The Recent Road Map of Taxation Changes

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Company Taxation

24% EU

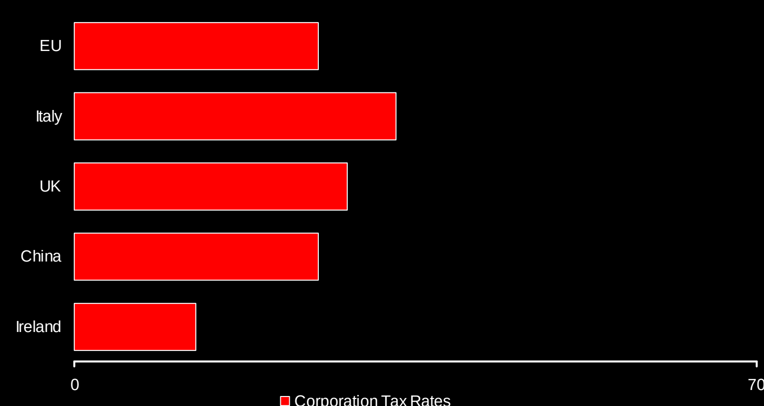
31.4% Italy

28% (2008) in UK but also 21% 2008 22% 2009 (£300K)

25% China

12.5% Ireland

Corporation Tax



Free Trade and Tax - EU Experience

20 years ago EU CT rates were in the mid 50%

1990s rates in the 30%

Today 30% is high end

Competition of the single market CT race to the bottom

France/Germany talk of minimum rates as high tax jurisdictions

Tax Reforms In Rest Of Europe Germany

V
AT rate raised from 16% to 19%

Income rates may also be raised to around 48%

CT rate below 30% recognition of race to the bottom

Italy Corporate Tax

Rate in 2007 33% + IRAP

Since 2008 27.5% + IRAP 3.9% = 31.4%

Change in headline rate only

The actual rate change was accompanied by broadening of the base

Hence overall same level of revenue from CT

But with change in Government in Italy watch this space e.g. Estate Taxes likely to scrapped and greater liberalisation of trusts likely.

UK Reforms

- UK CT changes 28% but increases everywhere else

- WDAs reduced from 25% to 20%

- Overall tightening in criteria for allowance as well as reduction

- SME Co. rate increased to 20% then 21% 2008 by 2009 22% and to be kept under review

Gain to exchequer of some £2.5bn

UK Reforms

CT changes to small companies off general trend

UK 10 years ago had 0% CT rate for small companies

Abolished due to tax planning opportunity exchequer costs around €1.5bn

Current thinking to stop small company incorporations

Reasons

- lack of audit and regulation
- significantly different CT and IT rates
- no national insurance (social security) on CT profits

UK Reforms

Also the direct cost of reduction in CA's 25% to 20%

But 100% on first £50,000

But real issue is the roller coaster ride of changes from one Government stance to another

Not sure where this might lead next

SME co. taxes may become higher than mainstream CT and become aligned with IT

SME Reforms – Funding Gap

It has been an idea for sometime to seek to enhance "internal" SME funding

Estonia CT rate 26% since 1994

Since 2000 only distributed profits are taxed

Significant funding help

Other states should emulate and ACCA has called for for 15 years

SME Reforms – Funding Gap

The retained profit tax advantage would probably only apply to companies otherwise difficult to track

Companies have reserves which make it possible to follow

Unincorporated businesses blurred link between deductibles and profits for retained profits purposes

UK Reforms

On the positive side basic tax rate dropping to 20% from 22%

But 10% rate disappearing

Big CGT changes lowest rate 10% to become 18%

Many other tax changes – more shortly

Free Trade and Tax - EU Experience

Many New EU accession states as well as Ireland have CT rates in the teens.

Some had to redesign a CT system

This together with general global competition has resulted in significant momentum to reduced CT rates

Ireland Niche Within The First World – Case Study

Once the poor man of Europe

Largely agricultural economy

But total transformation since joining the EU in 1973

Growth spurt 1995 – 2002 of 8% pa

Today economy is industrial and service sector based

Industrial sector 29% services 64%

Ireland EU Mouse To Tiger

How did we get here

Tax was the key

Current 12.5% CT rate masks the past

10% manufacturing rate ops commenced pre 23 July 1998

Stops 31/12/2010

Also zero rate tax agreements in the past now stopped by EU (Dublin Docks etc.)

Answer has been low business costs

Ireland EU Mouse To Tiger

By contrast individuals are taxed highly

IT top rate 41% starts on average income

VAT 21% with some reduced rates

Similar country strategy to the UK.

Tax less mobile taxing assets at higher rates (people) and tax more mobile capital lower rates (businesses)

China and Tax

Previous Position

CT RATE 30% + 3% Local Rate total 33%

IT rate up to 45%

On the surface developed country rates

Reality quite different

China and Tax

From 2008 dramatic change

CT rates unified at 25% no more differentiation between Domestic and Foreign

Uniform country-wide treatment (deductibility)

Tax holidays will be streamlined (or eliminated) table below

China and Tax

Table 2: Main Changes in Preferential Tax Treatments

Preferential Tax Treatments	Currently Available to	Changes under New Law
15% Tax Rate	Companies in Special Economic Zones and Shanghai Pudong New Area and production FIEs located in economic technological development zones	Repealed but the five-year grandfather provision is available for existing FIEs. (See Part IV)
15% Tax Rate	Hi-tech companies in Hi-Tech Parks	Applied nationwide. However, definition of hi-tech companies may change.
24% Tax Rate	Production FIEs in coastal economic open cities or other developmental areas	Repealed but the five-year grandfather provision is available for existing FIEs. (See Part IV)
Two-year exemption followed by three-year half deduction (2+3 tax holiday)	Production FIEs	Repealed but the remaining tax holiday is grandfathered. (See Part IV)
50% rate reduction for an extended period of three years	Technologically-Advanced Enterprises	Repealed but the remaining tax holiday is grandfathered. (See Part IV)
50% rate reduction	Export-oriented FIEs	Repealed.
Reinvestment refund	Foreign Investors; Foreign Invested China Holding Companies	Repealed.
Refund on local portion of the corporate income tax (CIT) revenue or local income tax	Provincial level governments and municipalities directly under the central government have the right to grant the local income tax exemption or local income tax reduction to encouraged FIEs.	Repealed.

China and Tax

But expansion of some favourable treatments for high tech businesses in High Tech Industrial Development Zones

Enterprises which purchase special environmental protection equipment

Also sectors deemed of national benefit

Tax effect – 50% reduction for FIEs for 3 years

- Or preferential rates of 15% and 24%
- Or tax credits for investments

China and Tax

The China reforms sweeping and welcome

Create greater certainty of treatment

But still a lot of grey areas

Best tax deal will probably still be down to personal contact

UK – Non-Domiciled special regime Impact

Sunday Times Rich List Published 27th April 2008
Just how effective the special regime is

1 Lakshmi Mittal, steel (£27.7bn)
2 Roman Abramovich, oil and industry (£11.7bn)
3 The Duke of Westminster, property (£7bn)
4 Sri and Gopi Hinduja, Industry and finance (£6.2bn)
5 Alisher Usmanov, Steel and mines (£5.7bn)
6 Ernesto and Kirsty Bertarelli, pharmaceuticals (£5.6bn)
7 Hans Rausing and family, packaging (£5.4bn)
8 John Fredriksen, shipping (£4.6bn)
9 Sir Philip and Lady Green, retailing (£4.3bn)
10 David and Simon Reuben, property (£4.3bn)

Changes to Residence and Domicile Regime

UK has a very unique special system of tax

Applies only to those who were born outside the UK

Or

Father was born outside the UK (or mother where born out of wedlock)

They may be considered non-UK domiciled

Changes to Residence and Domicile Regime

What the rules mean

Those who are non-domiciled are taxed on the remittance basis

Highly generous system not found elsewhere

Not taxed on world wide income and gains

Taxed on UK income and gains arising in the UK

Changes to Residence and Domicile Regime

Thus an individual working in the UK taxed on UK earnings

Assets held outside the UK or income arising elsewhere not taxed

Changes to Residence and Domicile Regime

The UK changes

The remittance rules still remain

Where UK resident for 7 of last 10 years then an annual levy £30,000

Levy paid then remittance basis applies

Annual election

£30,000 can be income or gains taxpayer chooses

Changes to Residence and Domicile Regime

Consider paying levy where taxable profits/earnings above £85,000 (€100,000)

£30,000 split in to income or gains in order to obtain DTR

In negotiation with US for relief other EU states could also be an issue

Levy can also be used to offset UK tax in year where election to opt out of remittance basis

Capital Gains Tax Changes

UK made sweeping changes in 2008

UK has two systems

One for Corporation Tax

One for Income Tax

Income Tax version changed

Capital Gains Tax Changes

Previously minimum CGT rates

24% non-business assets

10% business assets

Maximum rates were 40%

Taper and indexation reliefs were available

Capital Gains Tax Changes

One regime from April 2008

18% on everything

Entrepreneurs'' relief up to £1m of gains life time

Rate reduced to 10%

Abrupt change to a long-term regime

Business and individual expectations for taper and indexation swept aside

Income Tax Changes

Unincorporated businesses subject to IT

Hence the move from 22% main IT rate to 20% is generally helpful

But 10% rate abolished

Also mid year change to free allowance causing greater problems for SMEs with Payroll changes

Income Tax Changes

Depreciation allowance changes (Capital Allowances)

Changes especially adverse to SMEs

Drop to 20% from 25% one issue

But big problem where scope of allowance changed

i.e. some assets now do not qualify, specifically around buildings. Glass fronts etc. no longer plant

Hence no tax depreciation

Concluding comments

Significant and ongoing changes in tax regimes

Huge amounts for SMEs to keep pace with

More changes will be inevitable

Will Governments seek even more revenues from SMEs as the EU and Global economies turn down

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ACCA