Annex 2

- *Questionnaire used as basis for Country Reports*

The aim of this questionnaire is to provide an in-depth analysis of the tax system in the relevant Country.

Questionnaire 1 if answered in sufficient detail can be considered as the Country Report provided an introduction, executive summary and conclusion are included.

General questions such as question number 13 must be answered based on current regulation as of 01 01 2007. Questions must be answered according to the law of the country for which the Country Expert is writing the Country Report and not another country.

In general, any time a case study can be used to illustrate a point or an answer, it should be used. Case studies are the preferred method of illustrating answers. In respect to any case study used the basic assumption is that earnings are 100.

The analysis provided through this Questionnaire should focus on the relevant tax provisions that concern directly or indirectly retention of earnings in companies and tax provisions that have an effect directly or indirectly on retention of earnings.

Terms have been defined in the Glossary for purposes of this analysis and to ensure a uniform approach to the task at hand.

Part 1 - General questions

1. What are the main characteristics of the tax systems applicable on enterprises and business owners in your Country (corporate income tax, income tax, capital gains tax, other profit based taxes, capital based taxes, other taxes…)?

In a presentation answering sub-questions including but not limited to:

Corporate

1.1. What are the general principles for the computation of taxable profits?

1.2. What are the main differences between tax balance sheet and commercial balance sheet?

1.3. What are the most important adjustments for the computation of taxable profits/taxable gains on the base of accounting profits?

Income

1.4. What are the general principles of income taxation of business owners on business income, wages, distributed earnings, interest on loans and capital gain (sale of shares)?

1.5. Is there a different tax treatment for income from different income sources?

Capital

1.6. Is there a different tax treatment between distributions of earnings and capital gains realised by the sale of the business or the shares in the undertaking?

1.7. Are there different tax treatments for long-term capital gains and short-term capital gains?

1.8. Are there different tax treatments for capital gain from SME business stock and capital gain from larger companies' business stock?

- and table form (relevant tax provisions for corporations, partnerships and any other relevant form of Undertaking in the 19 countries). The objective of the table is to obtain a brief summary of the relevant/applicable tax provision for the subjects mentioned (and amendments to the rules over the period indicated). Specific references to legal provisions, tax rules regulations and tax regulations should be provided if they are likely to impact the structure of companies or their use of profits (ie if a tax provision is voted that exempts from taxes a portion of profits kept as retained earnings, this should be noted). This table will be read in conjunction with the table on company equity structure. Changes in tax regulation may or may not impact the equity structure of companies.

19 Countries	**RELEVANT TAX PROVISIONS AND SUBSEQUENT CHANGES For CORPORATIONS (distinguish specific tax rates for SMEs)**				
	2002	2003	2004	2005	2006
Corporate tax					
1. Tax rate					
Standard					
Reduced					
Minimum Tax					
Special Rates					
Non profit tax (local tax on corporations, energy tax…)					
2. Tax accounting rules					
3. Depreciation					
Basis					
Methods					
Rates					
Accounting					
Intangibles					
Non depreciable assets					
4. Provisions					
Risks and futures expenses					
Bad debts					
Pensions					
Repairs					

5. Losses					
Carry forward					
Carry back					
Transfer of losses					
5. Inventories					
Valuation rules					
Allocation methods					
Personal Income tax					
Interest Income					
Dividends					
Employment income					
Capital gains tax					
Sale of fixed assets					
Timing rules					
Accounting rules					
Inflation					
Rates					
Exemptions					
Sale of shares					
Capital loss					
Fixed assets					
Shares					
Wages					
Average cost to the Undertaking					
Average cost to the employee					
Overall tax on distributed earnings or Dividends					
Timing					
Tax credit structure					
Excluding non profit tax					
Including non					

profit tax					
Deduction of expenses					
General rule					
Non-deductibility of expenses					
Thin capitalization					
Overall corporate tax on Retained earnings					
Excluding non profit tax					
Including non profit tax					
Debt financing					
Interest deductibility					
Limits on interest deductibility					
Interest deductibility on business owner loan to Undertaking					

19 Countries	**RELEVANT TAX PROVISIONS AND SUBSEQUENT CHANGES For PARTNERSHIPS (distinguish specific rates for SMES)**				
	2002	2003	2004	2005	2006
Tax applicable to partnerships					
1. Tax rate					
Standard					
Reduced					
Minimum Tax					
Special Rates					
Non profit tax (local tax on corporations, energy tax…)					
2. Tax accounting rules					

3. Depreciation					
Basis					
Methods					
Rates					
Accounting					
Intangibles					
Non depreciable assets					
4. Provisions					
Risks and futures expenses					
Bad debts					
Pensions					
Repairs					
5. Losses					
Carry forward					
Carry back					
Transfer of losses					
5. Inventories					
Valuation rules					
Allocation methods					
Personal Income tax					
Interest Income					
Dividends					
Employment income					
Capital gains tax					
Sale of fixed assets					
Timing rules					
Accounting rules					
Inflation					
Rates					
Exemptions					
Sale of shares					
Capital loss					
Fixed assets					
Shares					
Wages					
Average cost					

to the Undertaking					
Average cost to the employee					
Dividends					
Timing					
Tax credit structure					
Deduction of expenses					
General rule					
Non-deductibility of expenses					
Thin capitalization					
Retained earnings					
Debt financing					
Interest deductibility					
Limits on interest deductibility					
Interest deductibility on business owner loan to Undertaking					

2. **What are the main types of business entities and the main differences in (corporate) income taxation for sole traders, general partnerships, limited partnerships and corporation and other business entities if relevant?**

   In a presentation answering sub-questions including but not limited to:

   2.1. Are partnerships treated transparent for tax purposes?
   2.2. Can partnerships opt for corporate income tax?
   2.3. Once they have opted for a regime is it easy to switch back?
   2.4. Is there a difference in this respect between general and limited partnerships?
   2.5. Can corporations opt to be treated tax transparent?
   2.6. Once they have opted for a regime is it easy to switch back?
   2.7. Are their differences in this respect between the different types of corporations?

   and in a table form:

19 Countries	**INCLUDE RELEVANT TAX PROVISIONS IN 2002 AND SUBSEQUENT CHANGES UP TO 2007**			
Country	General	Limited	Corporation	Sole Trader

Name	Partnership	Partnership		
Corporate tax				
Income tax				
Capital gains tax				
…				
Option for Transparent treatment				
…				

3. Are there any special tax regimes for SMEs for (corporate) income tax purposes?

YES
NO

Explanation

If YES to 3

3.1. What are the conditions to be fulfilled in order to benefit from these special tax regimes?

3.2. Are there limits on the length of time during which these special tax regimes are available, or other limits?

4. Are there any special tax incentives, such as (re-)investment reserves or provisions, special depreciations/capital allowances deductible for (corporate) income tax purposes?

YES
NO

Explanation

And answering sub-questions including but not limited to:

4.1. Do these elements of internal financing represent an important alternative to the financing by retained earnings?

YES
NO

Explanation

4.2. Are there any compulsory measures in relation to the retention of earnings (e.g. legal constraints for the distribution of profits and dividend policy)?

YES
NO

Explanation and description of such measures and how they work – case study

5. **Are there any differences in the tax treatment of stock and cash dividends[1]?**

   YES
   NO

   <u>Explanation</u>

6. **Have there been any changes in the tax regulation in recent years - since 2002 - that have had an important effect on the retention of earnings, the distribution earnings or the reinvestment of profits for a particular purpose?**

   YES
   NO

   <u>Explanation and comment of table under Question 1</u>

7. **Are there any current plans for tax reforms that have as their object to have an impact on the retention of earnings?**

   YES
   NO

   <u>Explanation and description of what the object is precisely and how it is justified (case study)</u>

[1] For the Undertaking stock dividend means increased own equity. For the shareholder it means additional shares in the Undertaking which may be untaxed until sold, unlike a cash dividend.

Part 2 - Tax aspects of retained earning vs. distributed profits and wages

8. What is the tax treatment of retained earnings compared to distribution of earnings on the level of the Undertaking and at a combined level of Undertaking (corporate) and business owner (individual)?

In a presentation (simple straight forward presentation aimed at showing whether taxation is likely to have an impact on the use of earnings) answering sub-questions including but not limited to:

8.1. Is there an economic double taxation of distribution of earnings (taxation of Undertaking income and then taxation on the distribution of earnings at the Undertaking level or at the business owner level)?

YES
NO

Explanation through case study

and in a table form:

19 Countries	**INCLUDE RELEVANT TAX PROVISIONS IN 2002 AND SUBSEQUENT CHANGES UP TO 2007**	
Country **X**	Undertaking	Individual Business owner
Corporate tax		
Income tax		
Dividend tax		
Dividend credit		
Capital gains tax		
If option for Transparent treatment chosen		
…		

9. Please described the differences in the tax treatment of distribution of earnings realised as a capital gain in the context of a sale of the shares or of the business compared to that (i) of retained earnings, (ii) of wages salaries paid to the business owner and (iii) of a loan granted by the Undertaking to the business owner?

Explanation and description of special treatment if any (case study)

and in a table form:

19	**INCLUDE RELEVANT TAX PROVISIONS IN 2002 AND SUBSEQUENT CHANGES**

Countries	**UP TO 2007**			
Country X	Distributed profits	Retained Profit	Wages/Salaries to business owner	Loan to business owner
….				
…				
…				

10. **Is the combination of wages (paid to the business owner by the Undertaking), profit distributions and retained earnings a tax planning issue that is anticipated and addressed by business owners in view of minimising the overall tax burden of the business owner and the Undertaking?**

    YES
    NO

    Explanation

11. **In respect to the previous question, is the business owner more interested in minimising his/her tax burden and then the Undertaking's or both equally?**

    Explanation

12. **Are there instances in which minimising the tax burden of the business owner would mean dramatically increasing the tax burden of the Undertaking?**

    Explanation and case study

13. **For corporate income tax or capital gains tax purposes, are there any incentives/disincentives to retain earnings rather than distribute them or pay wages?**
    YES
    NO

    Description and case study and answering sub-questions including but not limited to:

    13.1. Are there any limitations or ceilings for these incentives?
    YES
    NO

    Description

    13.2. Is there a risk that these incentives can be used more than one time by the business owners by splitting up the business activities into different legal entities?
    YES
    NO

    Description via case study

14. What is the tax treatment of declared loans granted by the Undertaking to the business owner?

Description and case study (unless already provided under Question 10) and answering sub-questions including but not limited to:

14.1. Is there a minimum interest rate to be charged for tax purposes?
14.2. How is the interest rate treated for tax purposes for the Undertaking?
14.3. How is the interest rate treated for tax purposes for the business owner?
14.4. What are the combined tax effects of such a loan compared to a distribution of earnings equivalent in amount?

15. Are there any other taxes (e.g. net worth tax) which are imposed or based on the net equity of the Undertaking?

YES
NO

Description via case study

16. Are there any other tax incentives for either the retention of earnings or their distribution of profits?

YES
NO

Description via case study

Part 3 - Tax Aspects of Retained Earnings Financing vs. Debt Financing

17. In debt financing, what is the tax treatment of interest expenses paid or accrued by the Undertaking?

Explanation and description of special treatment if any (case study)

And answering sub-questions including but not limited to:

17.1. Is there a different tax treatment to deductions on interest paid when the lender is a resident or a non-resident for tax purposes?
17.2. Is there a different tax treatment on interest on long-term debt and interest on short-term debt?

18. Are there any tax benefits that are actionable based on specific amounts of equity (e.g. notional interest expense based on the increase of own equity or the total amount of equity)?

Explanation and case study

And answering sub-questions including but not limited to:

18.1. What is the exact calculation method used to implement this incentive and to evaluate the benefits once this incentive is implemented?
18.2. Are there any other tax provisions favouring increases in own equity?

19. Is debt financing of an enterprise by the business owner himself of his/her family recognised for tax purposes (ie. If the business owner or his/her family lends money to the Undertaking are they treated differently than other lenders for tax purposes)?

YES
NO

Explanation

And answering sub-questions including but not limited to:

19.1. If so, are there any incentives for the business owners to debt-finance their enterprise instead of retained earnings financing or equity financing?

20. Is there a general discrimination between retained earnings financing and debt financing from a tax point of view?

YES
NO

Explanation

20.1. Is there a general discrimination between retained earnings financing and equity financing from a tax point of view?

YES
NO

Explanation

20.2. Is there a general discrimination between equity financing and debt financing from a tax point of view?

YES
NO

Explanation

21. Are there any debt to equity ratios limiting the deductibility of interest expenses for tax purposes?

YES
NO

Explanation, description of the ratio and case study

And answering sub-questions including but not limited to:

21.1. If so, does the limitation apply to loans granted by the business owner and affiliated persons or does it include loans granted by third parties?

YES
NO

Explanation, description of the ratio and case study

21.2. What are the consequences if the debt to equity ratio is not respected?

Explanation, description of the ratio and case study

22. Are there any tax provisions likely to impact the conversion of retained earnings into share paid in capital (ie. share buy-back)?

YES
NO

Explanation

And answering sub-questions including but not limited to:

23. Are there any other taxes that have as their object to affect or impact on either Undertaking debt financing or retained earnings financing?

YES
NO

Explanation and case study

Part 4 - Tax Aspects of Business Income vs. Private Income

24. In respect to individual business owners, what is the general tax treatment for private (ie: interest on passive investment) income compared to business income (ie: income generated from your business activity)?

Description and case study

and in a table form:

19 Countries	INCLUDE RELEVANT TAX PROVISIONS IN 2002 AND SUBSEQUENT CHANGES UP TO 2007	
Country X	Private Investment Income	Business Income
...		
...		

and answering sub-questions including but not limited to:

24.1. Are there different allowances or special treatments for private investment income and business income?

YES
NO

Explanation and case study

25. Is there a different tax treatment for interest income received in a private investors capacity (ie: business owner investment return in another Undertaking) and interest income earned through business activity (ie: business owner investment return from the Undertaking)?

YES
NO

Explanation

26. Does the tax system encourage business owners to invest in private assets, which are subsequently rented or leased to their enterprises?

YES
NO

Explanation

27. By opposition to the previous, does the tax system encourage that assets be acquired by the Undertaking and rented or leased to the business owner?

YES

NO

Explanation

28. Are capital gains from private assets taxed in the same way as capital gains realised within the context of a business activity?

YES
NO

Explanation and case study

and answering sub-questions including but not limited to:

28.1. If capital gains from private assets are taxed lower, does this represent an important incentive for the business not to invest in their own Undertaking?

YES
NO

Explanation

29. Are interest expenses incurred on private debts deductible for tax purposes?

YES
NO

Explanation

30. Is there a tax advantage for the Undertaking in transferring debts from the business owner to the Undertaking?

YES
NO

Explanation and case study

31. Is there a tax advantage for the business owner in transferring debts from the business owner to the Undertaking?

YES
NO

Explanation and case study

32. Are there other taxes such as inheritance tax which have an important impact on own equity and retention of earnings decisions?

YES
NO

Explanation and case study