserve, to 65 % of cost or market price, or replacement cost less obsolescence, whichever is lower. The rate may be changed from year to year.

Acquisition cost must be determined on a FIFO basis.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) All R & D expenditures can be recognized as expenses and are fully deductible.

(b) Acquisition costs of building for R & D can be depreciated on the basis of the maximum rate: 20 % (see also 1.6(c)).

2.2 Expenditures to apply for a patent

No special provisions.

2.3 Expenditures on plant and equipment embodying new technology

No special provisions (see 1.6 above).

2.4 Expenditures for purchase of technology

The acquisition costs of patent rights are depreciated by a straight-line method over the period for which rights are acquired or their economic useful life with a maximum of 10 years.

2.5 Marketing expenditures for introduction of new technology

No special provisions.

2.6 Contributions, donations or grants to non-profit scientific organizations

These may be deductible, for national tax purposes, up to FIM 150.000, but only exceptionally for local tax purposes.

3. Corporation Tax Treatment of Receipts from Sale of Technology

No special treatment.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Research Organizations

4.1 Small business

No special provisions.

4.2 Venture capital

No special provisions.

4.3 Non-profit scientific organizations

The income and gains of scientific non-profit organizations are generally exempt from CT.

FRANCE

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

The French corporation tax regime incorporates a system designed to avoid double taxation in respect of profits of companies and the dividends which those companies pay out.

Dividends paid by French companies carry a tax credit (avoir fiscal) to the benefit of shareholders who are French residents (1). The tax credit amounts to one-half of the tax paid by the company on profits taxable at the full rate. It is paid directly to resident individuals where its amount exceeds that of the income tax to which they are liable.

1.2 Tax rate structure

(a) Profits taxable in France are taxed at a uniform rate of 45 %.

(b) Short-term capital gains (24 months) are taxable at the rate of 45 %.

Long-term capital gains on development land are taxable at the rate of 25 %. Gains on other assets are taxable at the reduced rate of 15 % (provided that the remaining 85 % is credited in a special reserve account).

1.3 Treatment of interest receipts and payments

(a) Interest receipts are treated as ordinary income.

(b) Interest payments are deductible.

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(1) Residents of the countries which have entered into a double-tax treaty with France are also entitled to this benefit.

1.4 Treatment of dividend receipts and payments

(a) Dividend receipts.

(i) Parent company treatment

Dividends received by parent companies from their subsidiaries are not included in taxable profits, with the exception of a flat-rate portion equal to 5 % (expenses incurred on account of shareholding branches of foreign corporations in France are treated alike). They carry an associated tax credit which may be transferred without incurring a withholding tax charge if they are redistributed within five years.

Dividends from other French companies are included in taxable profits and taxed at the full rate.

(ii) Other situations

Dividends received from companies established outside France are included in taxable profit and taxed at the full rate. If the country of establishment has entered into a double-tax treaty with France, a tax credit is granted equivalent to the amount of foreign tax withheld at source.

If a loss is made for the financial year, tax credits are not refunded.

(b) Dividend payments.

Dividends paid are normally not deductible from taxable profits. Allowance being made for the system of tax credits, equalization tax may be charged in cases where dividends are distributed by foreign subsidiaries and branches or paid out of legal reserves to which they can be charged (reserves derived from the undistributed profits of the five preceding financial years which are liable to corporation tax in respect of the portion not already taxed) or out of profits on which tax has been paid but which date from accounting periods that have been closed for more than five years. The rate of equalization tax is 50 % of the net dividend distributed.

1.5 Treatment of gains and losses

(a) Operating losses are deductible from taxable income. Losses which cannot be offset may be carried forward over the five following financial years. The taxpayers may now elect a form of carry-back. Losses of a given fiscal year may be offset on the three preceding years (if specific conditions of investment are met). But the refund of tax is possible only at the end of a ten-year period. However, the credit can be used against the tax payable on future profits.

(b) Capital gains and losses are offset against each other. Short-term gains are offset against short-term losses for the year. Net short-term gains are added to taxable results, but the taxpayer can spread them in equal parts over the year in which they are made and the two following years.

Long-term capital losses are offset against long-term gains for the year. They may be carried forward over ten years.

1.6 Treatment of investment expenditures

(a) The usual method of depreciation is the straight-line method.

(b) Industrial companies may apply the declining-balance method to new fixed investment in equipment, tooling and plant and in industrial buildings with an average working life of less than 15 years. Yearly declining-balance depreciation of a fixed asset is a multiple of straight-line depreciation (e.g. a factor of 1.5 for assets with an average working life of between 3 and 4 years, 2 for between 4 and 5 years and 2.5 for more than 6 years).

(c) First-year accelerated depreciation is authorized in certain cases (regional or local development plan, pollution control).

Depreciation may be carried forward indefinitely.

Softwares depreciation may be spread over twelve months.

1.7 Tax treatment of stocks

In computing their profits, firms must value their stocks at the lowest market costs. If the value of stocks at market cost is lower or higher than the real cost, a provision may be made. Separate provision must be made for stock depreciation. Where a provision is set aside for stock appreciation, its amount must be added to taxable profits within six years of such provision being set aside.

The tax authorities allow the FIFO method and the average cost method to be used.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Research-related operating expenditure is immediately deductible.

(b) Tangible fixed assets for use in research are depreciated normally (declining-balance method).

Investments in immovable property for the purposes of certain types of research operations may qualify for an exceptional 50 % write-down allowance.

(c) For the period 1985-1988, a tax credit is granted equal to 50 % of the increase in the amount of the research effort from one year to the next. This credit has a ceiling of Frs. 5 million per year per firm. It concerns current expenditures (wages, operating expenditures, extra-mural research, etc.) as well as depreciation of fixed assets other than buildings.

2.2 Expenditures to apply for a patent

Patenting expenses are treated as start-up costs.

Patents and other intellectual property rights are written off over the period for which they give legal protection.

2.3 Expenditures on plant and equipment embodying new technology

These are treated as ordinary investments (see 1.6).

2.4 Expenditures for purchase of technology

Royalties or other payments made for the use of patented knowledge, know-how, etc. are deductible in the year such payments were made.

2.5 Marketing expenditures for introduction of new technology

These are treated as ordinary expenditures.

SMEs which pool their marketing resources are permitted to set up "sociétés conventionnées" (companies having entered into an agreement with the French tax authorities authorizing them to claim relief on certain types of expenditure) or "Groupements d'Intérêt Économique Conventionnés" (approved incorporated trading associations of firms). In both cases, the participating firms receive, after approval by the authorities, an exceptional writing-down allowance equivalent to the full amount of the assets they contribute.

2.6 Contributions, donations or grants to non-profit scientific organizations

Payments to approved public or private research companies and agencies are deductible up to a maximum of 2 per thousand of turnover.

3. Corporation Tax Treatment of Receipts from the Sale of Technology

(a) Profits derived from the working of patents or the use of processes or techniques are taxed under the rules of ordinary law. However, firms selling or granting the concession of patent rights which they have created or held for two years or more are, under certain conditions (no dependency ties between joint contractors, fixed-asset character of the rights sold), taxed at the rate for long-term capital gains 15 %.

(b) In the case of the concession of an operating licence or processes not entitling them to long-term capital gains taxation treatment, the inventors may deduct a relief of 30 %, representing a standard amount for their expenses, on the resulting products.

4. Corporation Tax Treatment of SMEs, Venture Capital Companies and Non-profit Scientific Research Organizations

4.1 SMEs - New firms

New firms whose assets depreciable by the declining-balance method amount to not less than two-thirds of their total depreciable fixed assets, whose share capital portion held by companies is less than 50 %, whose turnover is less than Frs. 30 million and which have a workforce of less than 150, may:

(i) if they were created before January 1, 1982, receive a relief of one-third on taxable profits for the first year and for the four subsequent years, or total exemption from tax on profits made in the first year and in the two subsequent full years if such profits are retained within the business;

(ii) if they were created in 1982, claim a 50 % allowance on profits made in the first year and in the four subsequent years, this allowance being applicable before deduction of losses carried forward;

(iii) if they were created from 1983 to 1986, claim a 100 % allowance on profits made in the three first years and 50 % in the two subsequent years.

4.2 Venture capital

Shares subscribed in the capital of "Sociétés Financières d'Innovation" (innovation finance companies) may receive an exceptional 50 % writing-down allowance at the end of the accounting period in which the capital subscription was paid.

If the shares are disposed of more than three years after they were purchased the capital gain arising is untaxed within the limit of depreciation charged.

4.3 Non-profit scientific organizations

In principle they are exempt from corporate tax.

Any cash contributions are exempted from registrations taxes.

GERMANY, F. R.

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Germany has total integration of corporation tax to avoid "double taxation" of corporate dividends. A resident shareholder who receives a dividend from a resident company and who is subject to unlimited tax liability receives a tax credit for the corporation tax paid. For tax purposes the dividend payments are subject to dividend withholding tax of 25 %. The recipient receives a tax credit for this tax also.

The total integration of corporation tax is achieved by fixing the standard rate of corporation tax on retained earnings at 56 %, the highest income tax rate. Recently, the Federal Minister of Finance has discussed possible tax reductions and has indicated that this coincidence between the rates of income and corporation tax need not necessarily be retained.

1.2 Tax rate structure

There are different rates of corporate income tax on undistributed and distributed profits and for foreign corporations (and for Berlin (West)):

undistributed profits rate	56 % (43.4 % from sources in Berlin (West))
distributed profits rate	36 % (27.9 % from sources in Berlin (West))
permanent establishments of foreign corporations	50 % (38.75 %)
other income of foreign corporations	50 % (38.75 %)

There is no distinction in German income tax law between gains on the sale of capital and non-capital assets.

Note: The entire profits and losses of a controlled subsidiary company may be pooled with those of the parent and taxed in the hands of the latter ("Organschaft").

1.3 Treatment of interest receipts and payments

Interest receipts are treated as income, interest payments are deductible.

1.4 Treatment of dividend receipts and payments

See 1.1 above. Dividend receipts are treated as income and taxed normally. Tax credits may be claimed for the corporation profits tax and withholding tax.

1.5 Treatment of losses: operating losses and capital losses

(a) An operating loss may be defined as the excess of net assets at the beginning of a taxable year over the net assets at the end of the same year. There is an automatic two-year carry-back of losses with a maximum of 10 million DM in each year. Any excess of losses may be carried forward for five years.

(b) Capital losses are treated as normal business expenses.

1.6 Treatment of investment expenditures

(a) Immovable fixed assets (buildings, etc.) and movable fixed assets are depreciated on an historical cost basis by the straight-line or the declining-balance method. In the case of buildings the depreciation rates are fixed for both methods. For movable fixed assets the declining balance maximum is two and one half times the straight-line rate (since July 29, 1981: three times) or 25 % (30 %). There are also selective depreciation treatments:

Berlin (West)	75 % of cost in the year of acquisition and/or the next four years;
Zonal Border Areas:	Up to 50 % on movable fixed assets and up to 40 % on immovable fixed assets allowed in the year of acquisition and/or the next four years in addition to straight-line depreciation.

Special rates for pollution and mining equipment and shipping.

(b) Allowable depreciation must be claimed each year.

(c) Investment grants: government direct financial assistance such as the investment allowance (Investitionszulage) does not constitute taxable income or reduce the cost of assets for depreciation purposes. Regional investment grants must be treated as income or deducted from the cost of assets for depreciation purposes.

(d) From the first business year starting in the calendar year 1987 onwards, acquired goodwill will be depreciable over 15 years straight-line. This also applies to goodwill on hand at the start of that period.

1.7 Stock relief

Inventories are normally valued at actual cost. Reserves can be set up in some cases against cost increases of more than 10 %; some specified imported raw materials and foodstuffs can be written down by up to 20 % for tax purposes.

2. Corporations Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current expenditures on R & D are fully deductible from taxable income in the year they are incurred.

(b) The investment allowance granted in accordance with paragraph 4 of the Investment Allowance Act is of particular importance for industry. It amounts to 20 % of the first 500 000 DM of the procurement or manufacturing costs of an eligible investment in research and development in the financial year; if the procurement or manufacturing costs of the eligible investment exceed 500 000 DM it only amounts to 7.5 %. The investment allowance is also granted for the procurement of intangible assets which are liable to wear and tear if the procurement costs do not exceed 500 000 DM per annum.

(c) There are special depreciation facilities for investment in research and development. These will run from September 15, 1983 to end-1989. In the financial year of procurement or manufacture and in the four subsequent financial years, the special depreciation allowed over and beyond the normal depreciation allowed for wear and tear amounts to:

(i) a total of up to 40 % of the procurement or manufacturing costs of movable assets (machinery and equipment) if they are used exclusively for research and development purposes;

(ii) a total of up to 15 % of the procurement or manufacturing costs of fixed assets (buildings) if the extent to which they are used for research and development purposes in a taxpayer's permanent domestic establishment exceeds 66 2/3 % for at least three years after their procurement or manufacture; and to

(iii) a total of up to 10 % of the procurement or manufacturing costs of fixed assets (buildings) if the extent to which they are used for research and development purposes in a taxpayer's permanent domestic establishment amounts to between 33 1/3 % and 66 2/3 % for at least three years after their procurement or manufacture.

2.2 Expenditures to apply for a patent

Costs of obtaining a patent may be deducted in the year incurred.

2.3 Expenditures on plant and equipment embodying new technology

No special provisions: however, depreciation includes a reasonable allowance of "accelerated depreciation" for obsolescence; obsolescence, may, for example, be attributable to technological improvements.

2.4 Expenditures for purchase and use of technology

(a) Expenditures made for the <u>purchase</u> of licences, patents, know-how, unprotected inventions, secret processes or formulas, etc. constitute capital expenditures and may be amortized. The amortization period is the same as the period of protection, or expected period of usefulness. In practice patents are normally amortized over 5 to 8 years.

(b) Royalty payments for the <u>use</u> of patents, copyrights, plans, processes, commercial or industrial know-how are deductible in the year that they are incurred.

2.5 Marketing expenditures for introduction of new technology

Deductible in period incurred.

2.6 Contributions, donations or grants to non-profit scientific organizations

Contributions can be deducted to the extent that they do not exceed the larger of: 10 % of net taxable income or 0.2 % of the sum of total payroll and turnover.

3. Corporation Tax Treatment of Receipts from Sale of Technology

Income from sale or license or other disposal of patents or other technology is treated as normal business income: there is no special tax treatment.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms, and Non-profit Scientific Research Organizations

4.1 Small business

Apart from the deductible tax-free amount of 5 000 DM there is a special depreciation facility for the formation of new movable assets to promote small and medium-sized businesses. In the year of procurement or manufacture, the special depreciation allowed amounts to 10 % of the procurement or manufacturing costs over and beyond the normal depreciation allowed for wear and tear.

The tax-free amount of 5 000 DM only applies to essentially non-business institutions with a secondary taxable activity. Even then it does not apply when the taxable income exceeds 20 000 DM.

4.2 Venture capital

There is no special treatment for investment companies or venture capital investments.

4.3 Non-profit scientific organizations

Entities exclusively devoted to scientific matters and not engaged in business activities are generally exempt from corporation tax.

GREECE

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Corporations are taxed on total net annual profits less dividends distributed and fees paid to directors. Dividends and fees are subject to tax withholding. Undistributed profits are subject to corporate tax and if distributed subsequently, the company is entitled to relief from corporate tax previously paid.

Income from dividends, including intercompany and stock dividends, distributed by Greek corporations on bearer shares not quoted on the Athens Stock Exchange cannot be included in the taxable income of corporations and individuals. Tax withholding at source satisfies the related tax liability. Dividends from quoted or registered shares may be included in taxable income of corporations and individuals and the tax withheld treated as an advance tax payment. The following are tax-exempt:

(a) Dividends received from companies listed on the Athens Stock Exchange, up to Dr 25,000 for each company, with an overall maximum of Dr 100,000;

(b) Dividends from Greek shipping companies;

(c) Dividends from holding companies that hold shares exclusively in companies owning ships flying the Greek flag or ships flying foreign flags, provided they have entered into an agreement with the Maritime Navy Social Security Fund.

1.2 Tax rate structure

(a) The corporation income tax rate is 49 % on undistributed profits, less allowable transfers to tax-deferred reserves. The above rate is reduced to 44 % for manufacturing and mining companies listed on the Athens Stock Exchange and local corporations making investment with government subsidies under Law 1262.

(b) In general, capital gains are not taxed, but capital gains of corporations are taxed when distributed to shareholders. See also 1.5 below.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are included in income. However, certain types of interest are tax-exempt, such as: (1) interest earned from deposits with local banks, including branches of foreign banks legally operating in Greece; (2) interest earned on Greek Government treasury bills, as well as interest and related lottery gains on Greek Government bonds; (3) interest earned on savings accounts and deposits with the Greek Post Office and the State Consignment and Loans Fund; and (4) interest earned on certain Government-authorized bonds issued by the Public Power Corporation (PPC), the Telecommunications Corporation (OTE) and others.

(b) In general, interest payments are deductible from income to the extent they are incurred for the purpose of earning income except:
(1) interest on overdue tax and social security contributions;
(2) interest of branches of foreign companies insofar as it relates to loans from head office; and (3) interest on borrowed capital subsequently used to extend noninterest-bearing loans to directors, shareholders, employees and third parties.

1.4 Treatment of dividend receipts and payments

See 1.1 above. Dividends received by shareholders from local corporations are taxable at source at 47 % for registered shares and 53 % for bearer shares. If the shares are quoted on the Athens Stock Exchange, the corresponding rates are 42 % for registered shares and 45 % for bearer shares and the shareholder is entitled to non-taxable dividends of up to Dr 25,000 for each shareholding, with an overall maximum of Dr 100,000. The shareholder may include in his annual taxable income dividends from quoted or registered shares of domestic corporations and deduct tax withheld if such tax is higher than the applicable income tax on total taxable income.

1.5 Treatment of gains and losses

(a) Annual net operating losses of manufacturing, mining, agricultural, and hotel enterprises may be carried forward for five consecutive years (three years for commercial enterprises).

Consolidation and, therefore, grouping of profitable and unprofitable affiliates is not permitted by the Tax authorities. Loss carry-back is not recognized.

(b) In general, capital gains are not taxed, but capital gains of corporations (mainly profits from the sale of property) are taxed when distributed to the shareholders. The following instances of capital gains earned by businesses are taxed as such at a rate of 30 %:

(i) Sale of any rights connected with the operations of an enterprise (trademarks, patents, leasing rights, etc.) except mining rights.

(ii) Realized goodwill, including gain on a business sold or merged.

(iii) Profits from the sale of passenger automobiles and trucks.

(c) Profits from sales of machinery and plant installations are not taxed, provided such profits are applied for the acquisition of new machinery and plant installations within two years following the year of sale.

(d) Profits from sale of securities and trade investments are tax-deferred if transferred to a special reserve account. This reserve can only be used, without tax consequences, to cover losses from the sale of other securities and trade investments.

1.6 Treatment of investment expenditures

(a) Depreciation of tangible assets is deductible, provided annual depreciation is computed at the legal rates and is properly recorded. The straight-line method is recognized for tax purposes. Separate depreciation rates are established for different types of companies and property.

(b) Annual tax depreciation rates are numerous and depend on the type of asset and industry involved. The principal rates are:

Type of asset	Rate per annum %
1. Factory buildings and annexes, including warehouses as well as buildings used by hotels, clinics, sanatoriums, schools and public service establishments	8
2. Buildings used by enterprises other than those in item 1 above	5
3. Machinery	12-20
4. Furniture and office equipment	15-20

(c) Manufacturing, handicraft, hotel and mining corporations are entitled to increased rates on fixed assets directly employed in production or hotel operations. The increases vary from 20 % to 150 % on the legal rates, depending on the area and number of shifts worked per day but they are not compulsory. The increased depreciation rates are applicable from

June 16, 1982 through December 31, 1992. Depreciation booked must equal tax depreciation, and any variance is not considered as deductible expense. Sales of depreciated property are considered as taxable income except sales of machinery and plant which may be utilized as depreciation of other property items not yet depreciated. Preoperating expenses, including interest, may be amortized over a maximum period of ten years, but once the method is established it is binding.

(d) Manufacturing, handicraft, mining, agricultural, and hotel enterprises investing or relocated in provincial areas are entitled to 40 %, 55 % and 70 % (depending on the area) tax-deferred reserve on the cost of productive fixed assets acquired from June 16, 1982 through December 31, 1992. The reserve may be formed from annual profits, reported in the tax return (less dividends and appropriation for legal reserve) of the year in which the assets were acquired and subsequent financial years. If the assets concerned are sold within five years or the reserve distributed, the amount of tax exemption is added back to the taxable profits. If in any year the company's books are found incorrect by the Tax authorities, the amount of the tax exemption of that particular year is added back to the taxable profits. Those enterprises which have received investment and interest subsidies from the government are not entitled to the above tax-deferred reserves for their subsidized investments.

(e) Investment grants: in general, investment subsidies (grants) reduce the capital cost of property for depreciation purposes (computed on the basis of both legal and increased rates). Grants are generally tax-exempt.

1.7 Treatment of inventories

Inventories are stated at the lower of cost or fair market value (replacement value). LIFO is not permitted.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current and capital expenditures for scientific research activities are deductible in the year incurred or through annual equal amounts over a period of up to ten years following the year incurred, but the period once established cannot be changed. Investment grants that are received in respect of R & D expenditures reduce the deductible amount. See also 1.6(e).

(b) There are no special tax credits or other features applicable to R & D expenditures.

2.2 Expenditures to apply for a patent

Amortization of intangible assets such as copyrights, trademarks and patents, is deductible over useful life or contract terms.

2.3 Expenditures on plant and equipment embodying new technology

No special treatment other than that described in 1.6.

2.4 Expenditures for purchase and use of technology

(a) Intangible assets (rights, franchises, licenses with a fixed life) may be amortized through equal annual amounts over fixed life.

(b) Royalty payments for the use of intangible property rights are deductible in the year incurred.

2.5 Marketing expenditures for introduction of new technology

Marketing expenditures for introduction of new technology are deductible in the year incurred or through annual equal amounts over a period of up to ten years following the year incurred, but the period once established cannot be changed.

2.6 Contributions, donations or grants to non-profit scientific organizations

Deductible to the extent that the organization is a foundation aiming at public benefit or educational purposes.

3. Corporation Tax Treatment of Receipts from Sale of Technology

(a) Royalty income is treated as ordinary income.

(b) Total disposition of technology will be treated as capital gains of the firm if it is not part of normal business, or as income if it is part of normal business. See also 1.5(b) above.

(c) Receipts for undertaking scientific research on behalf of another firm are taxable income.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms, Non-profit Research Organizations

4.1 Small business

No special treatment applies for corporate taxation of small business.

4.2 New ventures

There are no special provisions for new ventures.

4.3 Non-profit research organizations

The characterization of an organization as non-profit is not enough for it to be exempt from taxation but it must, in addition, operate in such a way that it does not aim at making profits. If it does make any profits, it should be ascertained that such profits were spent for the public benefit in accordance with the articles of association of the non-profit organization. Therefore non-profit research organizations are not entitled to a general exemption from Greek corporation tax.

INDIA

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Companies pay tax on profits without deduction for dividends. Dividends paid out of post-tax profits are taxed in the hands of the shareholders (subject to deductions mentioned in 1.4(a)). No credit is given to the shareholders for underlying tax paid by the Company.

1.2 Tax rate structure

(a) Tax on profits	%
Widely held Indian company	50
Closely held Indian company-	
Trading or investment company	60
Others	55
Non-resident company-	
Dividends and interest on foreign currency loans	25
Royalties and technical service fees	30
Other income	65

Surtax, which is levied at 25 %/40 % on post-tax profits in excess of the statutory minimum is proposed to be withdrawn from fiscal year 1987/88.

(b) Tax on capital gains

A short-term capital gain arises on the sale of an asset within three years of its acquisition and is taxed at the same rate as ordinary profits. Other capital gains are long-term capital gains and are taxed at the following rates:

(i) Land and buildings and rights therein 50 %

(ii) Other assets 40 %

Long-term capital gains are exempt from tax if the sale proceeds are invested in specified assets within six months and these new assets are held for at least three years.

1.3 Treatment of interest receipts and payments

Interest receipts are included in income. Interest payments on monies borrowed for the purpose of the business are deductible from income.

1.4 Treatment of dividend receipts and payments

(a) Dividend receipts

Deduction is allowed at 60 % from dividends received by one Indian company from another Indian company and the balance is taxed at the same rate as business profits. Dividends received by foreign companies from Indian companies are taxed @ 25 % (or lower treaty rate) without any such deduction.

(b) Dividend payments

There are no deductions for dividend payments and no distinction between distributed and retained earnings. Some closely held companies are liable to additional income tax on undistributed profits unless dividends are paid up to a specified extent.

1.5 Treatment of operating losses and/or capital gains and losses

(a) Business losses can be set off against income from any source in the year in which such losses are incurred. Unabsorbed business losses can be carried forward up to 8 years for set-off only against business income.

(b) Short-term and long-term capital gains are subject to tax at the rates mentioned in 1.2(b) above. Long-term capital losses can be set off only against long-term capital gains and can be carried forward for 4 years. Short-term capital losses can be set off against any income in the year in which the losses occur and can be carried forward for 8 years for set-off against short-term capital gains.

(c) Losses cannot be carried back.

1.6 Treatment of investment expenditures

(a) Normal depreciation is allowed on straight-line basis in the case of ships and on declining-balance basis in the case of building, furniture, machinery and plant at specified rates (Annex) depending on class and type of asset.

(b) In addition, extra shift depreciation is allowed on machinery and plant at 50 % (in the case of double shift) and at 100 % (in the case of triple shift) of the normal depreciation.

(Method of calculation of tax depreciation is being changed from the fiscal year 1988/89. Thereafter, the depreciation for the year is to be calculated in respect of blocks of assets at specified rates (proposed at 33.33 % and 50 %) on the written down value at the beginning of the year plus cost of addition during the year less moneys received during the year on sale/destruction/demolition of assets. This will eliminate terminal adjustments and will considerably simplify depreciation calculation.

(c) Investment allowance at 25 % (35 % in specified cases) of the cost of new ships, aircraft, machinery or plant installed before April 1, 1987 is deducted in computing taxable income of industrial undertakings not manufacturing low priority products.

Investment allowance is being replaced by a new provision under which amounts utilized out of business profits for purchase of new ships, aircraft, machinery or plant or deposited in a specified bank within a stipulated period under a notified scheme will be allowed to be deducted up to a limit of 20 % of the profits.

(d) Expenditure incurred by Indian companies on exploring, locating or exploiting deposits of certain minerals may be deducted at 1/10th every year over 10 years.

1.7 Treatment of inventories

Inventories may be valued at cost, market value or the lower of the two. LIFO is generally not permitted.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditure

Current and capital expenditure (excluding land) on scientific research related to the business are deductible in full in the year of incurrence. (The deduction is in the nature of an incentive and, along with other incentives under the Income Tax Law, the total deduction on account of incentives cannot exceed 70 % of the pre-incentive taxable income. Incentives to the extent not absorbed because of this limitation can be carried forward indefinitely for set-off in future years). No further deduction by way of depreciation or tax credit is allowed.

Definitions-

Section 43(4) of the Indian Income Tax Act states as follows:

"(i) "scientific research" means any activities for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries;

(ii) references to expenditure incurred on scientific research include all expenditure incurred for the prosecution, or the provision of facilities for the prosecution, of scientific research, but do not include any expenditure incurred in the acquisition of rights in, or arising out of, scientific research;

(iii) references to scientific research related to a business or class of business include:

- any scientific research which may lead to or facilitate an extension of that business or, as the case may be, all businesses of that class;

- any scientific research of a medical nature which has a special relation to the welfare of workers employed in that business or, as the case may be, all businesses of that class."

2.2 Expenditures to apply for a patent

Capital expenditure on acquisition of patents or copyrights is deductible at 1/14th per year over 14 years.

2.3 Expenditures on plant and equipment embodying new technology

No special treatment other than that described in 1.6 except that investment allowance mentioned in 1.6(c) is allowed @ 35 % instead of 25% in the case of plant and machinery installed before April 1, 1987 for the manufacture or production of any article invented in or by using technology or know-how developed in a laboratory owned or approved by the Government.

2.4 Expenditures for purchase of technology

(a) Lump sum consideration for acquiring know-how is deductible at 1/6th per year over 6 years. The lump sum consideration is deductible equally over 3 years if the know-how is developed in a laboratory owned or approved by the government. Any other consideration for acquiring know-how is deductible in the year of incurrence if it is of a revenue nature.

(b) Royalty payments for the use of intangible property rights are deductible in the year incurred.

2.5 Marketing expenditures for introduction of new technology

Marketing expenditures incurred in the course of carrying on of the business are deductible in full.

2.6 Contributions, donations or grants to non-profit scientific organizations

(a) Contributions to associations approved by the Government for scientific research are deductible in full in the year incurred.

(b) Contributions to approved Universities, Colleges and other institutions for research in social science or statistical research related to the class of business is deductible in full in the year incurred.

(c) Contributions up to a specified limit, to non-profit organizations, which are not approved scientific research associations but qualify as charity, are deductible to the extent of 50 %.

3. Corporation Tax Treatment of Receipts from the Sale of Technology

(a) Royalty income is treated in the same way as ordinary income. Royalty and Technical Service Fees received by an Indian company in convertible foreign exchange from foreign governments or foreign enterprises under agreements approved by the Government are exempt from Indian Income Tax to the extent of 50 %.

(b) Total disposition of technology will be treated as capital receipt if it is not part of normal business or as income if it is part of normal business.

(c) Receipts for undertaking scientific research on behalf of another entity are taxable income subject to deduction of research expenditure actually incurred.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Research Organizations

There are no specific provisions for small business and venture capital firms. Scientific research associations specifically approved by the Government are exempt from tax. In the absence of specific approval non-profit research organizations may register as charity and on fulfillment of prescribed conditions may be exempt from tax.

ANNEX

Tax depreciation rates

The Income Tax Rules, 1962, contain a long list specifying various depreciation rates for individual assets, some of which are given below:

	Percentage per annum (on written-down value of assets)
1. Buildings:	
Factory	10
Ordinary	5
Temporary constructions	100
2. Machinery and equipment:	
General rate	15
Special rates:	
Data processing machines including computers, machinery used in manufacture of electronic goods, motor cars, etc.	20
Aircraft, earth moving machinery employed in heavy construction work, motor buses, motor lorries, renewable energy devices, air pollution control equipment, etc.	30
Specified energy saving devices	100
3. Furniture and fittings:	
General rate	10
Special rate:	
Furniture and fittings used in hotels, cinemas, etc.	15

Note: Depreciation at 100 % is allowed in respect of machinery and equipment, the unit cost of which does not exceed Rs. 5,000.

IRELAND, REPUBLIC OF

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) Dividends and other distributions received from Irish resident companies are in general taxed on individual shareholders but are not taxed on recipient Irish resident companies. Individuals are taxable on the net dividend received plus a tax credit and the credit is treated as tax paid by the individual. The tax credits vary depending on the corporation tax rate applicable to the income out of which the dividends are paid. The credits are as follows:

- standard credit - 35/65ths of the dividend;
- profits subject to 10 % tax - 1/18th of the dividend;
- exempt export sales profit - dividends are tax-free;
- Shannon exempt profits - dividends are tax-free.

(b) Special rules apply to dividends received by Irish resident individuals from companies subject to the 10 % manufacturing rate of tax. (See 1.2(b) below). The gross amount of such dividends included in the individual's taxable income is reduced by one-half (subject to a limit of £7,000 per individual in any tax year) while the full tax credit of 1/18th is allowed as a credit.

1.2 Tax rate structure

(a) The corporate tax rate is:

- 40 % to IR£25,000
- tapering between 40 and 50 % up to IR£35,000
- 50 % above IR£35,000

(b) There is a general 10 % corporation tax rate for manufacturing companies on profits from the sale of goods manufactured in Ireland. Exported manufactured goods are included.

(c) The 10 % rate of Corporation Tax also applies to companies engaged in data processing and software development where the work is carried out in Ireland. Companies established in the customs free area of Shannon Airport also qualify.

(d) There are special provisions applying to "close" companies controlled by 5 or fewer persons or by its directors. Undistributed after-tax non-trading income is subject to a 20 % surcharge.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are treated as ordinary income.

(b) Interest payments on trade or property borrowings are deductible. Companies normally withhold income tax at 35 % on all interest payments other than payments to banks.

1.4 Treatment of dividend receipts and payments

(a) Dividends and other distributions (including intra-group dividends) from any Irish resident company are not taxed where received by another Irish resident company. Dividends from foreign subsidiaries are taxable, subject to foreign tax credits. Double Tax Treaties allow a credit for withholding tax and underlying foreign taxes. In the absence of a tax treaty, no credit is allowed but relief for the withholding tax is given by way of deduction.

(b) Dividend payments are not deductible.

(c) Advance Corporation Tax (ACT) equal to the amount of the tax credit must be paid by the dividend paying company. Exemption is available for certain intra-group dividends and dividends paid to a 75 % parent resident in the country which has a Tax Treaty with Ireland. ACT is creditable against mainstream Corporation Tax.

1.5 Treatment of gains and losses

(a) Trading losses may be carried back one year or carried forward indefinitely. If a trade is permanently discontinued, losses (and depreciation) may be carried back 3 years.

(b) Capital gains may arise from sale or transfer of all forms of property (including goodwill, copyrights and patents). Only net gains are taxable.

The current capital gains tax rates are as follows:

Gains realized within one year	60 %
Gains realized within two or three years	50 %
Gains realized between three and six years	35 %
Gains realized after six years	30 %

A system of indexation linked to the consumer price index allows for inflation. Special provisions apply to development land, where the rate of tax is 60 % for gains realized within a year and 50 % thereafter.

1.6 Treatment of investment expenditures

(a) Depreciation of machinery and equipment in most cases is calculated by the reducing balance method. Depreciation by the straight-line method is allowed on the cost of construction of most income-producing buildings (except offices and retail shops in most areas).

(b) Rates are:

Machinery and equipment (reducing balance): motor vehicles 20 %, other machinery and equipment 10 %, 12 1/2 % or 25 %.

Buildings (straight-line): eligible tourist and farming buildings 20 %, other eligible buildings 4 %.

(c) "Free depreciation": For new machinery and equipment (excluding road vehicles) depreciation may be increased to 100 %. State grants are deducted from cost. Free depreciation also applies to capital expenditures incurred by industrialists and hoteliers on construction of industrial buildings to be occupied for the purposes of a trade carried on by them. Some capital expenditures incurred by farmers are also eligible.

(d) Other "allowances": An industrial buildings allowance of 50 % of the net cost is given (excluding State grants). There are also special allowances for farming buildings (20 %), mineral analysis laboratories (50 %), tourist buildings (10 %), multi-storey car parks (50 %), toll roads (50 %) and moderate cost residential rental accommodation (100 %). Expenditure on historic buildings with public access is allowable as a deduction against profits. Special allowances apply to certain inner-city areas.

(e) Treatment of grants: Grants received must be deducted from the cost of the asset before calculating tax depreciation. There are no tax credits given for grants.

1.7 Treatment of inventories

(a) Inventory is valued at the lower of cost or net realizable value. The method of accounting must be consistent. The FIFO method is acceptable. LIFO is not acceptable.

(b) A system of stock relief applies to farmers.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current expenditures on scientific research are deductible. Research does not necessarily have to be related to the company's trade.

(b) Capital expenditures on scientific research may be written off completely in one year, whether or not relating to the trade being carried on.

(c) There are no tax credits.

2.2 Expenditures to apply for a patent

Fees and expenses incurred in obtaining or extending patent rights, registering or renewing trademarks are deductible, whether relating to the trade or not.

2.3 Expenditures for plant and equipment embodying new technology

No special treatment apart from that in 1.6.

2.4 Expenditures for purchase of technology

(a) Expenditure on the acquisition of specially defined know-how is allowable as a trading deduction, even if capitalized. Royalties for use of a patent may be deducted from income from all sources. Withholding tax up to 35 % may apply to patent royalties.

(b) Purchase of patent rights may be written off in equal instalments over a period of 17 years or over the remaining useful life of the patent if shorter.

2.5 Marketing expenditures for introduction of new technology

Current costs are deductible.

2.6 Contributions, donations or grants to non-profit scientific organizations

Payments to an Irish university for scientific research or research in marketing and industrial relations or to teach approved subjects are deductible as a trading expense. Some donations to Irish universities made under deed of covenant are deductible from both trading and non-trading income.

3. Corporation Tax Treatment of Receipts from Sale of Technology

(a) Royalty and income derived by companies from inventions and patents developed in Ireland are exempt from corporation tax. The recipient must be resident in Ireland.

(b) Capital sums received from the sale of other patent and technology rights are taxable. The liability is spread over six years subject to an option to have it taxed in one lump sum.

(c) The special 10 % corporation tax on manufacturing (see 1.2(b)) applies to income from design and planning services related to engineering works executed outside the territories of the Member States of the EEC, as well as to income from data processing and software development services carried out in Ireland.

(d) Special tax provisions apply to companies engaged solely in research and development on behalf of certain Irish manufacturing companies (sponsoring companies). The 10 % corporation tax rate applies to income of such companies from the research and development, and individuals may receive a tax write-off for equity investment in such companies up to IR£25,000 per annum.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

4.1 New and small business

The tax rate on small profits is 40 % up to IR£25,000 and there is a sliding scale up to IR£35,000. The 10 % corporation tax for manufacturing companies also applies on a sliding scale up to IR£35,000.

4.2 Venture capital

A special relief exists for investment in companies qualifying for the 10 % rate of corporation tax (see 1.2) and certain service companies in receipt of an IDA employment grant. Individuals who subscribe for ordinary shares in such companies may obtain a tax write-off for the investment, up to £25,000p. a. until 1990/91. The investment may be made through a designated investment fund. The relief is withdrawn if the shares are sold within five years of the date of issue.

4.3 Non-profit scientific organizations

Companies which qualify as charities are generally exempt from tax but trading income mav be taxable.

ITALY

1. General Features of Corporation Tax

1.1 Relationship to personal income tax (IT)

In Italy there is partial relief on double taxation. Dividends received are normally subject to corporate income tax (IRPEG), but resident Italian shareholders are given a tax credit equal to a 56.25 % of the amount of the dividend received.

This credit must be included in the taxable income and deducted from the corresponding tax liability of the shareholder.

An equalization tax has recently been introduced to be calculated on profit which was not subject to taxation or on which a tax of less than 36 % was paid. This tax is due at the time of distribution.

1.2 Tax rate structure

The tax rate on corporate profits (IRPEG) is 36 % of the taxable income after deduction of local income tax (ILOR) which is at a rate of 16.2 %.

The effective rate is 46.37 %.

If the manufacturing activity is carried out in the Mezzogiorno by a newly established company, no tax is due for the first ten years.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are included in taxable income.

(b) Interest payments paid by new enterprises are deductible for the accounting period immediately preceding that during which the first gross income was received and for the four following years. Normally, interest payments are considered as trading expenses, and deductible.

1.4 Treatment of dividend receipts and payments

(a) Dividend receipts are normally subject to the IRPEG but not to the ILOR.

(b) Dividend payments are not deductible (cf. 1.1 above).

1.5 Treatment of losses and gains

(a) Trading losses allowable for IRPEG purposes may be carried forward for five years. This is not the case for the ILOR.

(b) Capital gains are normally taxable for the accounting period during which they occur. They may be exempt within certain limits if they are reinvested.

Capital losses may be set off without limit against ordinary income.

1.6 Treatment of investment expenditures

(a) The depreciation method normally used is linear. The maximum depreciation rates for each category of assets are fixed by the public authorities. These rates may be exceeded if the use of the asset is particularly intensive. If the depreciation rate chosen is less than the maximum rate fixed by law, the difference may be used during the accounting periods following the expiry of the normal depreciation period.

(b) Accelerated depreciation may be requested for each of the first 3 years of useful life of an asset, up to 15 % of its initial cost.

(c) Assets benefiting from official subsidies may be depreciated for their total value inclusive of subsidy.

(d) To encourage investment in the depressed areas of the Mezzogiorno, Southern Italy, profits arising from new manufacturing activities (or from the extension of old ones) are exempt from local taxes (ILOR).

1.7 Stock relief

Tax regulations provide for a system of stock valuation corresponding in the main to the LIFO method. Companies may opt for the FIFO method.

Stock items must be valued at cost or market price, whichever is the lower.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current expenditures are deductible for the accounting period in which they are incurred. They may also be written off in equal parts over the 5 years (the year in which they are incurred and the four following years).

Public contributions to R & D expenditures are taxable for the period during which they are used if they are used for purposes other than to cover trading losses.

(b) Capital expenditures receive common law treatment (cf. 1.6 above).

2.2 Expenditures to apply for a patent

These are written down over the life of the corresponding intangible goods acquired (cf. 2.4 below).

2.3 Expenditures on plant and equipment embodying new technology

These are treated as ordinary investment (cf. 1.6 above).

2.4 Expenditures for purchase of technology

(a) Such purchases (for patents, know-how, etc.) are written off over the life of the corresponding intangible goods acquired. If no definite life duration has been fixed, the maximum fraction of cost which may be set off is 20 %.

(b) Expenditures on studies and research in connection with the purchase of an industrial patent and technical know-how are deductible for up to 50 % of the amount incurred in the corresponding accounting period. The remaining 50 % is written off normally against trading profits. If a trading loss is made the company can write off the balance in the following accounting year or in equal parts over 5 years.

(c) Fees and other payments for the use of technical know-how or services are deductible for the year in which they are incurred.

If the fees are paid to non-residents a tax of 21 % is levied at source (the amount may be reduced by the effect of double taxation conventions).

2.5 Marketing expenditures for the introduction of new technology

These are treated as ordinary expenditures.

2.6 Contributions, donations or grants to non-profit scientific organizations

Donations to educational and scientific research institutions (like those to other public non-profit organizations) are deductible up to 2 % of declared income.

Donations to universities are similarly treated.

3. Corporation Tax Treatment of Receipts from Sale of Technology

No special treatment.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Organizations

4.1 Small business

The tax on corporate profits is nil for 10 years if the manufacturing activities are carried out by a new company set up in the Mezzogiorno.

4.2 Venture capital

No special treatment.

4.3 Non-profit scientific organizations

These institutions are generally exempt from corporate taxation.

JAPAN

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Japan has a "partial imputation" system of CT under which a reduced rate is applied to the portion of taxable income earmarked for dividends.

Dividends received by a corporation (affiliate or not) from other Japanese corporations may be excluded from taxable income. If the dividends received exceed dividends distributed by the recipient corporation, 25 % of such excess is treated as taxable income.

If the recipient of dividend income is an individual, this income is aggregated with other income and subject to income taxes at graduated rates. However a deemed credit for dividends is available. The tax credit is 10 % of the aggregated gross dividends received. If the aggregated income is more than Yen 10 million, the tax credit is reduced to 5 % for the portion of such dividend income as equals the aggregated income minus Yen 10 million. The tax credit for the remaining portion is 10 %.

1.2 Tax rate structure

(a) Tax on profits

For example, the combination of corporate taxes results in the following effective corporate tax rates for 1986:

	Taxable income	
	Taxable income other than income earmarked for dividends	Reduced rate on taxable income earmarked for dividends
Corporation tax (large corporations) (national tax)	43.30 %	33.30 %
Inhabitants tax (local tax) = 20.7 % (maximum) of corporation tax	8.96	6.89
Enterprise tax (maximum)	13.20	13.20
Total	65.46 %	53.39 %

Since enterprise tax is deductible for the accounting period during which it is definite, the effective tax rate is:

	57.83 %	45.76 %

(b) Tax on capital gain

Capital gain is taxed in the same manner as ordinary income.

1.3 Treatment of interest receipts and payments

Receipts of interest is treated as ordinary income. Interest paid is deductible as a business expense.

1.4 Treatment of dividend receipts and payments

See 1.1 above.

(a) There is no distinct treatment betweem dividend income received from affiliate companies or those received from other than affiliate companies. Dividends received from foreign corporations are taxable income but a foreign tax credit is available.

(b) Income earmarked for payments of dividends is taxed at a lower rate than retained income. See 1.2 above.

1.5 Treatment of operating losses and capital gains and losses

(a) A corporation filing a "blue return" can, in general, carry forward a current tax loss to offset taxable income over a four-year period commencing from the second to the fifth year after the year in which the tax loss was incurred for corporation tax purposes. The carrying back of current tax losses is suspended except in the case of liquidation or transfer of the entire business, etc.

(b) Capital gains and losses are treated the same as other business income except capital gains obtained from the sale of land in Japan which has been successfully held for not more than 10 years. This is subject to additional income taxes as follows:

	Rate on the net capital gain
Corporation tax	20.00 %
Inhabitants tax = 20.7 % of corporation tax	4.14
Total	24.14 %

1.6 Treatment of investment expenditures

(a) With respect to tangible fixed assets, intangible fixed assets or other properties, depreciation expense is allowed on the basis of acquisition costs, salvage value and the statutory useful lives or the number of years during which such assets are serviceable.

Corporations may elect the straight-line method or the declining-balance method of depreciation for, tangible fixed assets although depreciation of intangible fixed assets must be made based on the straight-line method.

(b) In addition to the ordinary depreciation described above, certain depreciation measures have been instituted to attain certain policy aims. These can be grouped in two broad categories:

- increased initial depreciation;
- accelerated depreciation.

These are described below. (See sections 2 and 4).

(c) If a corporation receives a government grant, the book value of the asset acquired by the grant may be reduced by the amount of the grant.

(d) Under the "Special Taxation Measures Law", corporations which file "blue returns" may deduct contributions to certain reserve accounts which are thought to provide incentives for investment.

The deductible amount which has certain upper limits must go to accounts having a specific purpose.

1.7 Treatment of inventories

The value of inventories is determined on a historical cost basis. It is also acceptable to use "the lesser of the cost or the market price" basis. The taxpayer may choose any one of the following methods of evaluation for calculating the cost: actual individual costs, FIFO, LIFO, weighted average, moving average, straight average, most recent purchase, retail, etc.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current R & D expenditures can be immediately expensed. If these expenditures are capitalized, they should be amortized equally in principle over five years or more.

(b) Capital R & D expenditures can be depreciated through normal and, if applicable, special depreciation methods including write-off of the full amount in the year of payment.

The statutory useful lives of assets which are used in R & D activities are separately regulated by an Ordinance of the Ministry of Finance. This results in an earlier write-off of the costs than under schedule 9, the table for ordinary statutory useful lives for tax depreciation.

(c) A corporation which files a "blue return" is eligible for an R & D tax credit. The tax credit is either equal to 20 % of eligible expenditures in a given accounting period in excess of the largest of similar expenditures incurred during any preceding accounting period since 1966, or equal to 10 % of the corporation tax before any tax credit, whichever is the smaller.

In addition to the above, a corporation which files a "blue return" and has acquired certain machinery or equipment for development or research of basic technology is eligible for additional tax credit. The tax credit is equal to 7 % of the acquisition cost of such machinery or equipment plus the above R & D tax credit or equal to 15 % of the corporation tax before any tax credit, whichever is the smaller.

2.2 Expenditures incurred in applying for a patent

The costs of developing patent rights (other than capital expenditures) can be immediately expensed. If these expenditures are capitalized, in principle, they should be amortized equally over five years or more.

2.3 Expenditures on plant and equipment embodying new technology

(a) In addition to normal depreciation, the following special increased depreciation is allowed for eligible machinery or facilities in the first year of use when such machinery or facilities are acquired and placed within a prescribed period.

(i)	Machinery and facilities to enhance the energy base:	30 % or 36 % of acquisition cost
(ii)	Anti-pollution machines or production facilities:	22 % of acquisition cost
(iii)	Machines or production facilities newly developed to minimize pollution:	16 % of acquisition cost
(iv)	Machines or facilities used to reclaim scrapped materials:	16 % of acquisition cost
(v)	Machines or other depreciable items newly developed or improved for the efficient utilization of energy and the saving of energy	18 % of acquisition cost

(b) Instead of the above special increased depreciation (a)(i), a special tax credit equivalent to 7 % (or 8.4 %) of the acquisition cost is applicable. The maximum tax credit is limited to 20 % of the corporation tax otherwise payable.

2.4 Expenditures for the purchase of technology

(a) Industrial property rights such as patents acquired from others or capitalized from R & D expense can be amortized using the straight-line method.

Useful lives for industrial property rights are stipulated as follows:

- Patent rights	8 years
- Design rights	7 years
- Trademarks	10 years

In the case of know-how, if payments are contingent upon the quantity of sales of goods manufactured, they will be treated as a tax deductible expense when they are paid.

(i)	Electronically-controlled machinery and equipment	30 % of acquisition cost
(ii)	Other designated machinery and equipment	14 % of acquisition cost

Instead of the increased initial depreciation as in (a)(i) above, a special tax credit equivalent to 7 % of the acquisition cost is applicable. The maximum tax credit is limited to 20 % of the corporation tax otherwise payable.

(b) Small and medium-sized corporations pay reduced rates of national CT. These are as follows:

	Tax rate on the portion of taxable income earmarked for dividends	Tax rate on the remainder of taxable income
The first Yen 8 million per annum of taxable income:	25.0 %	31.0 %
On remainder of taxable income:	33.3 %	43.3 %

(c) Instead of the R & D tax credit as in 2.1(c) above, in the case of "small and medium-sized corporations", a special tax credit equivalent to 6 % of the total R & D expenditure for the accounting period is applicable. The maximum amount of the tax credit is limited to 15 % of the corporation tax otherwise payable. Therefore, in a case where the R & D expenditure for the accounting period does not exceed those in the previous years, a special tax credit is available to "small and medium-sized corporations".

4.2 Venture capital

No special provisions.

4.3 Non-profit scientific organizations

These are subject to corporation income tax only on income from designated profit-making activities.

KOREA

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

In a case where qualifying dividends as defined in the tax code are received by an individual from a corporation, the dividends are included in the individual's taxable income for the taxation period and a tax credit is deductible from total tax liability. The tax credit is computed as follows:

(i) 8 % of the dividend income in the case where the amount of dividend income is 10 million Won or less;

(ii) 800,000 Won plus 4 % of the amount exceeding 10 million Won when the dividend income exceeds 10 million Won.

1.2 Tax rate structure

(a) Tax on profits

The corporation tax rates range from 20 to 33 %. In addition, there is a defense tax surcharge equal to 20-25 % of the corporation income tax liability and a resident tax surcharge amounting to 7.5 % of the corporation's income tax liability. The defense tax surcharge will be in effect until December 31, 1990.

(b) Tax on capital gains

Certain capital gains are taxed at high rates. That is capital gains on land, buildings and real estate rights ("real property") are taxed at normal tax rates and, in addition, are subject to a special capital gains surtax.

The special capital gains surtax on disposition of land, buildings and real estate rights ("real property") is levied at a rate of 25 % of the gain on disposition of registered real property and 35 % of the gain on disposition of unregistered real property. The defense and resident tax surcharges described in 1.2(a) above also apply.

1.3 Treatment of interest receipts and payments

Interest receipts are taxable at normal rates. Interest payments are a deductible expense. The interest payments deductible from taxable income are limited if those payments relate to property not used for business purposes.

1.4 Treatment of dividend receipts and payments

See 1.1 above. Dividend receipts are taxable. There is no deduction for dividend payments.

1.5 Treatment of gains and losses

(a) Operating losses may be carried forward for 3 years. There are no loss carry-back provisions.

(b) Capital gains are subject to the corporation income tax as well as the special capital gains surtax discussed in 1.2(b) above. Capital losses would be deductible from capital gains. Net capital losses cannot be carried forward for computation of the special capital gains surtax.

1.6 Treatment of investment expenditures

(a) A system of capital cost allowances is used to compute depreciation for most tangible property with the exception of land. Depreciation rates are established for different types of property.

(b) Annual rates on a declining-balance basis are as follows:

Asset	Service lives in years	Accelerated percent per year
Buildings:		
Steel and concrete		
Offices, stores and shops	60	3.8
Factories	55	4.1
Warehouses	50	4.5
Brick:		
Offices, stores and shops	50	4.5
Manufacturing plants	40	5.6
Warehouses	35	6.4
Iron-framed		
Offices, store and shops	50	4.5
Factories	50	4.5
Warehouses	35	6.4
Vehicle		
Trucks	4	43.8
Automobiles	5	36.9
Office equipment	5	36.9
Machinery and equipment		
Iron and steel basic	14	15.2
Fabricated metal production	10-12	20.6-17.5
Machinery manufacturing	10-11	20.6-18.9
Electrical machinery	6-9	31.9-22.6

1.7 Treatment of inventories

Inventory may be valued at cost or fair market value or the lower of the two.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

The tax laws limit qualifying R & D expenditures to those for manufacturing new products or developing new technology. The R & D expenditures are capitalized and amortized over a period of not more than 5 fiscal years. The annual amortization amount cannot be less than the amount computed under the straight-line method, beginning in the year the expenditures were incurred.

2.2 Expenditures to apply for a patent

Expenditures to apply for a patent constitute a part of the patent right and are capitalized and amortized at 10 % per year for 10 years.

2.3 Expenditures on plant and equipment embodying new technology

A tax credit would be available on investment in machinery and equipment for research and experimentation in certain key industries and for certain vocational training. The amount of tax credit is equal to 8 % of investment (10 % in the case of investment in domestically produced goods).

2.4 Expenditures for purchase of technology

(a) The expenditures for purchases of technology are generally capitalized. Capitalized expenditures would be amortized based on the terms of payment for the purchased technology.

(b) Royalty payments for the use of intangible property rights are deductible. The deductible amount per year depends on the terms of the royalty agreement and payments.

2.5 Marketing expenditures for introduction of new technology

Capitalized in general.

2.6 Contributions, donations or grants to non-profit scientific organizations

Deductible subject to certain limitations if they are related to the taxpayer's normal business.

3. Corporation Tax Treatment of Receipts from Sale of Technology

Royalty income is treated in the same way as ordinary income. Income from the sale of a patent right or a utility model right is totally tax-exempt.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

Taxpayers who operate a small business (as defined by the Tax Laws) can reserve the tax provision by an amount up to 15 % of its total fixed assets. The tax provision reserved as such shall be incorporated into taxable income during the following 3 years. A special additional depreciation deduction of 50 % of normal depreciation on fixed assets is available to small businesses operating in the manufacturing or mining business. However, the tax provision and special depreciation deductions are limited to 50 % of taxable income for a given year.

4.2 Venture capital firms

Venture capital firms are designated by the Tax Laws. Capital gains from transfer of their stock are tax-exempt.

4.3 Non-profit research organizations

Tax-exempt in general.

LUXEMBOURG

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) Luxembourg continues to use the classical system of taxation, under which corporate income tax is levied both on the corporation and, on distribution, to the shareholders, except in the case of the important participation exemption. The latter prevents the double taxation of profits received, including cash dividends, dividends in kind, hidden profit distributions and capital gains on liquidation distributions of a qualifying subsidiary. The following conditions apply:

(i) The parent company must be resident and fully taxable. (Holding companies and investment funds are therefore excluded).

(ii) The parent company must own at least 10 % in a resident company or a non-resident company (liable to an income tax that is similar to corporate income tax in Luxembourg).

(iii) The shareholding has to be uninterrupted during a period of 12 months before the end of the accounting period.

(iv) The cumulative participation of several resident corporations must reach at least 10 % of the capital of the non-resident company and one of the resident corporations must possess in each of the others a participation of more than 50 %.

(b) No withholding tax is levied on dividends paid by a Luxembourg holding company or investment fund.

1.2 Tax rate structure

(a) Corporations are subject to income taxes on the basis of their worldwide income. Double taxation is avoided under the provisions of tax treaties and through unilateral relief granted by internal tax law. Foreign income arising from non-treaty countries is granted a tax relief, the residual taxes paid abroad being deductible as expenses.

Corporations are subject to corporate income tax at following rates:

Taxable income: Over (Column 1)	Taxable income: Not over	Tax	Percentage on excess
0	LF 400 000	20 %	
LF 400 000	600 000	LF 80 000	50
600 000	1 000 000	30 %	
1 000 000	1 312 000	LF 300 000	72
1 312 000		40 %	

Against the tax so determined are to be applied:

1. The tax withheld from income from Luxembourg capital.
2. The tax withheld abroad from income from capital.
3. Temporary tax assistance for certain investments.

In addition to the above tax, there is a supplement of 3 % of the tax calculated under the scales in favor of an unemployment fund. Branches of foreign corporations are subject to the uniform rate of 40 % plus the unemployment fund supplement of 3 %. However, if the total income of the company as a whole is less than LF 1 312 000 the company may request that the tax be determined by applying to the taxable income the rate that would normally apply to the worldwide income if it were realized by a Luxembourg company. The above listed deductions of withholding tax and temporary fiscal aid apply also. A draft law foresees to reduce the rate of 40 % to 38 % in 1987 and to 36 % in 1988 as well as to decrease th unemployment supplement to 2 % in 1987.

Municipal business tax on income is levied at an annual rate of 4 % of adjusted income. This tax is deductible as an expense for computing income subject to corporate income tax. The tax thus determined is multiplied by a coefficient which ranges from 140 % to 300 % according to the commune where the enterprise is located. In the city of Luxembourg the coefficient is at present 250 %. An allowance of LF 600 000 is granted. A draft law increases the allowance to LF 700 000 from 1987 on.

Holding companies and investment funds are exempt from income tax. They are, nevertheless, excluded from the benefit of tax treaties.

(b) Capital gains realized by a company are taxable as ordinary income.

1.3 Treatment of interest receipts and payments

Interest receipts are included in income, but a tax credit is granted for the tax withheld at source abroad. Interest paid is deductible, provided it is at a reasonable rate. Intercompany charges should be comparable to charges between parties operating at arm's length.

1.4 Treatment of dividend receipts and payments

See 1.1 above. In general, the gross dividend is assessable, and a tax credit is granted for the tax withheld at source in Luxembourg (15 %) or abroad.

1.5 Treatment of operating losses and of capital gains and losses

(a) Business profits are calculated as the difference between opening and closing net asset values, contributions to capital being deducted and distributions being added back. Generally, all business expenses necessarily incurred are deductible, with such expenses being allocated against the income to which they relate. Expenses related to tax-exempt income are not deductible. Intercompany charges and prices billed between a Luxembourg company or branch and one or more of its domestic or foreign shareholders (or affiliates of a shareholder) or its head office (or other branches of the head office) should not be excessive in comparison to what an independent party would pay. If these expenses are not at arm's length they will be regarded as a hidden distribution of profits and disallowed as a deduction in arriving at taxable income.

Losses for tax purposes may be carried forward and offset against taxable income of the following five years. No carry-back of losses is permitted. When the corporate taxpayer operates in an industry that is considered by the government to be in a recession, 50 % of the depreciation allowances included in the tax loss may be carried forward without any time limit. Priority in deduction is given to current year losses. Branches must keep separate set of accounts in Luxembourg to be able to benefit from the loss carry-forward.

(b) Gains on the sale of buildings or on the sale of non-depreciable assets (land) held for more than five years are exempt, provided the proceeds are reinvested within two years in other fixed assets employed in the business in Luxembourg. This exemption applies also to gains on the sale of investments held for more than five years. However, the proceeds may only be reinvested in shares of another company if the Minister of Finance agrees that the sales of the investment and the reinvestment are in the interest of the national economy. If the proceeds are only partly reinvested, the surplus may be transferred in proportion to the fraction reinvested. It should be borne in mind that the immunized surplus reduces the cost price of the new acquisition. If at the end of the financial year during which the sale took place the proceeds are not yet reinvested, the surplus must be maintained intact as a special item in the balance sheet. The immunized capital gain on investments is not covered by the important participation exemption.

The above regulation also applies when an asset of the business disappears by an "act of God" or through requisition or similar measure, provided the reinvestment refers to an asset which, from an economic or technical point of view, corresponds approximately to the lost asset.

In the case of sale, cessation of trading or liquidation, the monetary surplus on building and land can be neutralized by the excess of the revaluated book value over the historical book value. The revaluated book coefficients, which are calculated by reference to the cost-of-living index and actually vary from 89.64 for 1918 and earlier years to 1.00 for 1984 and subsequent years, are applied to the cost and the accumulated depreciation, respectively.

Banks may transfer exchange gains on assets deemed to have arisen from a contributed foreign currency denominated shareholders' equity or a foreign currency sourced Luxembourg franc shareholder's equity to a special immunized provision account in the local Luxembourg financial statements. In the case of cessation of trade, they may also permanently neutralize their conversion gains on exchange by the surplus of the revaluated total of equity over its former value. A draft law extends these advantages to insurance and reinsurance companies as well as to companies trading monetary and financial assets.

1.6 Treatment of investment expenditure

(a) Depreciation

The rate of depreciation should, in principle, be agreed with the tax authorities. The estimated residual value may be taken into account. Government grants as well as deferred capital gains reduce cost.

The straight-line depreciation method is applied, although for assets other than buildings and intangible assets declining-balance method may be used. However, the rate of depreciation may not be more than three times the rate applicable according to the straight-line method, nor higher than 30 % (in the case of assets used exclusively for scientific and technical research, four times and 40 %).

Changing from the declining-balance method to the straight-line method is permitted. It is obligatory if an exceptional depreciation is to be recorded as a consequence of extraordinary technical or economic loss in value. Changing from the straight-line method to the declining-balance method is not permitted.

For tax purposes, depreciation may not be deducted in excess of the amount charged to the annual financial statements, and a shortfall resulting from the application of a lower depreciation rate in one year cannot be recovered in the subsequent year.

Depreciation rates generally accepted for Luxembourg permit 2 % for office buildings, 2-4 % for factory buildings, 10-15 % for office furniture, 10-20 % for machinery and equipment and 20-25 % for motor vehicles.

Special depreciation of 50 % of the cost of movable assets and 30 % of the cost of immovable assets that are purchased to protect the national environment or to save energy in Luxembourg is granted on request during the period from December 31, 1983 to January 1, 1989. The acquisitions must be of benefit to the public interest and amount to at least LF 100 000 per year. Upgraded installations benefit only in exceptional cases from this advantage. The depreciation allowance, which cannot be carried back, may be used in one year or spread in equal portions over the whole period. Straight-line depreciation is applied on cost less the special depreciation, irrespective of when the allowance is deducted.

Fixed assets acquired in the course of an accounting year are depreciated for the months of the accounting year for which they have been in use. As a measure of convenience, however, the tax authorities allow a whole year's depreciation to be charged for movable fixed assets acquired in the first six months of an accounting year and half a year's depreciation for movable fixed assets acquired in the second six months of an accounting year. Fixed assets of value not in excess of LF 25 000 or with a lifetime not in excess of one year may be depreciated in the year of acquisition. Land is normally not depreciable.

Intangible assets can be capitalized or expensed. Those that are subject to depreciation or amortization include development and research expenses, patents, trademarks, copyrights, unprotected inventions, secret processes or formulas, leases, concessions and similar items under certain conditions.

They may be depreciated over a period of five years or more. The amortization period for protected intangible rights is generally the same as their statutory period of protection. Shorter periods may be applied in the case of protected intangibles whose usefulness is likely to be exhausted before the expiration of the statutory period of protection. For unprotected intangible assets, the amortization period depends on the estimated period of usefulness. Goodwill may be depreciated over a five-year period.

Formation costs may be expensed immediately, although, in practice, a write-off over five years is allowed on the straight-line depreciation basis.

(b) Incentives

(i) A tax relief is granted for investment or restructuring operations if they promote creation, extension, rationalization, or reorientation of industrial and service companies or if they contribute to the expansion and structural improvement of the economy. No distinction is made between foreign and domestic investors in the granting of these incentives. The establishment within the ten years from January 1, 1986 (the period is extended on a year-to-year basis) of

- new industry or manufacturing processes
- new service companies or services belonging to high technology sectors and characterized by a high capital or employment or added value

gives partial exemption from corporate income tax and municipal business tax on the profits arising from such investment.

This exemption is available for the first eight financial periods on condition that businesses not benefiting from such exemption are not put at a competitive disadvantage. The investment must be started within the ten-year period and be completed at the latest during the third year following the start. A supplementary delay may be granted under certain conditions.

The exemption is 25 % of the profits arising from the investment, although in the case of installation in an existing business of a new manufacturing process or service, the exempt amount cannot exceed 25 % of the profits of the business as a whole. If the project is abandoned or the investment is put to a use other than its original use during the eight-year exemption period, the exemptions are lost, in certain circumstances, supplementary taxes are payable for the periods the exemption was granted.

(ii) An investment tax credit of 12 % is allowed in respect of additional investments in depreciable fixed assets, other than land and buildings, in the financial periods 1977 through 1986. (The period is extended annually on year-to-year basis). The additional investment represents the difference between the balance sheet value of the assets set out in the application and their reference value. The reference value, which must be at least LF 75 000 represents the arithmetic average of the respective book values at the end of the preceding financial years subsequent to December 31, 1971. Since 1983, the book value of the new investments form the ceiling.

A further credit is allowed in respect of new investment in tangible depreciable assets, other than buildings and motor vehicles, during the years 1977 through 1986 (the period is prolonged annually) with a depreciable life in excess of four years as follows:

	%
First LF 6 000 000	6
On excess	2

These credits are deducted from corporate income tax payable and can be carried forward to the four following tax years.

(iii) The Luxembourg income tax law contains a regulation that permits the government to determine on a discretionary basis the income tax due from taxpayers who come from abroad and establish themselves in the Grand Duchy. Under this power, the government may grant concessions valid for a maximum of ten years. In economically important cases, these incentives may be added to the general concessions granted.

The special concessions may relate to such matters as:

1. Extension of the period for the deduction of losses over that of the five years foreseen by law.

2. Reduction of the rate for the tax on net worth and for the municipal business tax on working capital of the entity for the period of construction and initial period of operation.

These are examples of the concessions obtained. To receive these concessions requires negotiation with the Minister of Finance and the Tax administration.

(iv) A capital investment allowance is granted to individual taxpayers who purchase during the years 1984 to 1988 shares payable in cash in resident limited liability companies that are fully liable to tax.

1.7 Treatment of inventories

Inventories are valued at their cost of acquisition or manufacture, including incidental costs, such as import duties, insurance, freight, and packaging, or at their going-concern value, whichever is lower. Usually they must be valued at the actual individual cost. However, fungible goods may be priced at average cost. In general, both the FIFO and LIFO methods are acceptable for income tax purposes, if either accords with the facts.

General inventory reserves are not normally permissible. Where inventories contain obsolescent material, this fact is reflected by a downward adjustment in inventory values. Where commercially justifiable, these adjustments will normally be accepted for tax purposes.

2. Corporation Tax Treatment of Innovation Expenditure

The only special favor granted for research and development expenses is a more favorable depreciation method as explained under 1.6. Intangible assets and tax incentives are also dealt with under 1.6. Non-profit research organizations are in general not tax-exempt.

MEXICO

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Beginning in 1983, Mexico has used an imputation system for taxing distributions of corporate profits, in that distributions to shareholders of profits of prior years are considered as deductible expenses for the paying corporation, except when the dividends arise from revaluations of assets or other items reflecting the effects of inflation. All dividends are income for tax purposes of the recipients.

1.2 Tax rate structure

(a) Through 1986, corporate income tax was generally payable at the flat rate of 42 %, to be gradually reduced from 1987 to reach 35 % in 1991 on a substantially higher tax base. There are no state or local income taxes.

(b) Most capital gains are taxed as ordinary income.

1.3 Treatment of interest receipts and payments

Though 1986, interest income and expense were taxable or deductible on the accrual basis. (In the proposed amendments, interest will be considered as income or deductible only to the extent that it exceeds the inflationary component.)

1.4 Treatment of dividend receipts and payments

See 1.1 above.

1.5 Treatment of operating and capital losses

For many years, net tax losses could be carried back for one year and forward for four additional years, or for six years in the case of certain types of losses. Capital losses were treated as ordinary losses for this purpose, although there were limitative rules for certain capital losses.

(The proposed amendments reduce or eliminate the carry-forward of pre-1987 losses and the loss carry-back is eliminated until 1991, but the new basis provides for the upwards indexing of loss carry-forwards arising after January 1, 1987.)

1.6 Treatment of investment expenditures

Annual depreciation deductions are provided for investments in buildings, machinery and equipment, calculated at legal maximum rates on the straight-line basis over the estimated useful lives of various different types of assets, without considering estimated salvage values, nor investment tax incentives received. Higher, accelerated rates on new items acquired from 1984 to 1986 were also allowed in the first year depreciation of the assets was deducted, with the balance becoming deductible at the legal rates over the remaining useful lives.

(The proposed amendments would give the taxpayer the right to elect to continue the use of annual deductions at the rates in effect though 1986, or to deduct a single amount (less than 100 %) in the year new fixed assets, except office furniture and equipment, are placed in service, or the first year thereafter. No further deductions would be allowed, and the entire proceeds of subsequent sales of the assets would represent taxable income.)

Examples of the depreciation rates are given below:

	One-time rate	Normal annual rate
Deferred charges	55 %	5 %
Preoperating expenses and intangibles including know -how and patent rights	74 %	10 %
Buildings and other constructions	55 %	5 %
Automobiles, trucks, trailers, etc...	87 %	20 %
Tools, dies, etc., anti-pollution equipment and equipment for investigation of new products or technological developments in Mexico	93 %	35 %
Electronic equipment	90 %	25 %
Peripheral equipment for the above	79 %	12 %
Machinery and equipment for specified industries	39 % to 90 %	3 % to 25 %
For other industries	74 %	10 %

1.7 Treatment of inventories

Inventories can be valued by a number of different generally accepted absorption costing methods, including LIFO, so long as consistently applied. Upwards indexing of annual depreciation charges would also be authorized. Direct costing can be used by exporters of more than 30 % of their production, and taxpayers may elect to deduct purchasing and importation expenses in the year incurred, excluding such charges from inventory costs.

(The proposed amendments would allow the immediate deduction of all purchases, and no inventories would be maintained for the new corporate tax base. Inventories would continue to be used for the determination of the so-called traditional basis for taxable income, but any inventories at December 31, 1990 would become deductible, after indexing upwards, only when a corporation is liquidated or changes its field of endeavor.)

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Operating expenditures

Expenses of this nature may be deducted as incurred, and since 1981, the law contains a little-used authorization to deduct payments into funds for technological investigation and development up to 1 % of annual gross income.

(b) Expenditures for tangible assets

Assets acquired for R & D purposes except relatively small items, are treated as fixed assets but may be depreciated at 35 % per annum. (The proposed amendments provide a one-time depreciation rate of 93 % on these items - see 1.6.)

(c) No tax credits are allowed.

2.2 Expenditures to apply for a patent

Costs of obtaining a patent are deductible as incurred, but the purchase of patent rights is treated as investment in intangible assets, (see 1.6).

2.3 Expenditures on plant and equipment embodying new technology

No special treatment, although the total investment might qualify for tax incentives for regional development of designated areas of the country, all specified priority industries, and/or nationally produced machinery and equipment.

2.4 Expenditures for purchase of technology

Purchases of rights to industrial property are treated as investments in intangible assets; see 1.6.

Royalties for the use of know-how are deductible as incurred so long as Mexican income tax is withheld from royalties to non-residents.

2.5 Marketing expenditures for introduction of new technology

Deductible as incurred.

2.6 Contributions, donations or grants to non-profit scientific organizations

Deductible if made to duly registered organizations or educational institutions.

3. Corporate Tax Treatment of Receipts from the Sale of Technology

Ordinary income.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Research Organizations

4.1 Small Business

A graduated scale of tax rates is available to corporations having taxable profits of less than 1,500,000 Mexican pesos, currently equivalent to less than $2,000 U.S. per year.

4.2 Venture capital firms

No special treatment.

4.3 Non-profit scientific research organizations

May be exempt of tax except on dividends received if duly registered as such.

THE NETHERLANDS

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

The Netherlands uses a classical system of corporate taxation, similar to that applied in the USA, but in contrast to imputational systems adopted by other Western European countries.

In principle, resident corporations and branches of foreign corporations are subject to a corporate tax on profits realized after the deduction of expenses.

1.2 Income determination

(a) Inventory valuation

In general, inventories are stated at the lower of cost or market value. Cost may be determined on the basis of FIFO, LIFO, base stock or average cost. The LIFO system can be used for book and tax purposes but there is no requirement to have conformity between book and tax reporting.

(b) Capital gains

Taxed as ordinary income. However, capital gains realized on disposal of a shareholding qualifying for the participation exemption (5 % or more) are tax-exempt. The profit on disposal of depreciable property may be carried to a special reserve and must then be applied against cost of replacing assets. The reserve cannot be maintained for more than four subsequent years.

(c) Intercompany dividends

Subject to fulfilment of certain conditions, a Dutch company or branch of a foreign enterprise is exempt from Dutch taxes on all "benefits" connected with a qualifying shareholding (5 % or more), including, by way of the participation exemption, cash dividends, dividends in kind, bonus shares and hidden profit distributions.

(d) A Dutch resident company is subject to corporate tax on its total foreign and domestic income. Double taxation of certain foreign source income, including foreign branch income is relieved by proportionally reducing Dutch tax by the ratio of foreign income (subject to a foreign income tax) to total income. Double taxation of foreign dividends, interest and royalties is relieved by tax credit under Dutch tax treaties or by deduction in computing net taxable income. However, relief by exemption is given to dividends from foreign investments qualifying for the participation exemption (see above).

1.3 Deductions

(a) Depreciation and depletion

Depreciation may be computed on a straight-line or reducing-balance method, or in accordance with any other sound commercial basis. Depreciation is applied from the date the asset comes into use. Specific depreciation rates are not prescribed by law. Dutch tax law does not require that book and tax depreciation coincide.

The sale of depreciated property attracts tax on the difference between the sales price and the depreciated book value unless a replacement reserve is created.

A depletion allowance for natural resources may be granted for tax purpose where it is in accordance with sound commercial practice and appropriate for accounting purposes.

(b) Net operating losses

Losses incurred during a taxable year are set off against the income of the preceding three years (loss carry-back) and the income of the eight following taxable years (loss carry-forward); losses incurred during the first six years after the creation of a company or branch may be carried forward indefinitely.

(c) Payments

A Dutch corporation can claim a deduction for royalties, management services and interest charges paid to third parties or (foreign) affiliates. If paid to an affiliated party such amounts should be equal to what would have been paid between unrelated entities. Interest on borrowings from Dutch or foreign sources to acquire participations in foreign companies is not deductible. There are no withholding taxes on interest and royalties payment.

(d) Special allowances

As from October 1, 1986 a special allowance of 1 % of the fiscal equity (after certain corrections e.g. for portfolio investments) at the beginning of the book year is deducted from the taxable profit of a corporation or the Dutch branch of a foreign corporation.

1.4 Rate

The corporate tax rate is a proportional rate of 42 %.

1.5 Group taxation

A resident with its wholly-owned resident subsidiaries may under certain condition file a tax return as one entity.

1.6 Relationship to personal income

If profits of a corporation are to be distributed to individual shareholders, such profits are subject to a dividend withholding tax of 25 %.

If such shareholder is a Dutch resident the gross dividend should be included in his income and credit is given for the dividend tax withheld against the personal income tax liability on the shareholder's total taxable income. A refund may be claimed if the dividend tax exceeds a shareholder's personal tax liability.

In case of non-resident shareholders, a reduced rate of dividend withholding tax may be applicable under Dutch tax treaties.

2. Tax Incentives

An investment incentive system (WIR) is available for investments in fixed assets (minimum f 52.900, =), whereby an investment premium is given as a reduction of income tax payable. If no tax is payable, the incentive is limited to a reduction of income tax payable, but it is possible to have a three-year carry-back and eight-year carry-forward. The incentive amounts to 12.5 % of the net investment. A number of fixed assets are excluded, such as shares, goodwill, packing materials and private cars. To prevent abuse, a number of transactions are also excluded such as investment in real property that serves social or cultural purposes, investments in buildings that will mainly be rented out and sale/lease-back transactions.

In addition to the basic investment incentive (base premium), the following additional premiums are available:

2.1 Premium for small investments

For annual investments of Dfl. 2.900 to Dfl. 48.000 the premium is 6 %, which is reduced by 0,25 % to every additional Dfl. 47.000, = invested.

2.2 Pollution control premium

For investments which reduce or prevent environmental pollution a premium of 3 - 15 % is provided.

2.3 Energy saving premium

For investments contributing to energy warring a premium of 4 - 25 % is given. Provisions exist to wholly or partly claim back premiums given on the disposal of qualifying assets. Some additional premiums are not reclaimable.

3. Innovation Expenditures

3.1 Research and development

There are subsidy and financing facilities available for high-tech research projects, research and development.

Any special tax provisions do not exist as regards to the expensing of expenditure on research and development.

3.2 Venture capital

No special treatment.

NEW ZEALAND

Introduction

In the past two years there has been tremendous change in the taxation system of New Zealand. The main feature has been the introduction of an indirect tax, called the Goods and Services Tax, from October 1, 1986, together with the reduction of personal taxation rates. The philosophy behind the changes made by the government has been to introduce a fairer tax system and to encourage and reward greater effort. There have also been moves to remove from the taxing statutes those provisions which are directed towards industry assistance or social goals.

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

There is at present no imputation system operating in New Zealand but the Government has indicated its firm intention to introduce such a system effectively from October 1, 1987. Although that announcement was made a considerable time ago no hint of the form of the legislation has yet been revealed.

1.2 Tax rate structure

Income tax is levied in New Zealand by the central government. There is effectively no intermediate step between central government and local government; that is, there is no state or provincial government. Local government has no taxing rights and is restricted to levying annual land rates in most cases.

(a) The taxation of resident companies presently stands at 48 cents per dollar, an increase of 3 cents effective from April 1, 1986. From the same date non-resident companies have been taxed at 53 cents per dollar, up from 50 cents.

(b) There is no overall or identifiable capital gains tax although some provisions of the Income Tax Act 1976 have the effect in certain circumstances of taxing capital gain; for example, sale of land in some circumstances is subject to income tax.

1.3 Treatment of interest receipts and payments

Interest receipts are assessable income. Interest payments are deductible as long as the capital is employed in the production of assessable income. The New Zealand Inland Revenue Department is presently conducting a study on the deductibility of interest and it is an area of some doubt especially in regard to deductibility when the purpose of the borrowings is to finance the acquisition of shares in other group companies.

1.4 Treatment of dividend receipts and payments

(a) Dividends receivable

The general position is that dividends derived by a New Zealand company from another company (New Zealand or overseas) are exempt income. There are important exemptions to this rule and it does not apply:

- when the company paying the dividend is exempt from income tax;
- when the dividend is paid by a building society;
- when the dividend is paid on preference shares when a deduction has been allowed to the paying company.

(b) Dividend payments

Dividends paid, as a general rule, are not allowed as a deduction although a deduction is allowable for dividends paid on the cash issue of specified preference shares. For this deductibility to apply certain conditions must be fulfilled.

- the company must not be under the control of non-residents;

- total preference capital must not exceed 50 % of the ordinary paid-up capital at all times;
- specified preference shares must not be able to be converted into shares or stock of the company within five years of the date of allotment.

1.5 Treatment of gains and losses

(a) Operating losses

Losses can be carried forward to be set off against future income without time limit. For this to apply a 40 % common shareholding test must be fulfilled at all times between the start of the year of the loss and the end of the year of the set-off. This common shareholding test does not apply to stock exchange listed companies.

Losses can be offset within the same group of companies subject to very strict rules.

(b) As explained earlier there is no capital gains tax as such in New Zealand.

1.6 Treatment of investment

Depreciation is a discretionary power of the Commissioner of Inland Revenue. In practice the Commissioner has set a detailed series of rates which apply to a wide variety of assets. That list is presently under review. In general, the depreciation allowable on buildings is based on cost and the depreciation allowed on other assets is based on diminishing value. Some of the more common items are:

Furniture	20 % DV
Motor vehicles	20 % DV
Plant and equipment	10 % DV

A first year depreciation allowance of 25 % on plant and machinery has recently been withdrawn in some areas and is to be phased out in others. Similarly investment allowances which were available some years ago have been gradually eliminated.

Grants which are received and are used to purchase assets have the effect of reducing the cost of the asset for depreciation purposes.

1.7 Treatment of inventories

The New Zealand income tax legislation provides for the valuation of inventories, at either cost price, replacement value, or market selling value at the option of the taxpayer. The taxpayer is not required to value his whole stock on the same basis. The Commissioner of Inland Revenue can take into account obsolescence or any other special circumstances in valuing inventory.

2. Corporation Tax Treatment of Innovation Expenditures

There are no explicit incentive provisions to allow deductions for research and development expenditure on revenue account or capital account. The legislation does contain provision for the writing-off of expenditure for scientific research as long as that research is carried out for the purposes of deriving assessable income. A recent amendment withdrew the requirement that the expenditure needed to be directly related to the trade or business carried on by the taxpayer. Apart from this provision no special provisions as to the deductibility of research and development expenditure feature in the New Zealand tax legislation.

There is, however, considerable pressure on the government to provide concessions in this area and a parliamentary select committee is presently considering the pros and cons of government financial incentives for private sector research and development and it may be that this will result in incentives being introduced into the tax system. This would be unusual given the government's current thinking however.

NORWAY

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) The personal and corporation income taxes are not "integrated".

(b) Provisions have been made to some extent for the avoidance of double taxation (see below 1.4).

1.2 Tax rate structure

Corporation taxable income is generally taxed as follows:

- Municipal taxes	21 %
- State tax	27.8 %
- National equalization tax	2 %

The total of 50.8 % is accurate only when the tax base for the municipal and state taxes are identical. Normally this will not be the case.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are generally treated as ordinary income. Interest received up to 1 000 N.Kr. or the repayment of tax is deductible.

(b) Interest payments are generally tax deductible.

1.4 Treatment of dividend receipts and payments

(a) Dividends received from Norwegian companies are taxable for state income tax only. Dividends received from foreign companies or subsidiaries are subject to the corporate tax on the normal rate of 50.8 %.

(b) Dividends distributed or allocated to the dividend equalization fund net of the current year's profit are deductible in the state tax base. Distribution of the surplus from prior years is not exempt from state income tax.

1.5 Treatment of gains and losses

(a) Operating losses may be carried forward for ten years.

(b) Gains on the sale of business assets are taxable as ordinary income. For state tax purpose only, gains from the sale of shares held solely for investment purposes are taxed at the special flat rate of 30 % if they have been held for less than 2 years (except where the "selling group" rule applies).

Deferment of all taxes may be claimed on gains from the sale of business assets if the gains - individual or in sum - amount to more than 5 000 N.Kr.

(c) Losses on items which are not deductible are not available for carry-forward and carry-back. Losses for the sales of share held for less than two years can be carried forward for four years, but against profits taxable at the flat rate of 30 % on gains from the sale of shares required for investment purposes.

1.6 Treatment of investment

(a) Depreciation

The depreciation method used in Norway is the so-called declining-balance method. As a main rule, depreciation (for tax purposes) shall be calculated on the basis of the written down value of the asset. The firm's assets are grouped into eight categories.

The maximum annual depreciation for each category is:

1.	Machinery, tools, office and shop equipment vehicles, etc., except ships and boats, oil drilling vessels and airplanes	35 %
2.	Cars acquired after January 1, 1986 - except taxis and cars for transportation of handicapped people	20 %
3.	Ships, boats, oil drilling vessels and airplanes	30 %
4.	Airplanes	20 %
5.	Buildings and plant - hotels except commercial buildings	8 %
6.	As 5 but with a shorter economic life expectancy than 20 years	12 %
7.	Commercial buildings	4 %
8.	Commercial buildings situated in areas of especially high development	3 %

Grants received from central or local authorities for the purchase of an asset, except investment grants in the districts, must be excluded from the respective balance before calculation of the depreciation. The investment tax on the other hand is to be included in the balance.

(b) Incentives

(i) From 1983 on, incorporated firms may deduct 23 % of their taxable income and place it in a tax-free "consolidation fund". (Income from petroleum production and pipeline transportation is excluded from this possibility.) This amount will be recognized as income due for taxation in a following year if they are paid out as dividends.

(ii) Personally owned businesses may set aside a part of their income in tax-free fund as well (fund in personally owned business).

(iii) Regional tax incentives

Regional tax incentives take the form of tax-free appropriation to special (investments) funds. These incentives are available in development areas.

Firms and self-employed persons may set aside up to 15 % of their income in such investment funds. The funds must be used within 5 years after the first deposit. When the money is used to buy an asset, 55 % (in some cases 65 %) of the amount taken from the fund is to be written off on the asset.

For investment in Northern regions the write-off may be reduced to 40 %, sometimes 25 %.

1.7 Treatment of inventories

Valuation should not exceed the lower of cost or market value. The LIFO method of accounting is not permitted. The FIFO method is used for valuation purposes.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current R & D expenditures may be capitalized or expensed.

(b) Capital costs are treated in the same way as other investment expenditures (see 1.6). As mentioned (consolidation funds), tax-free appropriation may be utilized for research.

2.2 Expenditures to apply for a patent

No particular treatment.

2.3 Expenditures for plant and equipment introducing new technology

No special treatment.

2.4 Expenditure for purchase of technology

Patents purchased for a lumpsum payment must be capitalized and depreciated over the period of their utilization.

2.5 Marketing expenditures for introduction of new technology

No special treatment.

2.6 Contributions, donations or grants for non-profit scientific organizations

Donations to some institutions are deductible.

3. Corporation Tax Treatment of Receipts from Sale of Technology

Gains on the sale of intangibles (e.g. patent rights) connected with business are taxable. If not so connected, they are not taxable.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

4.1 New and SME

No special treatment.

4.2 New ventures

No special treatment for new technology based firms.

4.3 Non-profit scientific organizations

Income of qualified non-profit scientific organizations is generally tax-exempt, provided it does not derive from unrelated business activity.

PORTUGAL

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

The tax system comprises a unitary tax, the complementary tax, which is applied to combined earned and unearned income net of corresponding schedular taxes comprising industrial tax, agricultural tax, professional tax, withholding tax and real estate tax.

Complementary tax distinguishes between income earned by a family (husband, wife and dependents) assessed under section A and by a business entity, other than an individual or partnership, assessed under section B.

Schedular income tax is assessed on an individual basis and is not combined. Partnership income is subject to schedular and complementary taxes after being attributed to individual partners. The complementary tax assessment depends upon whether the partner is an individual or a corporate entity.

1.2 Tax rate structure

(a) The maximum corporate tax rate amounts to 42.8 % comprising industrial tax (35 %) and complementary tax - section B (12 % reduced to 7.8 % on deducting industrial tax.). Tax rates are progressive but maximum thresholds are set at low levels. Municipal surcharges may increase the overall rate up to 46.3 %.

(b) Capital gains are excluded from corporate income tax calculations but are considered to be transactions subject to capital gains tax assessed on the vendor at 12 % (24 % in the case of transmission or rights over land for development). The definition of capital gains is unusual and comprises:

(i) Profits (less losses in the same year) arising on sale of fixed assets after taking into account rates of depreciation allowed for corporate tax and after increasing the net book value before sale by an official price index, which is updated each year.

(ii) 50 % of reserves incorporated in share capital.

(iii) Premium received on issue of shares.

(iv) The difference between purchase and sale of land for construction as defined for real estate transfer tax. This is a tax assessed on the purchaser or beneficiary, including a shareholder who acquires 75 % or more of capital in a company holding title to real estate. In the case of urban housing and land for development, it amounts to 10 % on the higher of the purchase price or the official rateable value as registered or revised by a district land commission. The rate is reduced to 8 % on other real estate.

1.3 Treatment of interest and dividend receipts

(a) Interest and dividend income is grossed up for withholding tax which is set off against industrial but not against complementary tax. (See 1.1 above.)

(b) Withholding tax on interest and dividends is determined, in certain instances, on a notional basis and the definition of taxable income can then be a complex matter. This includes:

- Profits made available to shareholders of companies, other than of corporations, if not withdrawn by the calendar year-end following the date they were first made available. Thus, for example, the excess of cash withdrawn by a shareholder during the year which has been charged to a current account over profits distributed to him at the year-end is at risk of being considered a loan subject to withholding tax on notional interest.

- The deferral in time of a contractual payment that does not directly arise from the sale of goods or services. However, there is a presumption that promissory notes and notes of exchange constitute instruments of payment. Income derived therefrom is, accordingly, exempt from withholding tax unless notes have been accepted at a later date as a means of avoiding an already existing taxable situation.

- Unused credit facilities (unless offered by a bank).

Notional income is 6 % reduced to 5 % if the source of income is advanced by, or considered to be derived from, a direct shareholder.

1.4 Treatment of interest and dividends paid

See 1.1 and 1.3 above. Withholding tax is assessed at the rate of 12 % (profit distributions), 12 % (debenture interest), 15 % (deposits) or 30 % (other interest).

1.5 Treatment of gains and losses

(a) Corporate operating losses may be offset against income arising in the following five years but cannot be carried back. Gains or losses on trading assets are excluded from assessable income.

(b) Realized capital gains, falling within the definition in 1.2(b) above, are set off against realized capital losses incurred in the same year for the purpose of assessing taxable income. Net losses cannot be carried forward or back.

1.6 Treatment of investment expenditures

(a) Separate classes and depreciation rates, normally on a straight-line basis, are established in some detail for different types of property. Annual rates are fully applied in the year of acquisition but not in the year of sale. Rates are normally acceptable in relation to estimated useful lives; for example:

Industrial buildings	4 %
Plant, equipment, etc.	8.33 % to 16.66 %
Vehicles	20 % or 25 %

(b) The authorities have wide discretion in conceding tax incentives despite efforts in recent years to reformulate legislation so as to reduce ambiguity. Currently, incentives that specifically relate to the carrying value of tangible assets may take one of the following forms:

- Accelerated depreciation at 200 % of etablished rates over a fixed period varying from 6 to 12 years.

- Investment allowance deductible from taxable income subject to corporate tax in three equal annual installments, commencing in the year the application is granted. If the investment deduction in any one year exceeds taxable profits, the excess can be carried forward within this three-year limit, after which the benefit is lost.

- Tax credit introduced in 1986 and amounting to 10 % of qualifying investment completed in that year, 8 % completed in 1987, 6 % completed in 1988 and 4 % completed in 1989 and future years.

- 50 % to 100 % relief from import duties on plant and equipment.

(c) All businesses subject to industrial tax were authorized to revalue tangible fixed assets in 1978, 1982 and 1984 by applying the official price index referred to in 1.2(b)(i) above to net book value. The surplus on revaluation was taken to equity and may be capitalized or set off against operating losses. 60 % of subsequent depreciation on excess over cost is deductible for corporate tax.

1.7 Treatment of inventories

(a) Inventory may be valued at average, FIFO or LIFO cost or at standard cost with apportionment of variances so as to approximate one of these methods. Long-term contracts may be recognized under the completed contract or the percentage of completion method.

(b) In principle, inventory should be written down to the lower of cost as defined above or fair market value. In practice, the tax authorities permit a standard allowance, normally of 10 %, but require this to be recorded in statutory accounts.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) The primary concern of the authorities has been to exercise supervision over outward remittances for incoming technology whether in the form of royalties or service fees. Agreements have had to be authorized prior to the date on which income commences and tax deductibility has been restricted in certain industries to maximum percentages on turnover varying from 2 % (miscellaneous plastic products) to 8 % (drugs) if payable to related parties.

(b) The accounting treatment of intramural expenditure on R & D is not specifically covered in tax legislation except as regards patents which are depreciated on a straight-line basis over 5 to 10 years. In principle, operating expenses on R & D may be either expensed as incurred or deferred over 3 to 6 years on a straight-line basis as an intangible asset.

(c) Tangible fixed assets acquired in connection with R & D are treated as outlined in 1.6 above. However, the cost of equity investment in companies, institutions or technological centers considered for this purpose to be of scientific interest may be deductible of industrial tax in the year incurred.

Expected changes to current legislation

The Government has been authorized by Parliament on September 24, 1986 to introduce provisions in current legislation enabling companies to deduct from taxable income:

(a) R & D expenses incurred up to a maximum of 10 % of taxable income.

(b) Reserves reinvested in R & D.

2.2 Expenditures to apply for a patent

See 2.1 above.

2.3 Expenditures on plant and equipment embodying new technology

See 1.6 above.

2.4 Expenditures for the purchase of technology

See 2.1(c) above.

2.5 Marketing expenditure for introduction of new technology

See 2.1(b) above.

2.6 Contributions, donations or grants to non-profit scientific organizations

The cost of equity investment may be allowed as a cost in the year incurred (see 2.1(c) above). Donations are deductible for corporate tax up to threshold of 10 % of the donator's prior year assessable income.

3. Corporation Tax Treatment of Receipts from Sale of Technology

(a) Total disposition of technology will be treated as income if it forms part of normal business operations or as a capital gain if costs have been deferred in the vendors' books. Royalties and service fees received for the use of intangible property rights are subject to withholding tax at the rate of 15 %.

(b) Receipts for undertaking scientific research on behalf of another firm constitute taxable income.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

Small businesses are not treated specially. Non-profit research organizations are tax-exempt in general.

SINGAPORE

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Under the imputation system adopted in Singapore, the income tax paid by a company on its profits is fully passed on or imputed to the shareholders when a dividend is paid.

1.2 Tax rate structure

Singapore operates a unitary system of taxation on a territorial basis. Generally, income is taxable when it accrues in or is derived from Singapore or when it is received in Singapore from sources outside Singapore.

(a) Taxes on corporate income

Imposed at a flat rate of 40 %, with no state or municipal taxes on income. With effect from the year of assessment 1987 (calendar year 1986) the tax rate is reduced to 33 %.

(b) Corporate residence

The corporate residence of a company is determined not so much by the place of incorporation, but by the place where management and control is exercised. This is generally taken to mean where the directors meet and exercise de facto control.

(c) Branch income

Tax rates on branch profits are the same as on corporate profits, and no tax is withheld on remittance of profits to the head office.

(d) Capital gains

No tax on capital gains. Where there is a series of transactions, the tax authorities may take the view that a business is being carried on and attempt to assess the gains as profits of the corporation.

(e) Intercompany dividends

There are no special concessions on intercompany dividends which are taxable in the hands of the recipient.

(f) Foreign income

A company resident in Singapore is taxed on foreign income when received in Singapore. For treaty countries, double taxation is avoided by means of foreign tax credits granted under the various tax treaties. Double taxation in respect of income from non-treaty countries can only be avoided by not remitting such foreign income to Singapore. There is no unilateral foreign tax credit other than for tax paid in prescribed countries on income derived from qualifying professional services.

1.3 Treatment of interest receipts and payments

Interest receipts are taxable when they accrue in or are derived from Singapore or when they are received in Singapore from sources outside Singapore.

(a) Deposit interest derived by non-residents from approved banks

Exemption from tax is granted to non-resident individuals and to companies not doing business or having a permanent establishment in Singapore in respect of interest from deposits in an "approved" bank, that is, a commercial bank, and certain merchant banks operating in the Republic.

(b) Post Office Savings Bank

Interest derived by individuals and companies from the deposit of moneys with the Post Office Savings Bank of Singapore is exempted from tax.

(c) Interest on Asian Dollar Bonds

Interest derived from Asian Dollar Bonds is exempted from tax provided certain conditions are fulfilled.

(d) Interest expense

Interest expense ranks for deduction insofar as the Inland Revenue Department is satisfied that the expense was incurred on money borrowed for the purpose of acquiring income.

(e) Interest paid to non-resident individuals or companies

Interest paid to non-resident individuals or companies is generally subject to withholding tax and is deductible for tax purposes only if the claimant has deducted withholding tax under Section 45 of the Income Tax Act and accounted for it to the Inland Revenue Department.

Application may be made for interest paid by a company engaged in any industry to non-resident persons on approved loans of not less than S$200,000 advanced for the purchase of productive equipment to be exempt from tax, provided that such exemption does not result in an increase in tax liability for the foreign lender in his country of residence.

Interest paid on interbank/interbranch transactions by approved banks in Singapore is not subjected to withholding tax (exempted under Ministerial remissions).

1.4 Treatment of dividend receipts and payments

When a company pays a dividend the shareholder receives income which is assessable. This is notwithstanding the fact that the dividend is paid out of capital or revenue profits. A distribution made to a shareholder by way of a dividend need not necessarily be in cash. If it is credited to the shareholder's account with the company, it will still rank as a taxable dividend. On the same principle a dividend would be taxable even if its distribution is subject to a condition that it be used for purposes of buying more shares in the company.

The source of income from dividends is the shares in a company and location of the source is where the company is resident for tax purposes.

Dividends derived from abroad, i.e. Malaysia, UK, Australia, etc., are assessable only if they are received in Singapore.

Dividend income received under deduction of tax is brought into the computation of the recipient at the gross amount. Credit for the tax deducted at source is given against the tax payable.

A dividend declared by a company from a fund of exempt profits is exempt in the hands of the recipient.

Dividends are franked with (deemed to be paid net of) the 40 % tax paid by corporations. With effect from January 1, 1986, dividend payments are deemed to be franked at the rate of 33 %. This is in line with the reduction in corporate tax rate to 33 %. However, if any corporation has not paid sufficient tax to cover the total tax deemed deducted from dividends, it has to pay the excess to the Inland Revenue Department as an irrecoverable charge.

Singapore at present has no withholding tax on dividends in addition to the tax on the profits out of which the dividends are declared.

1.5 Treatment of operating gains and losses

(a) Net operating gains

Income tax is imposed on the gains or profits of any trade, business, profession or vocation. In determining whether a tax liability exists, it is essential to establish whether the individual or company concerned is carrying on a trade, business, profession or vocation.

(b) Net operating loss

Trading losses, including depreciation allowances, may be carried forward indefinitely, provided shareholders in the loss-making corporation have not changed beyond 50 % of paid-up capital. Loss carry-back is not permitted. With regard to depreciation allowances carry-over, the additional condition is that the corporation must continue with the trade for which those allowances were given. There is no group relief in Singapore.

1.6 Treatment of investment expenditure

A system of capital allowances is used to compute tax depreciation for most tangible assets.

(a) Depreciation and depletion

Depreciation is allowable on industrial buildings and on machinery and equipment (straight-line basis) at specified rates for all types of business. However, a company which has been granted a tax incentive prior to January 1, 1981 may continue to depreciate machinery and equipment on the reducing balance basis. In lieu of the claim for depreciation allowances at specified rates, accelerated depreciation allowances can be claimed by all sectors of the economy on all machinery and equipment, except for motorcars, motorcycles and light-goods vehicles, in equal instalments over three consecutive years. A 100 % depreciation allowance is available on capital expenditure incurred on computers, robots and prescribed automation equipment. Tax depreciation is not required to conform with book depreciation. Gains on depreciable property, except Singapore-registered ships, are taxed as ordinary income to the extent depreciation has been allowed.

1.7 Treatment of inventories

There are no special rules as to which basis of valuation of inventories (stock-in-trade) should be adopted in the case of a continuing business so long as the basis is consistent one year with another. However, the LIFO basis of valuation is not permitted for tax purposes.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditure

The following incentives are provided for manufacturing enterprises conducting research and development, and for research and development institutions servicing them.

(a) Operating expenditure

Double deductions from taxable income are allowed for operating expenses which include manpower, materials and utilities of qualifying R & D activities. Since pioneer companies are exempted from tax, they cannot enjoy the benefit of this incentive. To qualify for this incentive the R & D activities must be project oriented or contracted to a local R & D institution. Where companies cannot be considered for an extension of pioneer status or export incentives or where the R & D activities involved heavy manpower rather than equipment expenses, they may also be considered for this incentive.

(b) Tangible fixed assets acquisitions for R & D

Accelerated capital allowances over three years for all plant and machinery used for R & D.

R & D buildings or structures qualify for industrial building allowances under Section 16 of the Income Tax Act. An initial allowance of 25 % and an annual allowance of 3 % will apply.

(c) Tax investment credits

For companies which plan to incur heavy capital expenditure, investment allowances of up to 50 % of the capital investment in R & D are allowed on a case by case basis. Building costs are to be excluded. Since double deductions are in respect of operational expenses and investment allowances are on capital expenditure, taxpayers can qualify for both these incentives.

Any other special features of R & D incentive

(d) Definition of R & D

"Research and Development" is defined as any systematic or intensive study carried out in the manufacturing and industrial fields, the results of which are to be used for the production of improvement of products and processes. Quality control, routine product testing, data collection, efficiency surveys, management studies, market research and development services are specifically excluded from the definition of R & D.

Lump sum payments for qualifying manufacturing licensing may be capitalized and will be deductible for income tax purposes over a period of five years.

(e) Foreign expenditure

R & D expenditure whether incurred in Singapore or outside Singapore will rank for deduction. In the case of the latter the foreign research and development organization providing the facility must be approved by the Economic Development Board. This Approval is considered necessary to eliminate transfer pricing abuses.

(f) Differentiations as to firm size, ownership, industry or technology, etc.

No differentiations in incentives as to firm size, ownership, industry or technology, etc., although in practice a substantial commitment is likely to be viewed more favourably.

2.2 Expenditures to apply for a patent

Expenditure incurred on approved know-how and patent rights may be written off in five years. "Patent rights" are defined as the right to do or authorize the doing of anything which would, but for that right, be an infringement of a patent.

Only a taxpayer carrying on a manufacturing trade or business qualifies for these allowances - and the patent rights must be for use in his trade or business.

It is also provided that where expenditure is incurred prior to the commencement of the business, such expenditure will be treated as having been incurred on the day the business commences.

When patent rights come to an end either by disposal or by expiration, end-of-day adjustments are to be made.

2.3 Expenditures on plant and equipment embodying new technology

No special treatment other than that described in 1.6.

2.4 Expenditures for purchase and use of technology

Approved industrial royalties or technical assistance fees or contributions for research and development are taxed at the reduced rate of 20 % (instead of the normal tax rate of 33 %) or may be totally exempted under certain circumstances. The relief or exemption would not apply if it results in an increase in the tax liability of the non-resident person in his country of residence.

2.5 Marketing expenditures for introduction of new technology

A holding company, at least 50 % of whose paid-up capital is held by Singapore citizens or permanent residents can deduct against its own income those losses (including depreciation allowances) incurred by an approved subsidiary which uses new technology in its manufacturing process or service operations. Only losses incurred by the subsidiary during the first three years of business, that have not been subsequently used up, can be deducted by the holding company against its own income. The portion of net losses that can be used by the holding company is determined by the percentage of the subsidiary's paid-up capital held by the holding company. There is no question of double deduction of losses. Thus, once any losses have been used by the holding company, they cannot be carried forward by the subsidiary.

SPAIN

1. Main Features of Corporate Income Taxation

1.1 Relationship with the personal income tax system

Spain has a system of partial relief from double taxation.

Dividends are taxed at source at a rate of 18 %. They carry a tax credit of 50 % of the amount received, the rate applied to dividends being the effective rate of tax paid on corporate income expressed as a percentage of net taxable income.

1.2 Structure of tax rates

The basic rate of corporate income tax is 35 %.

1.3 Tax treatment of interest received and paid

(a) Interest received is treated as ordinary income.

(b) Interest paid is normally deductible.

1.4 Tax treatment of dividends received and distributed

(a) Dividends received

Dividends from portfolio securities are included in taxable income.

Intercorporate dividends of Spanish origin must be included in the taxable income of the recipient company. The withholding tax gives entitlement to a tax credit (see 1.1).

The tax credit may in some cases be increased to 100 %.

Intercorporate dividends of foreign origin must be included in full in the company's taxable income. A credit for "tax paid abroad" is then granted against the tax collected abroad.

(b) Dividends paid

Distributed dividends are not deductible from taxable income.

1.5 Tax treatment of losses and gains

(a) All losses affecting taxable income may be carried forward to the five subsequent tax years.

(b) Capital gains are assimilated with ordinary profits.

1.6 Tax treatment of investment

(a) Normally, the straight-line method of depreciation is applied. The maximum annual rate and the asset's useful life are fixed by law. For new assets with a useful life of more than three years, declining-balance depreciation may be applied.

Freedom of depreciation is no longer authorized except in special cases (e.g. industries of preferential interest).

(b) Industries deemed to be "of preferential interest" are exempt from the normal depreciation rules for a period of five years (commencing from the first year of commercial operations).

(c) Tax credit for investments

(i) For 1986 a tax credit of 15 % may be obtained for:

- investments in new fixed assets;
- export-related investments.

The tax credit for investments is limited to: 25 % of the net tax liability (tax liability less deductions for dividends less double taxation relief less bonifications).

(ii) Another tax credit of 500.000 pesetas in respect of each new employee in the payroll, any amount in excess of 25 % of the net tax liability to be deducted in the subsequent four years.

1.7 Tax treatment of inventories

Inventory is valued at purchase cost or market price, whichever is the lower.

The following valuation methods are authorized:

- if the inventory has been drawn up, the full cost and proportional cost methods;

- if the individual purchases have not been identified, the LIFO and FIFO methods.

2. Tax Treatment of Expenditures Directly Linked to Activities Which May Lead to Innovation

2.1 R & D expenditure

(a) Current

Can be depreciated as intangible assets, subject to compliance with the conditions for the 15 % tax credit provided that such expenditures are capitalized.

(b) Capital

Treated in accordance with the ordinary law.

2.2 Expenditure on patents

No special provisions.

2.3 Expenditure on plant and equipment incorporating new technology

Treated as ordinary investments (see 1.6).

2.4 Expenditure on technology purchases

(a) Fees and royalties are deductible if they derive from a contractual obligation.

(b) Patents can be depreciated over the duration of their use.

2.5 Marketing expenditure for the introduction of new technologies

Treated as ordinary expenditures.

They may, however, qualify for a 15 % tax credit.

2.6 Contributions and donations to scientific institutions

As a rule donations are not deductible, other than those to charitable institutions.

3. Treatment of Receipts from the Sale of Technology

No special treatment.

4. Treatment of SMEs, Venture Capital Companies and Non-profit Institutions

4.1 SMEs - New enterprises

No special provisions.

4.2 Venture capital

No special provisions.

4.3 Non-profit scientific institutions

In principle exempt from corporate profits tax.

SWEDEN

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Corporate income is taxed in the hands of the corporation. Profits distributed are taxed once more in the hands of the recipient.

The "double taxation" of corporation income is somewhat modified by a special legislation deduction for certain dividends paid.

For shares paid up and registered after the end of 1978, dividends of up to 10 % a year on shares are deductible for 20 years.

The deduction is not available on shares held by a Swedish holding if it holds more than 50 % of the voting power of the distributing company, or if the receiving company holds more than 25 % of the voting power and is not liable to tax on the dividends.

1.2 Tax rate structure

The state income tax rate for corporations is at present 52 % of the taxable income for state tax purpose.

For financial years commencing on January 1, 1985 or thereafter the separate municipal tax charges is abolished for inter alia limited liability companies and branches of foreign corporations.

A profit sharing tax, amounting to 20 % is levied on all profits over a certain level made by Swedish limited companies, Swedish cooperative societies, Swedish savings banks and Swedish mutual non-life insurance companies as of January 1, 1984.

The profit sharing base is the taxable income for national income tax purposes after being adjusted. Certain fiscal deduction made for consolidation purposes are brought back. In addition to this, adjustments are made to offset the effects of inflation. Deduction is then granted for a tax-free amount.

The profit sharing tax assessed for one year is deductible when computing the taxable income for ordinary income tax purposes in the following year.

1.3 Treatment of interest receipts and payments

(a) Interest received is treated generally as ordinary income.

(b) Interest paid is a deductible cost.

Under conditions, an extra interest deduction is offered to the taxpayer who is financing export credits. The deduction will be the difference between the interest paid and the interest charged up to a maximum of 4 % over the outstanding amount. This deduction is granted each year up to the last yearly payment.

If the exporter cannot make use of the deduction he can instead apply for interest compensation.

1.4 Treatment of dividend receipts and payments

(a) Under certain conditions (to hold 25 % or more of the voting power, to have organizational or operational relationship) dividends received from a Swedish limited liability company by other Swedish limited liability companies are not taxed.

The exemption is available to holding companies which distribute at least 100 % of the dividend received.

Dividends received from foreign companies are treated as ordinary income.

(b) Swedish companies are granted the right to deduct dividends paid on newly issued shares financed by cash:

- the maximum deduction allowed is 10 % of the paid- in amount;

- the deduction is granted for a maximum of 20 years. The total amount of deductions must not exceed the initial amount paid for the shares.

(c) As from the 1984 assessment, a general deduction is granted to dividends paid by companies not quoted on the stock exchange. The deduction is granted for 70 % of dividends which are to be paid during the fiscal year. It must not exceed 15 % of the share capital of Skr. 700.000.

1.5 Treatment of gains and losses

(a) Losses from any income source except casual economic activities, can be offset against profits from any other income source, e.g. "capital" source losses can be offset against "business" source profits. For corporate income tax purposes this can be done wherever the source is located in Sweden.

A corporate loss resulting for one year may normally be carried forward to be utilized against any taxable profits arising within the following ten fiscal years.

Corporations are no longer subject to municipal income tax. However old municipal tax losses can be utilized; deduction can be claimed for 50 % of the total of losses in all municipalities and the loss for state tax purposes in any one year.

(b) Capital gains or losses on fixed assets are all taken into consideration when determining the taxable business income. However the sale of immovable property and the sale of equity securities are not treated as ordinary property and the sale of equity securities are not treated as ordinary business income. Gains and losses are computed according to special rules and then included with and taxed at the same rates as income from business.

Computed capital losses may only be deducted from capital gains during the same year or any of the following six years.

1.6 Treatment of investment expenditures

(a) Tangible capital assets (machinery and equipment) may be depreciated according to either book depreciation or a simplified method of declining-balance.

(i) Book depreciation

The main rule is that the enterprise is allowed to depreciate by the declining-balance method up to 30 % of the total of the book value of the assets. In addition, a supplementary rule provides that the stock of machinery and equipment is broken down by year of acquisition and to each asset a 20 % per annum straight-line depreciation is applied. If the resulting evaluation is lower than the book value as calculated under the main rules the lower amount may be taken as value of the assets on the balance sheet. Both methods are optional.

(ii) Simplified method

In this case the enterprise is allowed to depreciate up to 25 % of the value at the beginning of the year.

Equipment, machines, etc... which are subject to extensive wear and tear (useful life not exceeding three years) or of minor value may be depreciated immediately.

(b) Investment reserve

The investment reserve system permits a company or an economic association each year at its own discretion to set aside up to 50 % of its pre-tax profits as a reserve for future investment. To gain taxable deduction for the amount set aside corporations will have to place 75 % of the amount in the investment reserve. This amount may be used either with permission of the government or as "free sector " use.

(i) Free sector use

30 % of the money deposited within the National Bank of Sweden may after 5 years be withdrawn without permission. The same amount may be withdrawn of what is left of the money deposited after withdrawals made in accordance with the release granted by government or the Labour Board.

(ii) Release by government permission

This release may be either "general" or "special" according to cases. The investment reserve should be used for purposes precised by Decree.

(iii) Investment allowances

An allowance is granted to stimulate the use of the investment reserve. This allowance is a deduction from taxable income equal to 10 % of the amount invested in buildings, and 20 % of the amount invested in machinery and equipment in any given year. This allowance is not granted for the free sector use of the reserve.

A second type of investment allowance has been introduced on different occasions for stabilisation policy purposes and concerns deductions for investments in building and equipment which are granted for limited periods of time. At present there is no deduction for acquisition of equipment in connection with the accounting for VAT. The deduction from taxable income for investments in buildings only concerns expenses relating to the period November 1, 1980 - March 31, 1984. Deduction is granted the fiscal year when the investment is completed.

These deductions have no influence on the depreciation base.

When the investment is subsidized the base for depreciation shall be reduced by the amount of the subsidy.

1.7 Treatment of inventories

Inventories are to be evaluated at acquisition or replacement cost, whichever is the lower. Acquisition cost is to be determined on a FIFO basis.

The tax law also provides for appropriation to a certain reserve based upon the inventory value.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Cost for such research and development that has been or can be of value for the company are deductible.

(b) Capital costs for R & D follow the normal depreciation rules.

By law of December 15, 1983 the fiscal incentive to stimulate R & D was abolished. The additional deduction introduced in 1973 granted to taxpayer for the state income tax in no longer granted.

Swedish limited liability companies which for some reason (e.g. an extended financial year) did not file a tax return during 1986 and which have book profits in excess of SEK 500 000 before tax must deposit, if not being assessed for taxes 1986, an amount corresponding to 10 % of the entire profit on a blocked non-interest bearing bank account for five years. The blocked amounts may be withdrawn to cover future expenses for the education of employees or for research and development activities. The deposit must be made not later than the last day of filing the income tax return. An appropriation to a reserve in the books of an amount corresponding to the deposited amount is deductible for income tax purposes.

2.2 Expenditures to apply for a patent

No special provisions: service fees are deductible.

2.3 Expenditures for plant and equipment embodying new technology

(a) Current costs of introducing the new technology are deductible in the year incurred.

(b) Capital costs are treated in the same way as other investment expenditures (see 1.6 above).

2.4 Expenditures for purchase of technology

(a) Current costs (royalties) for the use of another's technology are deductible in the year incurred.

(b) Purchase of all substantial rights to an intangible asset with limited useful life (e.g. a patent) may be amortized in the same way as machinery and equipment.

2.5 Marketing expenditures for introduction of new technology

Marketing expenditures are treated in the same way as other current costs - deductible in the year incurred.

2.6 Contributions, donations or grants to non-profit scientific organizations

Treated as ordinary R & D expenditures.

3. Corporation Tax Treatment of Receipts from Sale of Technology

No special treatment.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

4.1 New and small business

No special tax treatment.

4.2 New ventures

No special tax treatment.

4.3 Non-profit scientific organizations

Income of qualified non-profit scientific organizations is generally tax-exempt, provided it does not derive from unrelated business activities.

SWITZERLAND

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

Personal and corporate income taxes are not integrated, i.e. there is no relief from double taxation of corporate profits distributed.

1.2 Tax rate structure

(a) Direct Federal income tax rates

Rates range from 3.63 to 9.8 %, depending on the company's performance expressed in terms of the ratio of profits to invested capital (equity).

The rates applicable since January 1, 1975 are as follows:

- 3.63 % on total taxable profits, plus
- 3.63 % on that portion of taxable profits in excess of 4 % of net worth, plus
- 4.84 % on that portion of taxable profits in excess of 8 % of net worth.

The maximum rate is limited to 9.8 % of the taxable profits. It is applicable when the total taxable profits are equal to or greater than 23.147 % of net worth.

(b) Cantonal and communal tax rates

Each canton has a different rate structure. In most of them the rate is determined by reference to profits expressed as a percentage of net worth. It is applied to the total taxable profit. Some cantons provide for a progressive rate, and most apply minimum and maximum rates. Minimum and maximum rates respectively range between 1.5 and 28.5 %.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are treated as ordinary income.

(b) Interest payments are treated as current operational costs and are tax deductible, if made at market terms.

1.4 Treatment of dividend receipts and payments

(a) Dividends received

Dividends received are usually included in taxable income. The receipt of dividend income by a resident company from a "qualifying participation" in another company (i.e., a holding of shares representing at least 20 % of the registered capital or having a value of at least SF 2 million) is given a proportional reduction on direct federal income tax (DFT), in proportion to the ratio that the qualified dividend income bears to the gross income of the company. Many cantons apply similar rules. In others, tax treatment is more favourable.

(b) Dividends paid

Dividends paid, in whatever form, are not tax deductible.

1.5 Treatment of gains and losses

(a) Losses incurred in the normal course of business are tax deductible.

For the purposes of DFT, a loss may be carried forward for six years. The treatment of losses in the cantons varies widely.

(b) For Federal tax purposes, capital gains are treated as ordinary income. However, capital gains immediately reinvested in the business may in certain instances be exempted from tax.

Most cantons apply similar rules.

1.6 Treatment of investment expenditures

The method normally applied is the diminishing-balance method. The taxpayer may, however, opt for the straight-line method.

(a) Depreciation rates

Normal federal rates (on cost):

1. Buildings - Rental dwellings	1 %
- Office buildings	2 %
- Restaurants and hotels	3 %
- Industrial buildings	4 %
2. Water pipelines, storage tanks and portable constructions on leased property	10 %
3. Office furniture and equipment, industrial furniture	12.5 %
4. Most manufacturing machinery	15 %
5. Intangible assets - machinery subject to abnormal use or environmental conditions, motor vehicles, large tools	20 %
6. Hand tools and smaller equipment	22.5 %

(b) Cantonal rates

(i) Cantons are free to establish their own depreciation rates. But the cantonal rates ordinarily do not differ greatly from the Federal rates.

(ii) An accelerated depreciation allowance of 50 % for the first two years is granted at Federal and cantonal levels for investments in energy saving and water pollution abatement.

1.7 Treatment of inventories

In calculating their profits, companies must value their stocks at cost price, or at lower market price. A general reserve may be set up in order to offset any later decrease in value. This reserve must not exceed one-third of the value of the stocks concerned.

In inventorying stocks, either the LIFO (last in - first out) or FIFO (first in - first out) method may be used.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

R & D-related operating costs are immediately deductible.

2.2 Expenditures to apply for a patent

Generally speaking, the costs of obtaining a patent may either be deducted immediately or capitalized and amortized at 20 %.

2.3 Expenditures on plant and equipment embodying new technology

No special treatment. Treated as ordinary investment.

2.4 Expenditures on purchase of technology

Royalties are deductible as business expenses to the extent that they are necessary to the operation of the company.

2.5 Marketing expenditures on introduction of new technology

Marketing expenditures are immediately deductible.

2.6 Contributions, donations or grants to non-profit scientific organizations

Contributions are deductible, provided they cannot be utilized otherwise than for the proper purpose of such an organization.

3. <u>Corporation Tax Treatment of Receipts from Sale of Technology</u>

Treated as ordinary income.

4. <u>Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations</u>

4.1 New and small businesses

A tax holiday for a varying number of years can be obtained at cantonal level for a new enterprise contributing to the cantonal industrial development (this does not apply in the cantons of Zurich, Zug, Basel-Stadt and Aargau).

4.2 New ventures

No special treatment.

4.3 Non-profit scientific organizations

The income of purely public utility scientific organizations is exempt from DFT and generally also from cantonal tax.

TURKEY

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) The personal and corporation income taxes are not integrated.

(b) Corporation profits are therefore subject to double taxation, once at the corporate level and again upon dividend distribution to individual shareholders.

1.2 Tax rate structure

(a) Tax on corporate income is 46 %. Defense fund premiums are also payable and are computed at 3 % of corporate taxes. This results in an effective tax rate of 47.38 %.

(b) Capital gains and losses are included in the determination of corporation income.

1.3 Treatment of interest receipts and payments

(a) Interest receipts are generally treated as ordinary income.

(b) Interest payments are generally deductible.

1.4 Treatment of dividend receipts and payments

(a) Income from equity holdings in other Turkish corporations is exempt from corporation tax in the hands of the receiving corporation.

(b) Dividends paid are generally not tax deductible.

1.5 Treatment of gains and losses

(a) Net operating losses may be carried forward for five years. There are no loss carry-backs.

1.6 Treatment of investment expenditures

(a) For assets acquired before December 31, 1982, tangible fixed assets are depreciated over their estimated useful lives. Standardized rates are published by the Ministry of Finance, but the Tax authorities have the power to accept higher rates if these can be justified in special circumstances. The taxpayer may choose either the straight-line or the declining-balance method. The declining-balance rate is twice the straight-line rate but is limited to a maximum of 25 %. With effect from January 1, 1983, taxpayers using the straight-line method may apply any rate of depreciation up to 25 % (declining-balance method up to 50 %). Exceptionally, the Ministry of Finance can set higher depreciation rates for land and buildings and fixed assets than the rates given in the preceding sentence. Furthermore, in compulsory cases, the Tax authorities may determine higher depreciation rates. The taxpayer may change the option from declining-balance to straight-line (but not vice versa) at any time during the life of the asset.

(b) Intangible assets acquired before December 31, 1982, are depreciated straight-line over their estimated useful lives if these are objectively determinable. If this is not the case, the maximum annual depreciation rate is 20 % of cost. Intangible assets are subject to the same depreciation rates as tangible fixed assets.

(c) Natural resources (mainly oil and minerals) are the property of the state and therefore cannot be acquired or depreciated by private taxpayers. However, license values are subject to depreciation at the rates determined on individual application jointly by the Ministry of Finance and Customs and the Ministry of Industry and Trade for each natural resource. Mine and oil well installations are depreciated as tangible fixed assets, and any remaining book value may be written off at any time that extraction ceases for economic reasons. The costs of dry or unsuccessful exploratory drillings are expensed as incurred.

(d) Profits or losses on disposal of fixed assets (i.e., the difference between the proceeds and the written-down value) are included in taxation income in the year of disposal.

(e) The tax and book depreciation must be identical.

1.7 Treatment of inventories

Specific inventory items may be written down, but only if their market value (i.e., acquisition replacement cost) is at least 10 % lower than their original cost. Effectively, this limits the possibilities of writing down inventories with the tax effect to the categories of raw materials, and to bought-in parts and assemblies.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

The only incentive available is the one provided by paragraph 6 of article 14 of the Corporation Tax Law which stipulates the following:

"Companies may postpone the payment of 20 % of their corporation tax liability for 3 years. This sum may not exceed their actual R & D expenditures for that year. No interest will be accrued on the amount postponed.

The amount postponed will be collected together with the relevant corporation tax instalments of the following three years."

The above provision has gone into effect as of January 1, 1986.

According to article 4-B of the Corporation Tax Communiqué no. 31, those taxpayers who would like to benefit from this facility have to obtain prior approval of the ministry of Finance and the R & D has to be directed towards new technology.

2.2 Expenditures to apply for a patent

See 1.6(b).

UNITED KINGDOM

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

The United Kingdom has a "partial imputation" system of CT, under which CT paid by a company is deemed to cover the personal income tax liability (at the "basic rate" of IT only) of shareholders on dividends received. The mechanism is as follows:

(a) On paying a dividend, the company also makes an advance payment of Corporation Tax (ACT) equivalent to personal income tax at the basic rate (29 % in the financial year 1986 (i.e. year ended March 31, 1987) on the gross amount of the dividend plus ACT (i.e. on what are called "franked payments").

(b) Dividends received by shareholders are similarly grossed up at the basic rate of IT and tax is due on the gross amount (which is referred to as "franked investment income" when the shareholder is a company); but the dividend carries a tax credit equal to the ACT paid by the company. The effect is that shareholders liable only to the basic rate of IT receive their dividends net, no further tax being payable.

(c) ACT paid by a company in an accounting period may subsequently be credited against the CT liability on income earned in that accounting period, to the extent that the ACT does not exceed the amount which would have been paid if the company's taxable income had been fully distributed as a "franked payment". Unused ACT may be carried back or carried forward until relieved against CT liability.

1.2 Tax rate structure

Graduated rate structure in financial year 1986

- marginal and average rate of 29 % on income up to £100,000;

- marginal rate of 36.5 % on income between £100,000 and £500,000;

- marginal and average rate of 35 % on income over £500,000.

The effective rate on capital gains (net of capital losses) is generally 30 %; this is achieved by charging the CT rate on the fraction 30/35 of such net gains.

1.3 Treatment of interest receipts and payments

Interest receipts are chargeable to CT as income, and interest payments are in general deductible.

1.4 Treatment of dividend receipts and payments

See 1.1 above. Franked investment income received by one company from another may be passed to the former's shareholders without any further liability to CT or ACT arising.

1.5 Treatment of income and capital losses

Trading losses may be set against other income (e.g. annual interest) or net chargeable gains in the same accounting period, against income or gains of the immediately preceding year, or against profits of future periods from the same trade, without time limit. Trading losses arising in circumstances where first year allowances arose in previous financial years (1.6 below) may also be carried back for 3 preceding years; trading losses arising from prior years' stock relief (1.7 below) may be carried forward only for 6 years.

Losses arising from annual "charges" such as interest may be set against other profits of the same accounting period or carried forward, as a trading loss, without time limit.

Net capital losses may only be set against net gains in future periods, without time limit.

1.6 Treatment of investment expenditures

Certain investment expenditures qualify for "capital allowances", which take the following main form:

(a) An annual "writing down allowance" (WDA) on the expenditure:

The principal allowances are as follows:

Plant and machinery:	25 % (WDA)
Industrial buildings:	generally 4 % (straight-line) WDA
Agricultural buildings:	4 % (straight-line) WDA
Hotels	4 % (straight-line) WDA
Other commercial buildings:	generally, no allowances

(b) In designated "enterprise zones" the following allowances may be claimed:

Industrial buildings, hotels other commercial buildings	generally 100 % initial allowance; 25 % WDA (straight-line) to extent full IA not claimed.

Some other capital allowances are mentioned in paragraphs 2.1, 2.2 and 2.4 below.

These allowances are treated as trading expenses for CT purposes. Investment grants (other than Regional Development Grants) are deducted in computing the expenditure on which allowances are given.

1.7 Stock relief

The provisions relating to stock relief were repealed during 1984. However, any unutilized losses attributable to such relief are available for carry-forward for only 6 years.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

Both current and capital (excluding land) costs of scientific research and development are fully deductible as trading expenses in the period in which they are incurred. (Testing of standards and quality, market and sales research etc. do not qualify as "scientific research" but current costs of such activities are deductible under the normal rules when incurred wholly and exclusively for the purposes of the company's trade).

2.2 Expenditure to apply for a patent

A deduction is allowed for expenses incurred in developing a patented invention and for fees and expenses incurred in obtaining the grant of a patent. Where a trade is carried on and the patent is to be used in that trade, the allowance is given as a deduction in charging trade profits. In other cases, an allowance is only available against patent income.

2.3 Expenditures on plant and equipment embodying new technology

No special provisions; such expenditures qualify for 25 % WDA in the normal way (1.6 above). Associated current costs of incorporating the new technology into company operations are similarly deductible in the period incurred, in the normal way.

2.4 Expenditure for purchase of technology

For purchases of patent rights a 25 % WDA is given. In the case of a trading company this allowance is treated as a trading expense; for a non-trading company it can be set only against income from patents. Payments such as royalties are treated (like annual interest) as "charges" rather than trading expenses but as such are deductible from income in the period incurred.

2.5 Marketing expenditures for introduction of new technology

Deductible in the period incurred.

2.6 Contributions, donations or grants to non-profit scientific organizations

When contributions are paid to charities and scientific research associations under a covenant for a period exceeding 3 years they are treated as annual "charges" and as such are deductible. Other donations to scientific research associations may be deductible if they are incurred wholly and exclusively for the purpose of a company's trade.

A "non-close" company (see below) may make a payment to a charity or scientific research association which, provided it is subject to a withholding of IT at the basic rate and is no greater than 3 % of dividends paid during that accounting period, is, on making a claim, tax deductible as a "charge".

3. <u>Corporation Tax Treatment of Receipts from Sale of Technology</u>

Income derived from sale or license of technology and royalties are included in taxable income. A sale of know-how independently of the trade in which it was used is also included in taxable income, as a trading receipt.

Capital receipts from the sale of patent rights are treated as income. They can either be charged in one sum or spread evenly over the period of six years. Other capital sums derived from the sale of technology are subject to the normal rules for capital gains (1.2 above).

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Scientific Research Organizations

4.1 Small business

Companies with small profits pay a reduced rate of CT (1.2 above).

Special rules apply to "close companies" generally those under the control of five or fewer participating shareholders. Under these rules a part of the company's undistributed income (other than the trading income of trading companies) may in certain circumtances be "apportioned" among the participators, who are then liable to individual income tax as if they had received it.

4.2 Venture capital

Investment companies and individuals who incur a loss on the disposal of ordinary shares in unquoted trading companies to which they have subscribed may set that loss against income instead of against capital gains.

Under the Business Expansion Scheme introduced in 1983 as a successor to the Business Start-Up Scheme, an individual outside investor who subscribes for ordinary shares in a wide range of unquoted trading companies may set that investment against his taxable income for the year (gaining relief at his marginal rate of up to 60 %) subject to an annual limit of £40,000. Relief is kept in full provided the shares are kept for 5 years. (This relief is also available for shares brought by an approved investment fund acting as the individual's nominee).

4.3 Non-profit scientific organizations

The income and gains of scientific research associations are generally exempt from CT.

UNITED STATES

(as amended by the Tax Reform Act of 1986)

1. General Features of Corporation Tax

1.1 Relationship to personal income tax

(a) The personal and corporation income taxes are not "integrated".

(b) Corporate profits are subject to "double taxation", once at the corporate level and again upon dividend distribution to the individual shareholder.

(c) There are exceptions for certain corporations (see part 4 below).

1.2 Tax rate structure

(a) Effective for taxable years beginning on or after July 1, 1987 corporation taxable income is subject to a three-step graduated rate structure:

- 15 % on the first $50,000
- 25 % on the following $25,000
- 34 % on taxable income over $75,000

The benefits of the lower rates are phased out for companies with a taxable income of more than $100,000. This is done by imposing an additional 5 % tax on taxable income between $100,000 and $335,000. Income in taxable years beginning before July 1, 1987 and including that date are subject to specific blended rates.

(b) Capital gains are subject to the same rates as ordinary income.

(c) A corporation may also be subject to a minimum tax (if it claims substantial tax preference items) or to an accumulated earnings tax (if it has substantial non-distributed income).

1.3 Treatment of interest receipts and payments

(a) Interest receipts are generally treated as ordinary income.

(b) Interest payments are generally tax deductible.

1.4 Treatment of dividend receipts and payments

(a) Dividends received are in general included in taxable income; however, a corporation is entitled to a deduction for 80 % of dividends received from a domestic taxable corporation (100 % for dividends received from domestic affiliates (80 % or more ownership)).

(b) Dividends paid are generally not tax deductible.

1.5 Treatment of gains and losses

(a) A net operating loss is the excess of deductions over gross income in a particular year. A net operating loss deduction may be carried back 3 years and forward 15 years as an offset against ordinary income.

(b) Gain or loss on the distribution of a capital asset is classified as a capital gain or loss. Gains and losses are netted against each other to determine the net gain or loss.

(c) A net capital gain is taxed as ordinary income (see 1.2(b)).

(d) A net capital loss may not be deducted from ordinary income. It may only offset net capital gains by being carried back 3 years and forward 5 years.

1.6 Treatment of investment expenditures (property placed in service after December 31, 1986)

(a) Under the new "accelerated cost recovery system" the tax code classified tangible property into eight categories: property that can be written off over 3, 5, 7, 10, 15, 20, 27.5 and 31.5 years. The 3-year category includes property with a present class life (or "ADR midpoint life") of four years or less, except automobiles and light trucks; the 5-year category includes property with an ADR midpoint life of more than four years and less than ten years, including automobiles, light trucks, computer equipment and assets used in research and experimentation, oil and gas, and construction. The other classifications are as follows:

7-year category: property with ADR midpoint life of 10 years or more and less than 16 years (generally office furniture and fixtures and most other machinery and equipment);

10-year category: property with an ADR midpoint life of 16 years or more and less than 20 years;

15-year category: property with an ADR midpoint life of 20 years or more and less than 25 years;

20-year category: property with an ADR midpoint life of 25 years or more (not including real property with an ADR midpoint life of 27.5 years and more);

27.5-year category: residential rental property;

31.5-year category: non-residential real property with a life of 27.5 years or more.

Taxpayers may elect a longer, but not a shorter, recovery period.

(b) For property included in the three-, five-, seven-, and ten-year categories the straight-line method of depreciation may be used. Alternatively, the double declining-balance method for the early recovery years with a switch to the straight-line method in later years may be used for these categories.

(c) For property in the fifteen- and twenty-year categories the straight-line method of depreciation may be used. Alternatively the 150 % declining-balance method with a switch to the straight-line method may be used.

(d) For real property (residential rental property and other real property) only the straight-line method of depreciation may be used.

(e) Although the general investment tax credit has been repealed for property placed in service after December 31, 1985, there are still special tax credits for specific investment activities (e.g. the energy and historic structure investment credits).

(f) Intangible property with a limited useful life (such as patents and copyrights) may be amortized over its useful life, using the straight-line method.

1.7 Treatment of inventories

(a) Acceptable methods of accounting for inventory include: specific identification of items in inventory, first-in first-out (FIFO), and last-in first-out (LIFO).

(b) If FIFO is adopted, either cost or the lower of cost or market may be used as the base.

(c) If LIFO is adopted, cost must be used as the base. LIFO may be applied on an item-by-item basis. Alternatively, the total dollar-value of beginning and ending inventories may be computed at base-year prices (i.e. prices for the first year that LIFO is used); any dollar-value increase is then converted to current year prices through use of published government indexes. A simplified dollar-value LIFO method may be elected by certain small businesses.

2. Corporation Tax Treatment of Innovation Expenditures

2.1 R & D expenditures

(a) Current costs of R & D (including development of an experimental or pilot model, a plan process, a product, a formula, an invention, or similar property) may be deducted in the year incurred or capitalized and amortized over 5 or more years.

(b) Capital costs of R & D are treated in the same way as other investment expenditures (see part 1.6 above).

(c) In addition, current costs of R & D are eligible for a 20 % tax credit on the increase in qualifying expenses over the average qualifying expense for the 3 prior years. The credit expires after 1988. (Alternatively, there is a 50 % tax credit for qualifying clinical testing expenses for development of certain drugs to treat rare diseases or conditions. That credit expires after 1990).

(d) Treasury regulations require part of U.S. multinationals' domestic R & D expenditures to be apportioned against the firm's foreign-source (rather than domestic) income for purposes of computing the foreign tax credit (this can cause the firm's domestic tax liability to rise with no compensating adjustment in foreign tax liability). In 1981 this regulation was suspended. However, for taxable years beginning after August 1, 1986 and on or before August 1, 1987, 50 % of U.S.-incurred R & D expenses are to be allocated automatically to domestic income and the remaining 50 % on the basis of gross sales or gross income. For taxable years beginning after August 1, 1987 the suspended regulation will take effect.

2.2 Expenditures to apply for a patent

Cost of obtaining a patent, such as attorney's fees expended in making and perfecting a patent application, may be deducted in the year incurred or capitalized and amortized over 5 or more years. (Costs of acquiring another's patent are discussed in part 2.4 below).

2.3 Expenditures for plant and equipment embodying new technology

(a) Capital costs are treated in the same way as other investment expenditures (see part 1.6 above).

(b) Current costs of incorporating the new technology into company operations are deductible in the year incurred.

2.4 Expenditures for purchase of technology

(a) Current costs (e.g. royalties) for use of another's technology are deductible in the year incurred.

(b) Purchase of all substantial rights to an intangible asset with a limited useful life (e.g. a patent) may be amortized over the remaining useful life using the straight-line method.

(c) Current costs of incorporating new technology into company operations are deductible in the year incurred.

2.5 Marketing expenditures for introduction of new technology

Marketing expenditures are treated in the same way as other current costs - deductible in the year incurred.

2.6 Contributions, donations or grants to non-profit scientific organizations

(a) In general, corporate charitable contributions to U.S. non-profit organizations (scientific or not) are tax deductible up to a limit of 10 % of the corporation's taxable income. Contributions in excess of the limit may be carried forward 5 years.

(b) Corporate payments for contract research generally, and grants for basic research at universities in particular, are tax deductible; 65 % of such expenditures are also eligible for the R & D credit (see part 2.1 above).

(c) Manufacturers' contributions of new R & D equipment to universities and certain tax-exempt scientific research organizations for research or research training receive a tax deduction essentially equal to cost plus half the difference between cost and fair market value, but not to exceed twice cost (note that in general charitable donations of property are deducted essentially at cost).

3. Corporation Tax Treatment of Receipts from Sale of Technology

(a) Corporation receipts from the sale of technology are treated in the same way as other business receipts; they are subject to the graduated tax rates (see part 1.2 above) regardless of whether they constitute ordinary income (e.g. royalties from a license to use the corporation's technology), or a capital gain (e.g. sale of all substantial rights to a patent).

(b) Individual inventors can treat proceeds from the sale of all substantial rights to a patent, or an undivided interest therein, as a long-term capital gain even if the patent was not held for more than one year. All gains are taxed at regular rates.

4. Corporation Tax Treatment of Small Business, Venture Capital Firms and Non-profit Research Organizations

4.1 New and small business

(a) Organizational expenditures for a new business, such as expense of temporary directors and organizational meetings, state fees for incorporation privileges, and accounting and legal service costs incident to organization may in general be deducted in the year incurred or amortized over 5 or more years. The option to amortize is also generally available for costs of investigating the creation or acquisition of an active trade or business or in creating such a business.

(b) Small businesses meeting certain requirements may elect to be treated as "Subchapter S corporations". This election permits incorporation without incurring income tax at the corporate level (with some exceptions). Items of income, deduction, loss, and credits of the corporation pass through to and retain their character in the hands of shareholders.

(c) Privately-owned investment companies meeting certain requirements may qualify as "small business investment companies" (SBICs). Their purpose is to provide equity capital and long-term loans to small business. Tax advantages of SBICs include:

(i) a dividends received deduction of 100 % for dividends received from other taxable domestic corporations; and

(ii) ordinary-loss rather than capital-loss treatment is available for a loss on the disposition of certain stock a "small business concern", but a gain is treated as a capital gain. In addition, a shareholder's loss on the disposition of SBIC stock is treated as an ordinary loss, but a gain is treated as a capital gain.

(d) Similar ordinary-loss treatment is available to individual taxpayers for certain losses on the disposition of "small business stock" ("Section 1244 stock"), but a gain is treated as a capital gain (taxed at the same rates as ordinary income, see 1.2(b)).

4.2 New ventures

(a) There is no special tax treatment for new technology-based firms.

(b) The tax code does provide favourable treatment for "regulated investment companies" of which "venture capital companies" are a special case. Specific qualification requirements for a venture capital company include certification by the Securities and Exchange Commission that it is principally engaged in furnishing capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. The major tax benefit of a regulated investment company is that the company can avoid tax if it distributes all its income.

4.3 Non-profit scientific organizations

(a) Income of qualifed non-profit organizations (scientific or not) is generally tax-exempt, provided it does not derive from unrelated business activity.

(b) Certain tax-exempt organizations, such as private non-profit hospitals and educational institutions, may obtain tax-free financing through the issue of qualifying tax-exempt bonds.

This summary reflects the amendments introduced by the Tax Reform Bill of 1986 which will generally become effective as of January 1, 1987. Specific transitional provisions allowing continuous treatment under the old law or phasing in the new rules are generally omitted.