COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 218 final

Brussels, 28 april 1983

TAX AND FINANCIAL MEASURES IN FAVOUR OF INVESTMENT

(Communication from the Commission to the Council)

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1. Introduction

At its meeting on 15 November 1982, the Council approved the procedures proposed by the Commission in its Communication COM(82) 641; it agreed that the Commission would continue to assess the tax and financial measures introduced to help investment in the Member States and would submit any conclusions for consideration by the Council at one of its meetings in the first half of 1983; the European Council of 3 and 4 December 1982 confirmed the Council's conclusions.

This Communication sets out the results of an examination of existing measures in the Member States designed to increase the resources of enterprises available for investment by:

- increasing self-financing margins and
- channelling a larger proportion of savings into the financing of productive investment.

2. The case for measures to help increase the resources available for investment

As a result of a prolonged period of high inflation and because of insufficient adjustment to structural changes, the productive system of the European economies eventually deteriorated. This is reflected:

(i) in losses of competitiveness for certain industries, branches and products;
(ii) in inadequate market shares for new high-technology products;
(iii) in an imbalance in the financial structures of enterprises;
(iv) in a large number of business failures, some of them involving major companies.

On several occasions, and in particular in its June Communication on the problem of investment (COM(82) 365), the Commission has stated that the restoration of a climate more favourable to business investment depends on the existence of a number of macro-economic conditions which will:

- ensure greater security of the international environment and
- increase the stability of the economic framework within the Community.

Any progress in these areas depends chiefly on national macro-economic policies, on coordinating them within the Community and on closer international cooperation.

Nevertheless, in the opinion of the Commission , specific structural measures to improve business taxation and financing may be a significant aspect of the required overall strategy, the macro-economic components of which were defined in the Commission Communication to the European Council in March. This is because:

- the macro-economic room for manoeuvre is still limited in certain Community countries;
- there is an urgent need to eliminate as many obstacles as possible which may represent bottlenecks not only in conditions of slow growth, but also in the event of a significant improvement in macro-economic conditions;
- the potential impact of such measures in terms of improving the general investment climate and business confidence is substantial;
- it is necessary to reduce certain burdens on productive activity, since the level of most production costs will inevitably remain higher in the Community than in some of its trading partners.

If any specific measure to stimulate investment is to be effective, its introduction must not cause a significant net deterioration in the general macro-economic conditions which influence business behaviour; the repercussions on budget equilibria and interest rates are of particular importance here since they could easily wipe out the beneficial effects of specific stimulatory measures through their effects on investor behaviour.

Bearing this in mind, the Commission considers that any improvement in tax arrangements for investment should avoid adding to budget deficits and should be financed by reducing certain subsidies notably those which, by helping ultimately uncompetitive business to survive, deflect resources from profitable investment.

Action to modernize the financial markets and break down barriers between them, which has made progress in recent years, must also be continued and stepped up; the relevant measures must be designed in a Community context promoting integration along the lines indicated by the Commission in its Communication on financial integration[1].

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[1] See COM(83)207 final.

3. The need to improve both self-financing and external financing through the raising of equity capital

In the Community countries, the financing of business investment differs in the relative reliance on loan capital and shareholders' funds, whether internally generated (self-financing) or raised externally (issue of shares).

Although this situation may be due to some extent to the institutional features of financial markets, the following points are also worth considering:

- a structure of investment financing based primarily on self-financing may mean that established enterprises escape market control as regards resource allocation and management capabilities: however, the financial markets cannot fulfil this role unless they are sufficiently developed and operate in a satisfactorily efficient manner, which is not always the case, particularly in certain Member States;
- access to adequate external funds is a prerequisite for innovation and expansion in certain phases of the life-cycle of enterprises, particularly small and medium-sized businesses. However, access to external finance in the form of equity capital and loan capital normally depends on an adequate flow of self-financing. Low self-financing ratios cannot be sustained indefinitely, because they undermine the possibility of remunerating equity capital and because a high gearing ratio increases the risk for potential lenders;
- in view of the increased risk due to greater uncertainty, and the innovative effort necessary to preserve competitiveness and employment, investment must be financed through an adequate flow of risk capital (self-financing and equity raised externally);
- the scope for financing growth and innovation by borrowing is limited by the present slow-growth situation, by the availability of credit and the level of interest rates, which depend partly on restrictive policies aimed at bringing down inflation, and by the imbalance in the financial structures of enterprises, often characterised by a high gearing ratio.

To sum up, although the possibilities for improving the conditions for medium- to long-term borrowing must not be disregarded, the main focus must be on action on two fronts, self-financing and external financing through the raising of equity capital, so as to help restore sounder financial structures and to permit a faster rate of adjustment to change.

4. Increasing firms' self-financing margins

4.1 Taxation and self-financing

Self-financing capacities depend primarily on profitability, i.e. on the relative movements of prices and production costs, but also on the amount and structure of taxes (including social security contributions) borne by enterprises. Therefore:

- to the extent that depreciation allowances must be based on historic cost[1], taxation does not allow for the effects of inflation and of the acceleration of technical progress on the real value of productive capital, and this gives rise to the taxation of apparent profits.

Although the scope for tax depreciation is not the only aspect of the interrelationship between taxation, inflation and profits, it is the most important from the point of view of investment policy. According to some estimations, in the Federal Republic of Germany, where inflation has been relatively modest in comparison with the Community average, taxes on the apparent profits resulting from the method of calculating depreciation for wear and tear probably represented over one third of the tax liability of enterprises subject to tax; in Italy, historic-cost depreciation for a sample of manufacturing firms in 1981 was probably under half the amount of replacement-cost depreciation.

- taxation is insufficiently adapted to the requirements of new enterprises and of innovation, in particular high-risk and deferred-profitability innovation. This is a problem which, by definition, cannot be solved by taxing profits less heavily, but other tax measures are possible;
- the burden of taxes not linked to profits (e.g. the "taxe professionnelle" in France, "Gewerbesteuer" in the Federal Republic of Germany; the net wealth tax in the Federal Republic of Germany, Luxembourg, Netherlands and Denmark) weighs more heavily in periods of slow growth and declining profits.

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[1] The Fourth Directive on annual accounts does not advocate a uniform method as regards the relationship between taxation and accounting. Nevertheless, the Directive took account of this problem in a number of respects. First, besides normal value adjustments, exceptional value adjustments are permitted for taxation purposes alone (Article 35(1)(d), Article 39(1)(e)). In addition, the notes on the annual accounts must show the extent to which the calculation of the profit or loss for the financial year has been affected by a valuation of the items which by way of derogation from the valuation principle was made with a view to obtaining tax relief (Article 43(1)(10)).

It is not possible in the context of this document, to present a more detailed analysis of the implications of the burden represented by employers' social security contributions, which in some Member States make up a significant proportion of labour costs and tax revenue (see Table 1: some 29% of total taxes in France, Italy and the Netherlands). Clearly, it is the total cost of labour which influences enterprises' self-financing margins; but at least part of the social security contributions paid by enterprises is used to finance costs (health expenditure for example) which should not weigh mainly on one particular sector of the economy. Consequently, these charges affect the self-financing capacity of enterprises differently in the Member States. As it stressed in its Communication to the Council "Social Security Problems - Points for Consideration" (COM(82) 716 of 17 November 1982), the Commission considers that national measures in this area must be taken in the economic context of the single market, and that the Community as a whole should be able to benefit from the experience of the various Member States.

4.2 Investment incentives

All the Member States use general measures to give direct or indirect encouragement to enterprises to invest; on top of these there are more selective measures (e.g. regional or industry measures). At this stage, we have confined our analysis to general tax incentives.

Essentially, these measures are the reduction of the rate of tax on profit (often they will favour certain categories of enterprises); the reduction of the tax base (in particular through the rules governing depreciation); the deductibility of a percentage of the investment from the taxable profit (e.g. in Belgium, Denmark and Greece); the formation of tax-free reserves (e.g. in Denmark) or the reduction of tax liability in accordance with the investment (tax credit in Luxembourg and the Netherlands; investment payment in the Netherlands, where the portion in excess of the tax liability is paid out; "negative VAT" in Italy).

The following general comments may be made:

- reductions of the tax base are advantageous for profit-making enterprises and if losses can be carried back or forward; the same is true of deductions from taxable profits. Where enterprises are not profit-making, the reduction of charges which are not linked to profits, or tax subsidies, are clearly more attractive.

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This raises the question whether investment should be facilitated irrespective of whether the enterprise is profitable. Such an approach might be justified in the case of new enterprises and innovative enterprises engaged in deferred-profitability activities or in order to get through a difficult cyclical situation without needlessly undermining the productive potential of the economy:

- temporary incentives may prove effective where the object is to accelerate investment spending; but the stability of an environment favourable to investment is essential in order to encourage businesses to invest and innovate;

- the real efficacy of the various incentives depends on the extent to which they represent a definite advantage or merely compensate, to varying degrees, for the effects of inflation on the rebuilding of productive capital.

  . The national tax laws provide for various forms of accelerated depreciation which, although generally presented as an incentive mechanism, in fact also mitigate the effects of rising prices; in France, the Finance Act for 1983 temporarily improved the possibilities of accelerated depreciation (in certain cases, first-year depreciation will go up to 70%);

  . in Ireland and the United Kingdom, the possibility of 100% first-year depreciation enables the effects of inflation on the depreciation of productive capital to be almost fully offset. In order to reduce distortions between industries and enterprises, a 75% initial allowance has recently been introduced for buildings alongside the 100% capital allowances for plant and machinery;

  . other arrangements make it possible to allow for the effects of inflation, either systematically or occasionally: reserves for price increases; the indexation of depreciation allowances (this possibility was introduced in Denmark by the Law of September 1982 on tax depreciation); the revaluation of balance sheets (a law on this subject has just been approved in Italy).

In this area, it is important for the arrangements introduced

. to be simple and transparent;
. not to be ad hoc remedies, introduced piecemeal, but structural elements of taxation.

4.3 Encouraging risk-taking

The analysis of other tax arrangements existing in the Member States which affect self-financing suggest that changes to the rules on the carry-back or

carry-forward of losses could have favourable effects on risk-taking.

- The improvement of these rules, which enable losses to be set against past or future profits, would encourage the establishment and expansion of enterprises and the introduction of new deferred-profitability products and production processes.
  The carry-back of losses may also enable enterprises in temporary difficulties and making losses after a period of profits to finance investment in loss-making years, and may thus have some regulatory effect on the economic cycle;
- another advantage of lengthening the carry-back or carry-forward period is that it helps to lower the risk threshold for the enterprise without necessarily involving losses of tax revenue;
- introducing in all the Member States the possibility of carrying losses back over the two previous financial years and forward indefinitely would bring the relevant tax rules into line with the most favourable general system which exists in the Community (see Table 4);
- the carry-back of losses makes tax revenue more difficult to predict, but in a transitional phase the potential shortfalls caused by an improvement of existing systems might be restricted by initially setting a ceiling, expressed as an absolute amount, on this form of relief.

4.4 Readjusting in the tax burden on enterprises

Generally speaking, and to allow for the slowdown in growth, the structural adjustment of the productive system could be helped by not increasing or even actually decreasing the tax burden on enterprises, in particular the charges not linked to profits.

- In its Communication on Budget Discipline and Economic Convergence (COM(82) 422) of 1 July 1982, the Commission stressed that efforts to reduce the deficits must be concentrated on the area of public expenditure, and that increases in taxation were undesirable because of the high level already reached by the rates of tax and social security contributions;
- more specifically and without prejudging the institutional problem of the financing of local authority expenditure, the local authorities' budget difficulties must not lead to increase the tax burden on the productive sector and have the effect of reducing or wiping out any advantages introduced under general taxation, and of distorting competition between enterprises;

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. certain exemptions from or changes to charges not linked to profits have recently been introduced (e.g. for the business tax in France and the Federal Republic of Germany); further progress in this area is desirable, as are direct or indirect reductions in the net wealth tax which exists in certain Member States; a study might also be made of ways of modifying the Community VAT system so as to reduce the causes of some residual tax having to be borne by enterprises.

5. Channelling savings into the financing of investment

In this area, the objective must be to improve the possible choices so that:

- enterprises are in an optimum position to implement a financial strategy for growth and innovation, based on the guarantee of a stable flow of funds;

- savers can have access to financial assets which, in terms of return and risk, match their investment preferences.

This would allow for a more effective, growth-oriented use of the available savings.

In order to achieve these two objectives, the main focus must be on improving the operation of the capital markets, by eliminating distortions and adapting capital market regulation and taxation in such a way as to bring them into line with the most effective systems inside or outside the Community.

Because of the complexity and variety of rules in the member countries for channelling savings into the financing of investment, this document confines itself to indicating a number of guidelines which, though not detailed in all their implications as regards laws and regulation, form a precise frame of reference recommended by the Commission. This frame of reference is as follows.

5.1 Greater transparency of company accounts

This is essential if the capital markets and the financial institutions are to be effective in performing their role of savings intermediaries.

Without prejudice to the strengthening of national measures in this area, the incorporation into national law of the Directives already approved by the Council, and the rapid adoption of the Commission proposals concerning company accounts should improve the publicity and transparency of company activities throughout the Community.

5.2 Conditions of access by firms to risk capital should be improved so that the prime consideration for enterprises in devising their financial strategies will be the assessment of risk and balance sheet equilibrium.

Easing the double taxation of dividends by means of a tax credit, along the lines of the 1975 proposal for a Directive concerning the harmonization of systems of company taxation, would help to reduce the bias in favour of debt finance which exists in certain Community countries.

Temporary provisions in France and Belgium allow firms under certain conditions partially to deduct dividends on new shares or units from taxable profits: in France, this allowance is granted for ten accounting years from the establishment of the firm or the increase in capital; in Belgium, it is granted on condition that at least 60% of the new capital is used for investment.

The establishment of more favourable conditions for raising risk capital by enterprises must also be achieved by:

- facilitating direct access to risk capital by:
  - broadening the range and reducing the cost of services provided by financial and banking institutions when issuing and placing company shares;
  - simplifying and making more transparent the technical and legal conditions and reducing the costs, particularly the tax costs, associated with the raising of equity capital by listed companies and companies coming to the stock market for the first time;

    in this connection the Commission proposes studying, together with the Member States, the scope for amending the Community system of registration duty by ending the duty or at least reducing it: when companies are formed or capital increased, duty is charged at the rate of 1% on contributions to capital and is not deductible in Denmark, Greece, Ireland and the United Kingdom;

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- creating or modernizing markets in securities representing risk capital where unlisted companies can have access to risk capital on terms suited to their phase of development. The lack or inadequacy of such markets is a particular constraint on the growth of innovating small and medium-sized companies, in that the difficulties of realizing the investment discourages the contribution of funds.

  In the United States, this role is filled by the "over-the-counter market", which in 1979 accounted for 26% of transaction and 13% of the capitalization of all United States stock exchanges. In the United Kingdom, the Unlisted Securities Market, set up under the auspices of the London Stock Exchange but forming an entirely separate market, has been in existence since November 1980: on this market, only 10% of equity capital needs to be offered to the public and a number of tax and other concessions applicable to unquoted securities remain available. Special markets have been set up in Denmark and the Netherlands; the second-tier market recently opened in France performs the same function.

- developing schemes of collective investment

  - Indirect shareholdings must be developed by promoting collective investment undertakings.

    The advantages of a greater role for collective investment undertakings are: the stabilizing effects which they can exercise on the share market, to the extent that their investment strategy is geared to long-term considerations, and their objective of ensuring asset growth balances that of seeking immediate profits; the economies of scale and the risk-spreading achieved through the collective administration of savings; the possibility they offer small investors of reaching the minimum investment threshold so that they overcome one of the major obstacles to a significant level of remuneration.

Apart from the elimination of double taxation, these considerations justify at least as favourable treatment for such undertakings as for individual savers, together with all the tax advantages enjoyed by these.

> The Commission calls upon the Council to adopt, as quickly as possible, the proposal for a Directive for the coordination of laws, regulations and administrative provisions regarding collective investment undertakings for transferable securities (CIUTS) and the proposal for a Directive on the liberalization of transactions in units issued by CIUTS;

- a similar, more specialized function can be performed by investment companies and in particular venture capital companies; the other institutions which collect savings such as insurance companies and pension funds should play a more active role in channelling savings into enterprises, if not directly then at least through specialist intermediaries, and this should be helped by relaxation of the rules which place constraints on such institutions to invest in shares.

- the channelling of savings into equity capital, through tax rules which are stable and, on certain conditions, encourage the direct or indirect investment in shares: this would redress the balance compared with the tax concessions generally granted for home-ownership saving.

Tax concessions in the form of a reduction in income tax when shares are purchased, are granted subject to certain conditions, in France and Belgium (in the latter country, as a possible alternative to the exemption of natural persons' share income); in the United Kingdom, the Business Start-Up Scheme introduced in 1981 permits an individual resident who invests an amount limited to £ 20 000 in 1982/83 and 1983/84 in the shares of certain small companies engaged in new forms of activity to set that investment against his taxable income for the year, subject to certain conditions. Significant improvements to these measures have, moreover, been proposed. Also in the United Kingdom, losses incurred by individuals or investment companies on the disposal of shares in certain unlisted companies may be set against income; this may have an incentive effect by reducing the risk threshold.

In addition, a policy of employee wealth formation, in particular through share-buying schemes, could help to improve savings diversification, and partially reduce the upward pressure on wage costs. There is a strong case for improving existing schemes and improving the advantages they grant.

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6. Summary and conclusions

6.1 This paper analyses the main general measures adopted in the Member States in favour of investment.

6.2 The measures are assessed in terms of their contribution to increasing the resources available to firms for investment by improving self-financing margins and by channelling more savings into productive investment.

6.3 In connection with self-financing, three main problems arise:

A. The taxation of apparent profits resulting from the effects of inflation on the rebuilding of productive capital: it is unclear how far the various incentives provided represent a definite advantage, and how far they merely compensate, to varying degrees, for the effects of inflation. The Commission recommends the adoption by the Member States of arrangements to eliminate in a structural manner the adverse effects of inflation on resources intended for rebuilding productive capital.

B. The limits imposed on offsetting losses with past or future profits: these limits reduce firms' ability to deal with temporary difficulties and to face up to the requirements of expansion and innovation. The Commission recommends that tax rules for carry-back or carry-forward of losses should be brought into line with the most favourable system existing in the Member States.

C. The burden of business taxes, particularly those that do not depend on profits, in a period of slow growth and high risk: the Commission thinks that this burden should not be increased - and even that it ought to be reduced - particularly for taxes not linked to profits.

6.4 Among measures to improve external financing of undertakings, the Commission recommends:

A. greater transparency of company accounts, which is essential to improve access to equity capital and borrowed funds;

B. the following measures, to improve the flow of risk capital:

(i) an attentuation of double taxation of dividends;

(ii) an improvement in the conditions of direct access by firms, especially strongly innovative small and medium-sized firms, to risk capital;

(iii) the channelling of savings into risk capital, in particular through the development of forms of collective investment;

(iv) the encouragement of wealth formation among wage and salary earners.

6.5 Some progress has been made on these fronts in the past few years in the Community. But a considerable effort is still required, particularly in some Member States where the situation is far from satisfactory.

In particular, for reasons of convergence, it is important to encourage business investment in the Member States with the most acute problems of inflation and balance of payments, so as to attenuate the adverse effects of economic readjustment on production potential.

The Commission would request the Council to approve the guidelines sketched out in sections 4 and 5 of this communication for the adaptation of company taxation and the channelling of savings into productive investment, allowing for special situations.

For its part, the Commission will bear these guidelines in mind during its work on harmonization in collaboration with the Member States.

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Table 1

Taxation of enterprises

	Taxes on corporate income[1]			Employers' social security contributions		
	as % of GNP at factor cost					
	1970	1980	increase/decrease in percentage points	1970	1980	increase/decrease in percentage points
B	2.7	2.9	+ 0.2	7.7	9.5	+ 1.8
DK	-	-	-	-	-	-
D	2.1	2.0	- 0.1	6.3	8.3	+ 2.0
GR	0.6	1.3	+ 0.7	-	-	-
F	2.7	2.8	+ 0.1	10.7	14.0	+ 3.3
IRL	-	-	-	-	-	-
I	1.4	1.9	+ 0.5	9.5	10.2	+ 0.7
NL	2.8	3.4	+ 0.6	8.2	10.4	+ 2.2
UK	3.9	3.5	- 0.4	3.1	4.3	+ 1.2
USA	3.6	3.2	- 0.4	3.4	5.0	+ 1.6
JAP	4.5	5.0	+ 0.5	3.4	4.8	+ 1.4

	Taxes on corporate income			Employers' social security contributions		
	as % of total taxes (including social security contributions)					
	1970	1980	increase/decrease in percentage points	1970	1980	increase/decrease in percentage points
B	7.0	6.0	- 1.0	19.9	19.8	- 0.1
DK	-	-	-	-	-	-
D	5.3	4.5	- 0.8	16.3	18.7	+ 2.4
GR	2.1	3.8	+ 1.7	-	-	-
F	6.7	5.9	- 0.8	26.3	28.9	+ 2.6
IRL	-	-	-	-	-	-
I	4.6	5.4*	+ 0.8	30.9	29.7*	- 1.2
L	-	-	-	-	-	-
NL	6.6	5.5	- 1.1	19.5	29.3	+ 0.8
UK	8.9	8.2	- 0.7	7.1	10.1	+ 3.0
USA	11.1	9.6	- 1.5	10.4	14.3	+ 3.9
JAP	21.1	17.9	- 3.2	11.3	14.5	+ 3.2

*1979

[1] Unincorporated enterprises are included under households. Therefore, international comparisons should be interpreted carefully.

Source: "International comparison of taxes and social security contributions, 1970-80", in Economic Trends, December 1982
Central Statistical Office, London.

Table 2

Tax burden on enterprises[1]

Current and capital taxes

as % of gross operating surplus[2]

	F	I	NL	FRG	UK
1970-1974	12.8	10.7	7.8	3.9	14.8
1975-1980	13.8	14.9	8.1	4.2	12.6
1975	12.3	14.3	10.3	3.1	13.0
1976	14.9	14.1	8.5	3.8	8.3
1977	14.9	15.1	7.9	4.7	10.1
1978	12.3	16.6	7.4	4.5	11.3
1979	12.9	15.5	6.7	4.9	14.0
1980	15.5	14.0	7.9	...	18.7

[1] Sector S(10), i.e. non-financial corporate and quasi-corporate enterprises. ESA definition: enterprises whose distributive and financial transactions are distinct from those of their owners - and which are principally engaged in the production of goods and non-financial market services.

[2] The gross operating surplus (ESA definition) corresponds to the Sector's gross domestic product at market prices after deduction of taxes linked to production and imports, less subsidies and less compensation of employees.

It includes all other income generated in the course of production, together with consumption of fixed capital.

*For the FRG and NL, the sector S(10) includes all partnerships and non-financial sole proprietorships.

Corporation Tax, Tax Credit and Witholding Tax

(Situation at 31.12.1982)

Member State	Rate of corporation tax	Rate of tax credit a) as % of the gross dividend b) as % of corporation tax	Withholding tax on dividends (subject to the provisions of double taxation conventions)
Belgium	45% (profits in excess of BFR 14 400 000)[1] (special solidarity fund surcharge)	a) 40.7% of the dividend b) 49.8% of the tax	20%
Denmark	40%	a) 25% of the dividend b) 37.5% of the tax	30%
Germany	56%: undistributed profits 36%: distributed profits	a) 9/16 of the dividend b) 100% of the tax on distributed profits	25%
France	50%	a) 50% of the dividend b) 50% of the tax	0% (residents) 25% (non-residents)
Greece	45%: corporation tax on undistributed profits 15%: surcharge[2] Actual overall rate: 48.5%	No tax credit but dividends are deductable from profits	42% and 47% for registered shares; 45% and 53% for bearer shares
Ireland	50% (profits in excess of IRL 35 000)[1]	a) 30/70 of the dividend b) 42.9% of the tax	No withholding tax
Italy	30%: corporation tax 16.2%: Ilor[2,3] Actual overall rate: 41.3%	a) 33 1/3% of the dividend b) 77.7% of corporation tax (47.2% of the total of the two taxes)	10% (residents) 30% (non-residents)
Luxembourg	40% (profits in excess of LFR 1 312 000)[1] (special unemployment fund surcharge)	No tax credit	15% (no withholding tax on dividends distributed by Luxembourg holding companies)
Netherlands	48% (profits in excess of HFL 40 000)[1]	No tax credit	25%
United Kingdom	52% (profits in excess of UKL 225 000)[1]	a) 3/7 of the dividend b) 39.6% of the tax	No withholding tax
United States	from 15%[4] to 46%	-	-
Japan	40%: undistributed profits 30%: distributed profits	10%	20%

[1] Lower rates apply to profits below this level. Ireland, manufacturing industry: 10% (temporary)
[2] Deductible against income chargeable to corporation tax
[3] Imposta locale sui redditi (local income tax)
[4] For the first $ 25 000 slice (from 1983)

Carry-forward and carry-back of losses

	Carry-forward[1]	Carry-back[2]
B	5[1, 2]	0
DK	5	0
F	5[1]	0
FRG	5	2[3]
G	3	0
IRL	∞	1
I	5	0
L	5	0
NL	8[2]	2
UK	∞	1[4]
USA	15	3
JAP	5	1

[1] The portion of the tax loss corresponding to depreciation can be carried forward indefinitely.

[2] For initial losses no limit.

[3] Up to DM 5 million.

[4] Three years for losses deriving from 100% depreciation (can be set against income and capital gains); three years for the first four years' trading losses (can be set aginst income ; for individual enterprises only).